HEALTH INSURANCE FUND OF AUSTRALIA LIMITED

ACN 128 302 161

ANNUAL FINANCIAL REPORT

30 JUNE 2010

Contents

Directors

M. A. Dudley (Chairman)
G. A. Airey
E. L. Chapple (retired 30 June 2010)
G. N. Gibson (Managing Director)
R. Homsany (appointed 24 June 2010)
M. L. S. Howard
T. S. Smith
N. J. Timoney

Secretary

G. N. Gibson

Registered office and principal place of business

60-62 Stirling Street
Perth
Western Australia

Solicitor

DLA Phillips Fox
44 St Georges Terrace
Perth
Western Australia

Banker

Commonwealth Bank
150 St Georges Terrace
Perth
Western Australia

External auditor

Deloitte Touche Tohmatsu
Level 14, 240 St Georges Terrace
Perth
Western Australia

Internal auditor

PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth
Western Australia

Appointed actuary

P. Lurie
PricewaterhouseCoopers
QV1, 250 St Georges Terrace
Perth
Western Australia

The Board of Directors of Health Insurance Fund of Australia Limited (the '**Company**') submit herewith the Directors' Report for the financial year ended 30 June 2010 in accordance with the *Corporations Act 2001*.

Information about the Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Mr M. A. Dudley *B Com* Chairman	Mr Dudley is an Associate of CPA Australia, Associate of The Financial Planning Association of Australia and Associate of The Australian and New Zealand Institute of Insurance and Finance. Mr Dudley was elected to the Board in 2007 and was appointed Chairman in 2008. Mr Dudley has extensive senior management experience in the financial services industry in Australia and New Zealand spanning over three decades. Mr Dudley is the Managing Director of financial planning and accounting services provider Pinnacle Planners as well as holding directorships in private companies involved in private investment, property development and the operation of child care facilities. Mr Dudley has served as a member of the Finance Committee of the Board of Newman College and Chairman of The Financial Planning Association of AMP Australia. Mr Dudley is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.
Mr G. A. Airey *Dip Ins Admin* Non-executive director	Mr Airey was elected to the Board in 1990. Mr Airey was formerly a senior manager with AMP Society (now AMP Life Ltd – AMP Capital) and occupied senior administration roles in life, superannuation, investments, general insurance and general management. Mr Airey was a Director of the Asthma Foundation of WA for nearly 13 years. Mr Airey is the Chairman of the Audit and Risk Committee.
Mr E. L. Chapple Non-executive director (retired)	Mr Chapple was elected to the Board in 1992. Mr Chapple had considerable management experience in marketing, sales and production, mainly in the print media industry. Until his retirement in June 2010, Mr Chapple was a member of the Audit and Risk Committee.
Mr G. N. Gibson *B Bus, Grad Dip Ed* Executive director	Mr Gibson is Managing Director and Company Secretary, a Certified Practising Accountant ('CPA') with CPA Australia and member of the Australian Institute of Company Directors ('AICD'). Mr Gibson was appointed by the Board in 2009. Mr Gibson commenced with the Company in 2004 as Commercial Manager when it operated as an incorporated association under the *Associations Incorporation Act 1987* (WA). In 2005, Mr Gibson was appointed Chief Executive Officer during which time Mr Gibson managed the Company's re-registration as a private health insurer in 2008 and transfer of incorporation (from an association to a Company) in 2009. Before joining the Company, Mr Gibson worked as an Area Business Manager for Australia's largest private hospital operator Affinity Health Ltd after serving in senior finance and commercial roles for a number of publicly listed companies involved in mining, infrastructure, manufacturing and industrial services. Mr Gibson also gained experience in the public sector as a senior lecturer in finance, accounting and commerce.
Mr R. Homsany *LLB (Hons), B Com, Grad Dip App Fin & Inv* Non-executive director	Mr Homsany was appointed by the Board in June 2010. Mr Homsany is an Associate of CPA Australia and member of the Australian Institute of Company Directors ('AICD'). Mr Homsany was appointed Executive Vice President Australia, Mega Uranium Ltd in 2010 after five years as Partner, Corporate and Commercial, DLA Phillips Fox (WA), specialising in banking, finance, commercial litigation and risk management. Before joining DLA Phillips Fox, Mr

Homsany was a partner of Gadens Lawyers (WA). Prior to this, Mr Homsany worked in risk management with North Limited and as a Solicitor with Parker & Parker (WA). In addition to his role at Mega Uranium Ltd, Mr Homsany practices law with Cardinals Lawyers and Consultants (WA). Mr Homsany is Chairman of Redstone Resources Ltd and Vice President of the West Perth Football Club. In August 2010, Mr Homsany was appointed a member of the Audit and Risk Committee.

Ms M. L. Howard *B Bus Admin, M Pol Sc* Non-executive director	Ms Howard was elected to the Board in 2008. Ms Howard has extensive experience in the WA Public Service, including Director Business Services and Manager Financial Services with the WA Alcohol and Drug Authority. Ms Howard worked for the Health Department WA as a Policy Officer, an Internal Auditor and an Equal Opportunity Officer. Prior to this, Ms Howard worked for nearly 10 years as Senior Manager with Deloitte in Italy and the USA, in audit and taxation. During this period Ms Howard held memberships with The American Institute of Certified Public Accountants and The Institute of Internal Auditors in Australia. Ms Howard is a member of the Audit and Risk Committee.
Mr T. S. Smith *B Bus* Non-executive director	Mr Smith was elected to the Board in 1995 and is a Certified Practising Accountant ('CPA') with CPA Australia. Mr Smith held a number of senior roles in the WA public sector for over 15 years including as a director and executive director, with responsibility for financial, human resources, organisational systems and capital projects. Mr Smith is a former Chairman of the Central Institute of Technology Governing Council and sat on a number of advisory bodies for education and training at the national level. Mr Smith held directorships with organisations in the financial, property and information technology sectors and consulted for over 10 years in strategic business planning, organisational structures and corporate governance in the private and university sectors. Mr Smith is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.
Mr N. J. Timoney *BA (Mod)* Non-executive director	Mr Timoney was elected to the Board in 1996. Mr Timoney is Barrister and Solicitor and a partner of Stables Scott, Barristers and Solicitors. Between 1984 and 1989 Mr Timoney worked for a number of law firms in England, gaining experience in commercial litigation acting for various organisations including international companies in various industries including insurance and motor vehicle manufacture. Mr Timoney was admitted as a Solicitor in England and Wales in 1987. After moving to Australia, Mr Timoney was admitted as a Solicitor and Barrister in WA. Mr Timoney practices commercial law and has been involved a number of IPOs and appears in all courts in his commercial litigation role. Mr Timoney is the Chairman of the Nomination and Remuneration Committee.

The above named Directors held office during the whole of the financial year and since the end of the financial year except for:

Mr E. L. Chapple	Retired 30 June 2010.
Mr R. Homsany	Appointed 24 June 2010.

Company Secretary

Mr G. N. Gibson, Certified Practising Accountant, held the position of Company Secretary of the Company at 30 June 2010. From 2005 to 2009, Mr Gibson was Secretary of Health Insurance Fund of W.A. (Inc.) before it transferred its incorporation to the Company on 1 December 2009. Mr Gibson was appointed Company Secretary of the Company on 1 December 2009. Details of Mr Gibson's other qualifications and experience are included in the 'Information about the Directors' section of this Directors' Report.

Principal Activities

The principal activity of the Company is the provision of private health insurance in Australia by operating as a registered private health insurer in accordance with the Private Health Insurance Act 2007 (Cth). Private health insurance provided by the Company includes coverage under Complying Health Insurance Products ('CHIP') for:

- Hospital inpatient and day patient services
- Hospital in the home services
- General treatment services.

The Company also provides private health insurance to overseas persons who temporarily reside in Australia. Other forms of insurance provided by the Company include travel insurance and general insurance under agency arrangements with third parties.

The Company's principal activities provide Contributors and their dependents access to a wide range of competitively priced healthcare treatments and services that are intended to be used to support healthy lives and lifestyles.

Objectives

The Company's enduring objective is to help Contributors and their dependents to lead healthy lives. This will be achieved by:

- Providing access to relevant and high quality healthcare treatments and services
- Informing Contributors and their dependents about their health cover(s) and relevant healthcare issues
- Providing attractive rebates and benefits
- Keeping premiums affordable and competitive
- Delivering the highest standards of customer service

The strategy that the Company believes will work best in achieving its objectives involves:

- Growing policies and taking advantage of the benefits of business size and scale
- Gaining greater prominence amongst consumers
- Growing long term relationships with key healthcare providers and provider groups
- Levering off Company membership of stakeholder groups, including the Australian Health Services Association Ltd for purchasing private hospital facilities and services and HAMB Systems Ltd for accessing beneficial electronic and digital information, technology and communications solutions.

Performance Measures

The Company measures its performance in many ways, including *inter alia* by measuring, monitoring and analysing:

- Policy growth

- Composition of the policy base and persons covered by the policies
- Growth in premium revenue and cost of benefits
- Ratio of premium revenue to cost of benefits
- Service delivery costs, including claims handling costs and other administration costs
- Policy acquisition costs
- Capital adequacy and solvency strength
- Contribution from sources of income other than private health insurance premium revenues.

The Company also measures its performance by monitoring the performance of its governance framework including compliance matters, and the ability of the framework to support the Company's business objectives.

Financial Results

The net profit (before revaluation of properties) for the financial year was $5.0 million ($5.6 million in 2009). Premium revenue for the year was $64.1 million ($57.2 million in 2009), an increase of 12.1% over the previous year.

Review of Operations

Policy Growth

The financial year was the Company's strongest year of growth since operations commenced in 1954, resulting in CHIP policy growth of 14.4% compared to 2.9% growth in the Australian industry. In Western Australia (the Company's dominant market) growth was 14.0% compared to 4.5% growth in the State. The record policy growth resulted in the Company becoming the fastest growing not-for-profit and the second fastest growing private health insurer in the Australian industry.

Affordability

During the year, and for the fourth consecutive year, the Company increased average health insurance policy premiums by less than 5.0%, resulting in the fourth consecutive year that the Company had increased average premiums below that of the industry average (i.e. 5.8%) and below the average increase of almost all major private health insurers. The Company's 4.5% average increase on 1 April 2010, which was published on the Department of Health and Ageing's website, placed the Company in the 'Top 5' private health insurers for lowest average premium increases.

Benefits

On 1 January 2010, significant increases to rebates and annual limits were made for a large number of dental and optical treatments, which together accounted for approximately 70.0% of all general treatment rebates funding by the Company.

Choice and convenience

The Company's strong stance on choice aligns with consumer preference for them to remain in control when it comes to choosing their service provider. This means that the Company's policy holders retain the freedom to go to their family health provider without being financially disadvantaged.

Personalised service and convenience

The Company's priority is to develop its people and to ensure policy holders get access to friendly, qualified and experienced customer service personnel when they want it. The Company has also decided to avoid operating costly branch networks and to focus a major part of its customer service capability into smart transaction and communication solutions via the Internet and other electronic and digital platforms. Policy holders will benefit through cost savings resulting in a higher allocation of available cash reserves for new and improved benefits and lower annual premium increases.

Optical stores

During the year the Company discontinued operating retail optical stores under the Maximeyes brand because it was unable to contribute financially as a stand-alone business unit. Although the Company remains the owner of the Maximeyes legal entity, the assets were sold or disposed during the year.

Investments

The Company's investment portfolio performed better than expected as a resulted of a rapid improvement after the onset of the Global Financial Crisis in the first half of 2009 financial year. During the financial year, investments grew by 11.6%, from $43.1 million to $48.1 million.

Transfer of Incorporation

An amendment to the Private Health Insurance Act 2007 required the Fund to become a company limited by guarantee before 1 January 2010. To assist the Fund achieve this end, the Western Australian Government enacted the Transfer of Incorporation (HBF and HIF) Act 2009 (WA) (the "Transfer of Incorporation Act") on 29 June 2009, allowing the Fund to transfer its incorporation status from an incorporated association under the Associations Incorporation Act 1987 (WA) to a company limited by guarantee under the Corporations Act 2001.

On 1 December 2009 ('**date of registration**') the Company transferred its incorporation from under the *Associations Incorporation Act 1987* (WA) to under the *Corporations Act 2001*. On the date of registration with the Australian Securities and Investments Commission the Company became an Australian Company Limited by Guarantee with a new Constitution.

From the date of registration there has been one class of Member of the Company, comprising 12 persons.

The liability of the Members of the Company is limited. If the Company is wound up, every person:

(a) who was a Member when winding up commenced; or

(b) who had been a Member within 12 months before winding up commenced,

undertakes to contribute up to $1 to the assets of the Company, as may be required:

(a) for payment of the debts and liabilities of the Company (contracted before the Member ceases to be a Member);

(b) for payment of the costs, charges and expenses of winding up; and

(c) for the adjustment of the rights of the contributories amongst themselves.

The total amount that Members of the company are liable to contribute if the company is wound up is $12.

Registration as a Private Health Insurer

On 4 December 2009, the private health insurance industry regulator, Private Health Insurance Administration Council issued a certificate of registration to the Company certifying that the Company was registered as an open access, not for profit, private health insurer in accordance with Part 4-3 of the *Private Health Insurance Act 2007* (Cth) with effect from 1 December 2009.

Name Change

On 28 June 2010 the Company changed its name from Health Insurance Fund of W.A. Limited to Health Insurance Fund of Australia Limited. The new name reflects the Company's growing presence in other states and territories of Australia.

Future Developments

Property

In 2011 and 2012, the Company will fund the redevelopment of owned premises situated at 100 Stirling Street, Perth. The premises are located close to the Company's existing offices at 60 Stirling Street, Perth. The decision to relocate to new premises will provide the required occupancy capability to align with projected policy growth as well as enhance administration efficiency. The Company does not anticipate that the relocation would disrupt the provision of private health insurance to policy holders.

The Company plans to draw down the required funding (estimated to be $11 million) from the Company's pool of liquid investments progressively over an estimated 18-month period commencing in the first half of 2011. The Company anticipates the revenue from investing in financial instruments that is given up will be offset by additional tenant rental income and capital appreciation of the premises.

Electronic Transaction Processing and Communications

The Company has committed to purchase new software that will enable electronic imaging of source documents, including some policy holder claim forms and provider charges. The Company anticipates a significant reduction in paper archiving costs, improved control over policy holder data and information, increased employee productivity and enhanced customer satisfaction. The new software was commissioned in August 2010.

Work has commenced on building a new website that will reflect the Company's objectives for policy growth, transparency and supply of information.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the financial year.

Significant Matters or Circumstances after Financial Year

No matters or circumstances have arisen since 30 June 2010 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.

Environmental Regulations

The Company's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

The Company is certified NoCO2 by the Carbon Reduction Institute Pty Ltd. Certification confirms the Company's financial contribution, by purchasing carbon offsets, towards reducing carbon emissions.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred as such a Director, Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001* (Cth). The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an Officer or Auditor of the Company or of any related body corporate against a liability incurred as such an Officer or Auditor.

Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member). During the financial year, 12 Board meetings, one Nomination and Remuneration Committee meeting and eight Audit and Risk Committee meetings were held.

Directors	Board of Directors		Audit and Risk Committee		Nomination and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Mr M. A. Dudley	12	11	8	8	1	1
Mr G. A. Airey	12	10	8	7	-	-
Mr E. L. Chapple	12	12	8	8	-	-
Mr G. N. Gibson	12	7*	-	-	-	-
Mr R. Homsany	12	1#	-	-	-	-
Ms M. L. Howard	12	11	8	8	-	-
Mr T. S. Smith	12	12	-	-	1	1
Mr N. J. Timoney	12	8	-	-	1	1

* Director from 1 December 2009 – eligible to attend 7 meetings.

Director from 24 June 2010 – eligible to attend 1 meeting.

Auditor's Independence Declaration to the Directors of Health Insurance Fund of Australia Limited

We have obtained an independence declaration from our Auditor, Deloitte Touche Tohmatsu, which is set out on the following page and forms part of the Directors' Report for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the Directors.

M. A. Dudley
Chairman

Perth, 20 September 2010

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Woodside Plaza
Level 14
240 St. Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 (0) 8 9365 7000
Fax: +61 (0) 8 9365 7001
www.deloitte.com.au

Board of Directors
Health Insurance Fund of Australia Limited
60 Stirling Street
PERTH WA 6000

20 September 2010

Dear Board Members

Health Insurance Fund of Australia Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Health Insurance Fund of Australia Limited.

As lead audit partner for the audit of the financial statements of Health Insurance Fund of Australia Limited for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Health Insurance Fund of Australia Ltd and its controlled entities
Statement of comprehensive income
For the year ended 30 June 2010

		Consolidated		Health Insurance Fund of Australia	
	Note	**2010**	2009	**2010**	2009
		$	$	**$**	$
Premium revenue	5	**64,057,868**	57,227,229	**64,057,868**	57,227,229
Net claims incurred	8	**(54,784,280)**	(46,162,533)	**(54,784,280)**	(46,162,533)
Movement in unexpired risk liability	22	**-**	99,262	**-**	99,262
Acquisition costs	16	**(3,530,069)**	(2,859,637)	**(3,530,069)**	(2,859,637)
Claims handling costs	9	**(1,300,849)**	(1,052,473)	**(1,300,849)**	(1,052,473)
Underwriting result		**4,442,670**	7,251,848	**4,442,670**	7,251,848
Sales		**63,695**	636,391	**-**	-
Cost of sales		**(35,638)**	(211,468)	**-**	-
Gross profit from sale of goods		**28,057**	424,923	**-**	-
Investment income	6	**2,355,322**	2,307,945	**2,353,853**	2,314,969
Fair value gains / (losses) on financial assets at fair value through profit or loss		**179,635**	(1,532,448)	**179,635**	(1,532,448)
Other income	7	**561,727**	403,498	**503,463**	442,642
Other operating expenses	9	**(2,505,468)**	(3,196,377)	**(2,459,647)**	(2,859,483)
Result of operating activities		**5,061,943**	5,659,389	**5,019,974**	5,617,528
Finance costs	9	**(19,052)**	(12,315)	**(18,258)**	(8,637)
Profit before income tax		**5,042,891**	5,647,074	**5,001,716**	5,608,891
Income tax expense	10	**(3,935)**	(2,765)	**-**	-
Profit for the year		**5,038,956**	5,644,309	**5,001,716**	5,608,891
Other comprehensive income					
Gain on revaluation of properties		**-**	1,332,473	**-**	1,332,473
Total comprehensive income for the year		**5,038,956**	6,976,782	**5,001,716**	6,941,364

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

Statement of financial position

At 30 June 2010

	Note	Consolidated 2010 $	Consolidated 2009 $	Health Insurance Fund of Australia 2010 $	Health Insurance Fund of Australia 2009 $
ASSETS					
Current assets					
Cash and bank balances	11	**46,803,940**	40,414,469	**46,761,799**	40,363,329
Trade and other receivables	12	**3,208,714**	2,744,542	**3,214,000**	2,732,836
Inventories	13	**-**	5,306	**-**	-
Other financial assets	14	**506,701**	251,392	**506,701**	251,392
Deferred acquisition costs	16	**233,042**	273,724	**233,042**	273,724
		50,752,397	43,689,433	**50,715,542**	43,621,281
Non-current assets					
Other financial assets	14	**5,592,090**	5,805,477	**5,592,090**	5,805,477
Investment in controlled entities	15	**-**	-	**1**	1
Property, plant and equipment	17	**6,911,364**	6,689,090	**6,911,364**	6,670,605
		12,503,454	12,494,567	**12,503,455**	12,476,083
Total assets		**63,255,851**	56,184,000	**63,218,997**	56,097,364
LIABILITIES					
Current liabilities					
Trade and other payables	18	**685,778**	815,758	**693,516**	770,079
Outstanding claims liability	19	**6,543,491**	5,212,134	**6,543,491**	5,212,134
Unearned premium liability	20	**7,451,323**	6,676,577	**7,451,323**	6,676,577
Provisions	21	**237,341**	252,859	**237,341**	226,804
Current tax liability		**405**	-	**-**	-
		14,918,338	12,957,328	**14,925,671**	12,885,594
Non-current liabilities					
Provisions	21	**458,709**	386,824	**458,709**	378,869
Total liabilities		**15,377,047**	13,344,152	**15,384,380**	13,264,463
Net assets		**47,878,804**	42,839,848	**47,834,617**	42,832,901
EQUITY					
Reserves attributable to the entity's members					
Reserves	23	**3,698,980**	3,698,980	**3,698,980**	3,698,980
Acquisition reserve	23	**(238,624)**	(238,624)	**-**	-
Retained earnings		**44,418,448**	39,379,492	**44,135,637**	39,133,921
Total equity		**47,878,804**	42,839,848	**47,834,617**	42,832,901

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

Statement of changes in equity

For the year ended 30 June 2010

Consolidated

	Revaluation reserve	Retained earnings	Acquisition Reserve	Total
At 1 July 2008	**2,366,507**	**33,735,183**	**(238,624)**	**35,863,066**
Profit for the year	-	5,644,309	-	5,644,309
Other comprehensive income for the year	1,332,473	-	-	1,332,473
Total comprehensive income for the year	1,332,473	5,644,309	-	6,976,782
At 30 June 2009	**3,698,980**	**39,379,492**	**(238,624)**	**42,839,848**
Profit for the year	-	5,038,956	-	5,038,956
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	5,038,956	-	5,038,956
At 30 June 2010	**3,698,980**	**44,418,448**	**(238,624)**	**47,878,804**

Health Insurance Fund of Australia	Revaluation reserve	Retained earnings	Total
At 1 July 2008	**2,366,507**	**33,525,030**	**35,891,537**
Profit for the year	-	5,608,891	5,608,891
Other comprehensive income for the year	1,332,473	-	1,332,473
Total comprehensive income for the year	1,332,473	5,608,891	6,941,364
At 30 June 2009	**3,698,980**	**39,133,921**	**42,832,901**
Profit for the year	-	5,001,716	5,001,716
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	5,001,716	5,001,716
At 30 June 2010	**3,698,980**	**44,135,637**	**47,834,617**

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

Statement of cash flows

For the year ended 30 June 2010

	Note	Consolidated		Health Insurance Fund of Australia	
		2010 **$**	2009 $	**2010** **$**	2009 $
Cash flows from operating activities					
Premiums received		**64,551,142**	57,518,832	**64,551,142**	57,518,832
Receipts from customers		**63,695**	636,391	**-**	-
Interest received		**1,905,674**	2,358,761	**1,904,205**	2,365,785
Other revenue received		**193,419**	286,045	**112,948**	307,833
Amounts received from / (paid to) the Risk Equalisation Trust Fund		**(801,759)**	20,074	**(801,759)**	20,074
Rent received		**307,227**	297,238	**307,227**	297,238
Claims paid		**(52,289,363)**	(47,437,039)	**(52,289,363)**	(47,437,039)
Interest and other costs of finance		**(238,097)**	(186,772)	**(237,303)**	(183,094)
Payments to suppliers and employees		**(7,024,726)**	(6,812,027)	**(6,782,516)**	(6,021,578)
Net cash flows from operating activities	24	**6,667,212**	6,681,503	**6,764,581**	6,868,051
Cash flows from investing activities					
Purchases of financial assets at fair value through profit and loss		**(112,287)**	(3,000,000)	**(112,287)**	(3,000,000)
Proceeds from maturity of financial assets at fair value through profit and loss		**250,000**	2,181,791	**250,000**	2,181,791
Purchase of property, plant and equipment		**(453,637)**	(384,513)	**(453,637)**	(383,805)
Proceeds from sale of property, plant and equipment		**38,183**	9,324	**31,082**	9,324
Amounts paid to controlled entities		**-**	-	**(81,269)**	(175,020)
Net cash flows used in investing activities		**(277,741)**	(1,193,398)	**(366,111)**	(1,367,710)
Net increase in cash and cash equivalents		**6,389,471**	5,488,105	**6,398,470**	5,500,341
Cash and cash equivalents at beginning of period		**40,414,469**	34,926,364	**40,363,329**	34,862,988
Cash and cash equivalents at end of period		**46,803,940**	40,414,469	**46,761,799**	40,363,329

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

1 Summary of significant accounting policies

a) General information

Health Insurance Fund of Australia Limited (the Company) is a company limited by guarantee incorporated in Australia. The address of its registered office and principal place of business is disclosed in the corporate information on page 1. The principal activities of the Company and its subsidiaries (the Group) are described in the Directors' Report on page 4.

b) Adoption of new and revised accounting standards

b.1) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section *b.2* .

Standards affecting presentation and disclosure

AASB 101 Presentation of Financial Statements (as revised in September 2007), AASB 2007-8 Amendments to Australian Acounting Standards arising from AASB 101 and AASB 2007-10 Further Amendments to Australian Acounting Standards arising from AASB 101	AASB 101 (September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
AASB 8 Operating Segments	Adoption of AASB 8 has resulted in a redesignation of the Company's reportable segments. However, there is no effect on the financial statements as the amendments relate to disclosures that are not mandatory for non-disclosing entities.
AASB 2009-2 Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments	The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

b.2 Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting A-IFRS for the first time and with the recognition of dividend income from subsidiaries in a parent's separate financial statements.
AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	In addition to the changes affecting amounts reported in the financial statements described at b.1 above, the amendments have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported.

1 Summary of significant accounting policies (continued)

b) Adoption of new and revised accounting standards (continued)

b.3 Standards and Interpretations in issue not yet adopted

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010	30 June 2011
• AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
• AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	30 June 2014
• AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011	30 June 2012
• AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013	30 June 2014
• AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010	30 June 2011
• AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011	30 June 2012
• Improvements to IFRSs (2010)*	1 January 2011	30 June 2012
Key amendments include: • IFRS 3/IAS 27 - clarification of transition requirements, measurement of non-controlling interests, unreplaced and voluntarily replaced share-based payment awards • Financial statement disclosures - clarification of content of statement of changes in equity (IAS 1), financial instrument disclosures (IFRS 7) and significant events and transactions in interim reports (IAS 34) • IFRIC 13 - fair value of award credits • IFRS 1 - accounting policy changes in year of adoption and amendments to deemed cost (revaluation basis, regulatory assets).		

* pronouncements that have been issued by the IASB and IFRIC but have not yet been issued by the AASB.

The financial report complies with Australian Accounting Standards. The financial report also complies with International Financial Reporting Standards (IFRS).

1 Summary of significant accounting policies (continued)

c) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group.
Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 20 September 2010.

d) Basis of preparation

This general purpose financial report for the year ended 30 June 2010 has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and requirements of the Private Health Insurance Administration Council (PHIAC).

These financial statements have been prepared on a historical cost basis, except for land and buildings and financial assets at fair value through profit and loss, which have been measured at fair value.

All amounts are presented in Australian dollars, which is the Group's functional currency.

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled entities as at 30 June each year (the Group). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-entity balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Controlled entities are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in controlled entities held by the Company are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

1 Summary of significant accounting policies (continued)

f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Premium Revenue

Premium revenue comprises amounts charged to the policyholders, excluding taxes collected on behalf of third parties.

Premium revenue is recognised in the income statement from the attachment date, over the period of contract on a daily basis. Where time does not approximate the pattern of risk previous claims experience is used to derive the incidence of risk.

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

Interest

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

g) Claims expense

Claims expense represents payment for claims and the movement in outstanding claims liabilities [Note 1(l)].

h) Risk EqualisationTrust Fund levies / recoveries

Under the provisions of the Private Health Insurance Act 2007 (Cth), all health insurers must participate in the Risk Equalisation Trust Fund, which charges a levy to all health insurers and shares a proportion of the hospital claims of all persons aged 55 years and over and those memberships with claims in excess of $50,000 in the current and preceding three quarters to all health insurers.

The amounts payable to and receivable from the Risk Equalisation Trust Fund are determined by the Private Health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable and income receivable are recognised on an accrual basis.

1 Summary of significant accounting policies (continued)

i) Acquisition costs

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods.

Deferred acquisition costs (DAC) includes commission paid to intermediaries and other direct costs incurred in relation to the acquisition or renewal of health insurance contracts. Acquisition costs incurred are amortised in accordance with the expected pattern of the incidence of risk under the health insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

j) Unearned premium liabilities

Unearned premium liability is determined by apportioning the premium written over the period of the policy from date of attachment of risk.

k) Unexpired risk liability

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current health insurance contracts.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the anticipated administration costs attributable to processing the claims and 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 shortfall requires an unexpired risk liability to be recognised.

l) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of future projected claims payments and associated claims handling costs in respect of claims reported but not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER).

Standard actuarial methods are applied to assess the net central estimate of outstanding claims liabilities. Features and trends of claim experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected. Projected future payments include an allowance for inflation and superimposed inflation and are discounted to present value.

A risk margin is added to the central estimate in determining the outstanding claims liabilities. The risk margin is designed to increase the probability of the outstanding claims liabilities proving ultimately to be adequate.

1 Summary of significant accounting policies (continued)

m) Financial assets at fair value through profit or loss

(i) Financial assets backing health insurance liabilities

Assets backing health insurance liabilities are segregated from other assets.

Financial assets are held to back health insurance liabilities on the basis that these assets are valued at fair value in the balance sheet, and consist of liquid and high quality investments such as cash and fixed income securities.

The management of financial assets and health insurance liabilities are closely monitored to ensure that investments are appropriate, given the expected pattern of future cash flows arising from health insurance liabilities.

Financial assets backing health insurance liabilities are designated at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value in the balance sheet with any resultant unrealised profits and losses recognised in the income statement.

The Group does not have any other category of investment.

(ii) Determination of fair value

Fair value for the various types of financial assets is determined as follows:

(a) Cash assets - at face value of the amounts deposited;
(b) Listed, government and semi-government securities - by reference to quoted bid price; and
(c) Unlisted securities - based on redemption value per unit as reported by the fund managers using valuation techniques. Such valuation techniques include the use of recent arm’s length transactions, reference to other instruments that have substantially the same characteristics, discounted cash flow analysis or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

(iii) Recognition and de-recognition

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Group commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this time frame, the transaction is recognised at settlement date.

Financial assets are de-recognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Group has transferred substantially all risks and rewards of ownership.

n) Investment in controlled entities

Investments in controlled entities are carried at cost, less provision for impairment.

o) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

1 Summary of significant accounting policies (continued)

p) Property, plant and equipment

Fixed assets, excluding buildings and freehold land, are depreciated over their estimated useful lives using the reducing balance method. The building is depreciated on a straight line basis to write off the net cost or revalued amount over its expected useful life. Depreciation rates are as follows:

Freehold buildings	2.5%
Plant and equipment	9%- 50%
Motor vehicles	22.5%

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Buildings and freehold land are valued using the revaluation model whereby measurement subsequent to initial recognition is at fair value at the date of the latest revaluation less any subsequent accumulated depreciation and accumulated impairment losses.

Every third year the valuations are based on external property valuation reports. In the intervening years, valuations are based on management estimates. All properties are valued simultaneously.

When a revaluation increases the carrying value of a property, the increase is credited directly to equity under the heading of revaluation reserve. However, an increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the income statement. However, any decrease is debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Any remaining balance on the revaluation reserve is credited to retained earnings when the corresponding property is de-recognised.

q) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

r) Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Amounts due from policyholders and intermediaries 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.

An allowance for doubtful debts is made when there is objective evidence that the entity will not be able to collect the debts. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of doubtful debts. Bad debts are written off when identified.

Amounts due under the Federal Government Rebate Incentives Scheme are stated at the net amount expected to be collected.

1 Summary of significant accounting policies (continued)

s) Inventories

Inventories comprise goods for resale and are valued at the lower of cost and net realisable value.

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

t) Taxation

(I) Income tax

In accordance with Section 50 - 30 of the Income Tax Assessment Act 1997, the income of the Company is exempt from income tax. The profit of the controlled entity, which is included in the consolidated statements of the Company, has been determined after providing for taxation expense at 30% of the controlled entity's pre-tax operating profit, adjusted for exempt income and non-deductible expenses.

(ii) Deferred tax

Deferred tax is provided in full, using the Balance Sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position.

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes attributable to amounts recognised directly in equity are recognised in equity.

(iii) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authority is included as part of receivables and payables.

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

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

u) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Any resultant write-down is recognised as an expense in the reporting period in which it occurs, unless the asset had previously been revalued, in which case the previous revaluation is written back with any excess being expensed.

The recoverable amount is the higher of an asset's fair value, less direct selling costs, and its value in use. In assessing the value-in-use of assets, the relevant cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or company of assets.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable operational cash flows (cash generating units).

1 Summary of significant accounting policies (continued)

v) Payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables, generally have 30 - 90 day terms.

w) Employee benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, rostered days off and long service leave and they are measured at their nominal value, except the liability for long service leave which is measured as the present value of the expected payments to be made in respect of services provided by employees up to the reporting date.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

x) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2 Critical accounting estimates and judgements

Estimates and judgements are made by the Company to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being 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 of significant judgement and the methodologies used to determine key assumptions are set out below.

Uncertainty over estimate of claims expense provision arising from health insurance contracts

Actuarial estimates are obtained after analysis of past claims experience. From these analyses, models of the claim payment process can be established and used to project future payments on claims outstanding at the balance date.

The estimates of outstanding claims obtained in this manner are estimates in the sense that there is a degree of uncertainty as to the difference which will ultimately arise between the estimates and the final result of the experience. This uncertainty arises from four sources:

(a) the nature of the claims process is not fully understood, it might be that none of the valuation models used is an entirely accurate representation of reality;

(b) there are components of randomness in the claims process, it is not possible to estimate the parameters of that process with complete precision even if complete confidence were felt in the nature of the model;

(c) any erroneous data will similarly have introduced uncertainties into the estimates of those parameters;

(d) even if the parameters could be estimated with precision, it would not be possible to predict outstanding claims with the same precision because of the random component in future experience.

Errors associated with (b) and (d) can be quantified in a formal way (estimation and statistical errors). However a large part of the uncertainty is associated with (a) (model specification error), and it is not possible to quantify this component.

The investigation and application of different models to the data is intended to reduce the model specification error, although the extent to which this is achieved is unknown.

The initial estimates obtained from the calculations are central estimates in the sense that they incorporate no deliberate bias towards over or under estimation. By definition, the estimates are intended to have about an even chance of ultimately turning out to be sufficient.

The nature of health insurance claims is such that the actual value of the liabilities is unknown because claims experience is subject to random fluctuations. The amount of the claim liability cannot be estimated with certainty. Also it is very difficult to determine the central estimate with a reasonable degree of precision. For this reason the inherent uncertainty in the central estimate must also be considered.

The provisions adopted in the Company's accounts are greater than the central estimate and the difference is referred to as a prudential margin. The prudential margin allows for some part of the uncertainties in the claim process and it also ensures that as far as possible that the surplus is not released until it is reasonably certain that the surplus is real.

The estimated liability for outstanding claims has been calculated as the present value of the liability after allowing for:

(a) future increases prior to payment, due to claims inflation;

(b) discounting to take into account investment return attributable to the assets backing the provisions during the run-off period;

(c) expenses associated with administering claims during the run-off period.

Allowance for Impairment

The allowance for impairment in investment in subsidiary is calculated using a discounted cash flow valuation model. The valuation model applies an earnings multiple to the forecast cash flows of the business and is subject to a degree of uncertainty.

3 Actuarial methods and assumptions

Claims estimates for the health insurance classes are derived from an analysis of four different actuarial models. Ultimate number of claims incurred are projected based on changes in claimant behaviour over time and past reporting patterns. Payments experience is analysed based on trends in ultimate incurred by month, paid chain ladder, paid per claim incurred and per claim reported. The resulting projected payments from these models are analysed along with benchmarks for average claim size and other statistics, in order to determine the final estimate of outstanding claims. The analysis and projection work is done for three valuation categories i.e. hospital, medical and general (ancillary) and consolidated into two health insurance classes, i.e. hospital including medical and general (ancillary). The exposure period is month of service.

Claims inflation is built into the resulting projected payments, to allow for both general economic inflation and superimposed inflation detected in the modelling of payment experience. Superimposed inflation arises from non-economic factors such as increased use of new medical technologies and changes in claimant behaviour. It is determined separately for each health insurance class.

Projected payments are discounted to allow for the time value of money.

(i) Assumptions

	2010		2009	
a) Inflation and discount rates	**Next 12 months % p.a.**	**Later % p.a.**	**Next 12 months % p.a.**	**Later % p.a.**
Inflation rates				
Normal	3.5%	3.5%	3.0%	3.0%
Superimposed				
Hospital	3.0%	3.0%	5.4%	5.4%
Medical	0.0%	0.0%	1.9%	1.9%
General (Ancillary)	2.0%	2.0%	0.4%	0.4%
Discount rates	4.5%	4.5%	3.4%	4.8% - 6.1%

	2010	2009
b) Weighted average expected term to settlement		
	Months	**Months**
Gross central estimate	1.43	1.49
Risk equalisation recoveries	1.20	1.09
Net central estimate	1.43	1.50
	Percent	**Percent**
Claims handling expense rate	3.5%	6.9%
d) Risk margin	5.0%	6.2%
e) Average claim size		
Hospital	$1,501.00	$1,449.00
Medical	$58.00	$58.00
General (Ancillary)	$50.00	$49.00

(ii) Processes used to determine assumptions

Average weighted term to settlement
The average term to settlement is calculated separately by class of business and is based on historic payment patterns.

Future claim reports (IBNR)
Future claim reports are analysed using the ratio of late reported claims to reported claims over future development periods.

3 Actuarial methods and assumptions (continued)

Average weighted term to settlement

The average term to settlement is calculated separately by class of business based on historic payment patterns.

Future claim reports (IBNR)

Future claim reports are analysed using the ratio of late reported claims to reported claims over future development periods.

Average claim size

Average claim size is a benchmark being the outcome of the month of service blend of actuarial methods described above.

Expense rate

Claims handling expenses were calculated by analysis of the Company's actual expenses from profit and loss statements over the last 12 months.

Discount rates

Discount rates are derived as the one-year forward rates implied by the Commonwealth Government Bond yield curve as at the balance date.

Inflation rates

Economic inflation assumptions have been set by reference to current economic indicators.

Superimposed inflation

Superimposed inflation being the real increase after adjusting for normal inflation, usually due to non-economic effects e.g. changes in / new treatments and increased use of new medical technologies. The superimposed inflation rates assumed considered the Company's own real cost increases.

Sufficiency margin

The inherent uncertainty in the estimated claim liability means that there is a range of possible outcomes. An analysis of the variation of the expected results lead to adoption of a 7.5% for 0-month valuations (6.0% for 1-month valuations and 4.0% for 2-month valuations) co-efficient of variation and the lognormal distribution. This distribution is then used to calculate the risk margin required to increase the level of sufficiency of the central estimate from 50% to 80%.

3 Actuarial methods and assumptions (continued)

(iii) Sensitivity analysis - insurance contracts

The Company conducts sensitivity analyses to quantify the exposure risk of changes in the key underlying variables and assumptions, as described 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 assumption will affect the insurance liabilities and hence the profit / (loss) and the equity both gross and net of risk equalisation.

Variable	**Impact of movement in variable**
Average weighted term to settlement	Does not directly affect the insurance liabilities.
Number of late reported claims	Used to determine the level of claims incurred but not reported (IBNR). An increase or decrease in lodgements have a corresponding impact on claims expense.
Expense rate	An increase or decrease in the expense rate assumption has a corresponding impact on claims expense.
Discount rate	The insurance liabilities are calculated by reference to expected future payments, discounted for the time value of money. An increase or decrease in the assumed rate of discount has an opposing impact on claims expense.
Inflation and superimposed inflation rates	Expected future payments are inflated to take account of both economic and non-economic inflationary pressures as described above under assumptions. An increase or decrease in the normal and / or superimposed inflation rate assumptions has a corresponding impact on claims expense.
Sufficiency margin	An increase or decrease in the coefficient of variation has a corresponding impact of the sufficiency margin and hence on the actuarial provision.
Average claim sizes	Average claim size is determined by the valuation, see above, and is used as a benchmark. Hence it is not sensitivity tested.

3 Actuarial methods and assumptions (continued)

Impact of changes in key variables

		Increase / (decrease) in profit and equity ($)			
		2010		2009	
Variable	**Movement in variable**	**Gross of risk equalisation**	**Net of risk equalisation**	**Gross of risk equalisation**	**Net of risk equalisation**
Future interest rates	1% decrease	(7,406)	(7,543)	(6,391)	(6,330)
	1% increase	7,315	7,450	6,308	6,247
Future inflation rates	1% decrease	5,920	6,030	8,144	8,066
	1% increase	(5,884)	(5,992)	(8,094)	(8,017)
Superimposed inflation	1% decrease	3,372	3,435	8,144	8,066
	1% increase	(3,350)	(3,412)	(8,094)	(8,017)
Adopted reporting rates	1% decrease	5,260	5,357	22,498	22,282
	1% increase	(5,260)	(5,357)	(22,498)	(22,282)
Incurred cost of latest two service months *	1% decrease	104,633	106,570	-	-
	1% increase	(104,633)	(106,570)	-	-
Sufficiency margin	1% decrease	61,570	62,711	49,551	49,075
	1% increase	(61,570)	(62,711)	(49,551)	(49,075)
Claims management expense	1% decrease	61,262	62,397	49,739	49,261
	1% increase	(61,262)	(62,397)	(49,739)	(49,261)

* In the 2010 financial year the Appointed Actuary has adopted a new valuation model and as a result prior period comparatives are not available for the incurred cost of latest two service months.

4 Risk management

The Group's financial condition and operating activities are affected by a number of key financial risks including interest rate risk, credit risk, market risk, liquidity risk and fiscal risk and non-financial risks including insurance risk, compliance risk and operational risk. The Group's policies and procedures in respect of managing financial and insurance risks are set out in this note.

a) Corporate governance framework

The Board of Directors of the Company is responsible for the corporate governance of the Group. The Board of Directors of the Company determines the Group's overall risk appetite and approves the management strategies, policies and practices to ensure that risks, including compliance risks, are identified and managed within the context of this appetite.

The Audit and Risk Committee is a sub-committee of the Board of Directors of the Company. PricewaterhouseCoopers, the Company's outsourced internal auditor, operates under a charter adopted by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, together with the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The Audit and Risk Committee is responsible for:
(1) monitoring the Risk Management Plan;
(2) reviewing the audit plans of the internal and external auditor;
(3) monitoring and appraising the activities of the internal and external auditor;
(4) recommending the appointment of the external auditor, and reviewing and recommending the adoption of the statutory accounts to the Board.

The Board has appointed itself as the Investment Committee. The Board is responsible for determining investment policy and reviewing investment performance. The Board utilises specialised investment management services for the management of the investment portfolio.

The Nomination and Remuneration Committee is a sub-committee of the Board of Directors of the Company. The Nomination and Remuneration Committeeis is responsible for succession planning and for reviewing performance and compensation arrangements for the directors and key management personnel.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the committee referred to above, these mechanisms include the following:

(1) approval of the strategic plan, which encompasses the Group's vision, mission and strategy statement, designed to meet stakeholders' needs and manage business risk;
(2) implementation of operating plans and budgets by management and monitoring of progress against budget by the Board which includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes.

b) Capital management framework

Capital comprises the total equity as reflected in the balance sheet. The Company operates within the regulatory environment established by the Private Health Insurance Act 2007 (Cth) (the "Act"). The regulatory body for the Private Health Insurance industry is the Private Health Insurance Council (PHIAC). the Company is subject to the Solvency and Capital Adequacy Standards applied by the Act and regulated by PHIAC. the Company is required to submit quarterly returns to PHIAC as well as an annual audited return that is used to establish whether the Company complies with the standards. the Company has exceeded the required Solvency and Capital Adequacy reserves throughout the year.

4 Risk management (continued)

The Company makes use of the Financial Condition Report (FCR) prepared by its Appointed Actuary to inform the Board of Directors about decisions on capital management issues. The FCR is a medium term projection of the overall financial position of the business under a variety of economic and operating scenarios, allowing for new business. The FCR considers a number of key performance indicators in addition to solvency and capital requirements. The FCR enables the Company to assess a range of risks to which the business is exposed, their evolution over time, and the impact of the mitigating actions that might be taken.

Other tools the Company utilises to manage its capital requirements are the annual premium submission to the Department of Health and Ageing, forecasts, the annual budget and monthly management accounts. The annual premium submission considers the financial impact of the Company's plans over the next two years and the impact on capital adequacy and solvency. The annual premium submission is checked by the Company's Appointed Actuary and approved by the Minister for Health and Ageing.

c) Insurance risk - health insurance activities

The Company's insurance activities primarily involve the underwriting of risks and claim management. The Company employs a disciplined approach to underwriting and risk management that emphasises maximising member benefits rather than a premium, volume or market share oriented approach.

(i) Risk management objectives and policies for mitigating insurance risk

The risk management activities include prudent underwriting, pricing, acceptance and management of risk process, together with claim management, reserving and investment. The objective of these disciplines is to enhance the financial performance of the Company's overall health insurance operations.

The key policies in place to mitigate risks arising from writing health insurance contracts include the following:

(a) the maintenance and use of management information systems that provide up-to-date, reliable data on the risks to which the business is exposed at any point in time;
(b) the use of actuarial models based on historical data to calculate premiums and monitor claims patterns;
(c) the mix of assets invested in is matched to the term of the insurance liabilities to maximise the investment performance;
(d) the diversification of business over two classes of insurance and a large number of uncorrelated individual risks seeks to reduce variability in loss experience.

(*ii) Terms and conditions of health insurance business*

The terms and conditions attaching to health insurance contracts affect the level of insurance risk accepted by the Company. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk

The Company's exposure is concentrated in Western Australia where 95% of its policy holders reside. This concentration risk will change as the Company expands its business in other States and Territories.

(iv) Claims management and claims provisioning risks

The Company's approach to determining the outstanding claims provision is set out in note 3. The Company's Appointed Actuary provides the Company's outstanding claims provision reported at balance date.

4 Risk management (continued)

d) Risk equalisation risk

PHIAC administers the Risk Equalisation Trust Fund (RETF) in terms of the Private Health Insurance Act 2007(Cth). All private health insurance funds in Australia are required to submit their quarterly eligible claims data to PHIAC for inclusion in an age based and high cost claims pool. The pool is divided by the total number of single equivalent units (SEU's) across all funds. The SEU rate is then applied to the number of SEU's in the fund and compared to the fund's actual risk equalisation eligible claims for the quarter. Each fund then either contributes their shortfall to or receives a payment for their surplus from the RETF. This arrangement spreads the risk of high cost claims and higher claiming older members across all funds in Australia.

e) Financial risk

The Group is exposed to a number of forms of financial risk, the most significant being market risk. This section provides an explanation of the other aspects in which the Group is affected by financial risks.

(i) Market risk
The Group takes on exposure to market risks including, fair value interest risk and price risk. Market risks arise from open positions in interest rates and equity products, all of which are exposed to general and specific market movements. The market risks that the Group primarily faces are equity risk and interest rate risk, due to the nature of its investments and liabilities.

Investment activity for the Group is undertaken in accordance with an investment policy established by the Board of Directors. The policy stipulates cash flow requirements, liquidity management, authorised investments and maximums, composition of portfolio, performance benchmarks and credit structure.

At 30 June, the Group had the following mix of financial assets exposed to equities price risk:

	Consolidated		Health Insurance Fund of WA	
	2010	2009	**2010**	2009
	$	$	**$**	$
Financial assets				
Investment in unit trusts	**1,999,124**	1,752,242	**1,999,124**	1,752,242

The unit trusts primarily invest in companies listed on the Australian Stock Exchange (ASX).

At 30 June, if the S&P/ASX 300 Index had moved, as illustrated in the table below, with all other variables held constant, post tax profit/equity would have been affected as follows:

	Post tax profit/equity higher/(lower)			
	Consolidated		Health Insurance Fund of WA	
	2010	2009	**2010**	2009
	$	$	**$**	$
+ 10% S&P/ASX 300 Index	**199,912**	175,224	**199,912**	175,224
- 10% S&P/ASX 300 Index	**(199,912)**	(175,224)	**(199,912)**	(175,224)

4 Risk management (continued)

(ii) Interest rate risk

The Group manages its exposure to interest rate risk through a diversified portfolio of investments including property and equity investments in addition to interest bearing assets. The interest bearing assets are further diversified in type and duration.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:

	Consolidated		**Health Insurance Fund of Australia**	
	2010	2009	**2010**	2009
	$	$	**$**	$
Financial assets				
Cash and bank balances	**46,803,940**	40,414,469	**46,761,799**	40,363,329
Commercial notes	**3,592,966**	3,530,565	**3,592,966**	3,530,565
Government bonds	**506,701**	774,062	**506,701**	774,062
	50,903,607	44,719,096	**50,861,466**	44,667,956

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and hence equity would have been affected as follows:

	Post tax profit/equity higher/(lower)			
	Consolidated		**Health Insurance Fund of Australia**	
	2010	2009	**2010**	2009
	$	$	**$**	$
+ 1.0% (100 basis points)	**488,538**	425,668	**488,116**	425,156
- 0.5% (50 basis points)	**(244,269)**	(212,834)	**(244,058)**	(212,578)

The movements in profit/equity are due to higher/lower interest income from variable rate cash and term deposit balances and the fair value movement of the fixed interest rate securities. The sensitivity is higher in 2010 than in 2009 because of an increase in cash and cash equivalents.

The movement in fixed interest rate securities (the commercial notes and government bonds) reflect the change in the fair value of the securities due to movement in the underlying interest rate.

(iii) Liquidity risk

The Company is exposed to daily calls on its available cash resources from policy claims. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Company's Board sets limits on the minimum proportion of maturing funds available to meet such calls and to cover claims at unexpected levels of demand.

The following table reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2010. The undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010.

4 Risk management (continued)

The remaining contractual maturities of the Group's and the Company's financial liabilities are:

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
3 months or less	686,183	815,758	693,516	770,079
>3-6 months	-	-	-	-
>6-12 months	-	-	-	-
>1-5 years	-	-	-	-
Over 5 years	-	-	-	-
	686,183	**815,758**	**693,516**	**770,079**

Where there is no specific contractual terms of payment the liability is considered to be payable on demand.

Maturity analysis of financial assets and liabilities based on management's expectations

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Payables and other financial liabilities mainly originate from the ongoing operations of the Group such as overhead expenses and investments in working capital e.g. inventories and trade receivables. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering its various business units that reflects expectations of management of expected settlement of financial assets and liabilities. The financial assets at fair value through profit and loss categorised as maturing in less than or equal to 3 months have been categorised as such because there is no maturity date, however, they are disclosed as non current assets on the Statement of Financial Position as it is the intention to hold these investments for greater than 12 months.

Consolidated **Year ended 30 June 2010**	**≤ 3 months** **$**	**>3-6 months** **$**	**>6-12 months** **$**	**>1-5 years** **$**	**>5 years** **$**	**Total** **$**
Financial assets						
Cash and bank balances	**46,803,940**	**-**	**-**	**-**	**-**	**46,803,940**
Receivables	**3,208,714**	**-**	**-**	**-**	**-**	**3,208,714**
Financial assets at fair value through profit or loss	**1,999,124**	**252,299**	**254,402**	**3,592,966**	**-**	**6,098,791**
	52,011,778	**252,299**	**254,402**	**3,592,966**	**-**	**56,111,445**
Financial liabilities						
Payables	**685,778**	**-**	**-**	**-**	**-**	**685,778**
Net maturity	**51,326,000**	**252,299**	**254,402**	**3,592,966**	**-**	**55,425,667**
Year ended 30 June 2009						
Financial assets						
Cash and bank balances	40,414,469	-	-	-	-	40,414,469
Receivables	2,744,542	-	-	-	-	2,744,542
Financial assets at fair value through profit or loss	2,003,634	-	-	4,053,235	-	6,056,869
	45,162,645	-	-	4,053,235	-	49,215,880
Financial liabilities						
Payables	815,758	-	-	-	-	815,758
Net maturity	44,346,887	-	-	4,053,235	-	48,400,122

4 Risk management (continued)

Health Insurance Fund of Australia **Year ended 30 June 2010**	**≤ 3 months $**	**>3-6 months $**	**>6-12 months $**	**>1-5 years $**	**>5 years $**	**Total $**
Financial assets						
Cash and bank balances	**46,761,799**	**-**	**-**	**-**	**-**	**46,761,799**
Receivables	**3,214,000**	**-**	**-**	**-**	**-**	**3,214,000**
Financial assets at fair value through profit or loss	**1,999,124**	**252,299**	**254,402**	**3,592,966**	**-**	**6,098,791**
	51,974,923	**252,299**	**254,402**	**3,592,966**	**-**	**56,074,590**
Financial liabilities						
Payables	**693,516**	**-**	**-**	**-**	**-**	**693,516**
Net maturity	**51,281,407**	**252,299**	**254,402**	**3,592,966**	**-**	**55,381,074**
Year ended 30 June 2009						
Financial assets						
Cash and bank balances	40,363,329	-	-	-	-	40,363,329
Receivables	2,732,836	-	-	-	-	2,732,836
Financial assets at fair value	2,003,634	-	-	4,053,235	-	6,056,869
	45,099,799	-	-	4,053,235	-	49,153,034
Financial liabilities						
Payables	770,079	-	-	-	-	770,079
Net maturity	44,329,720	-	-	4,053,235	-	48,382,955

Maturity analysis of the Company's undiscounted outstanding claims liability on insurance contracts is as follows:

	≤ 3 months $	**>3-6 months $**	**>6-12 months $**	**>1-5 years $**	**>5 years $**	**Total $**
Year ended 30 June 2010	**5,791,461**	**556,806**	**213,922**	**53,480**	**-**	**6,615,669**
Year ended 30 June 2009	4,789,395	283,115	127,243	31,811	-	5,231,563

Fair value
The methods for estimating fair value are outlined in note 1 (m).

f) Credit risk

The credit risk on financial assets of the Group is generally the carrying amount, net of any provisions for doubtful debts. Credit risk is mitigated by close management review of outstanding amounts which are regularly followed up and collected.

The table on the following page provides information regarding the credit risk exposure of the Group at 30 June 2009 by classifying assets according to the Standard and Poors credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

The Company manages credit risk by setting investment limits based on counterparty credit ratings and the duration of investments. The compliance with these limits is reported to the Company's Board of Directors on a monthly basis.

4 Risk management (continued)

Year ended 30 June 2010	AAA $	AA $	A $	BBB $	BB $	Not rated $	Total $
Consolidated							
Cash and cash equivalents	**-**	**46,785,985**	**-**	**-**	**-**	**17,955**	**46,803,940**
Receivables	**2,007,584**	**548,470**	**-**	**3,588**	**-**	**649,072**	**3,208,714**
Financial assets at fair value through profit or loss	**506,701**	**2,979,077**	**-**	**613,889**	**-**	**1,999,124**	**6,098,791**
Total	**2,514,285**	**50,313,532**	**-**	**617,477**	**-**	**2,666,151**	**56,111,445**

Year ended 30 June 2009	AAA $	AA $	A $	BBB $	BB $	Not rated $	Total $
Consolidated							
Cash and cash equivalents	-	40,395,619	-	-	-	18,850	40,414,469
Receivables	2,082,989	87,646	-	-	-	573,907	2,744,542
Financial assets at fair value through profit or loss	774,062	3,530,565	-	-	-	1,752,242	6,056,869
Total	2,857,051	44,013,830	-	-	-	2,344,999	49,215,880

The AAA rated receivables reflected above are due from Medicare Australia and the Risk Equalisation Trust Fund which are bodies administered and managed by the Federal Government and interest accrued on State Government bonds. The Company's policy does not permit investment in any security rated below Standard and Poors' long-term A rating. The investment with a BBB rating reflected above is the result of a credit downgrade of an investment on 22 July 2010 subsequent to the financial year end. Cash and cash equivalents with a BBB rating reflects interest accrued on the same investment.

g) Currency risk

All financial assets and liabilities of the Group are denominated in Australian Dollars.

5 Premium revenue

	Consolidated and Health Insurance Fund of Australia		
	Hospital Tables $	General Tables $	Total $
Premium revenue has been arrived at after including:			
2010 premium revenue			
Premiums received including Federal Government rebates	**41,614,227**	**22,936,915**	**64,551,142**
+/- premiums in arrears	**(8,099)**	**(2,600)**	**(10,699)**
+/- unearned premium liability	**(521,599)**	**(251,774)**	**(773,373)**
+/- amount receivable from the Federal Government Rebate Incentives Scheme	**187,396**	**103,402**	**290,798**
Total premium revenue	**41,271,925**	**22,785,943**	**64,057,868**
2009 premium revenue			
Premiums received including Federal Government rebates	36,874,744	20,644,088	57,518,832
+/- premiums in arrears	80,277	37,533	117,810
+/- unearned premium liability	(365,929)	(173,214)	(539,143)
+/- amount receivable from the Federal Government Rebate Incentives Scheme	83,178	46,552	129,730
Total premium revenue	36,672,270	20,554,959	57,227,229

6 Investment income (net)

	Consolidated		Health Insurance Fund of Australia	
	2010 $	2009 $	**2010** $	2009 $
Interest	**2,355,322**	2,307,945	**2,353,853**	2,314,969

Consolidated proceeds from maturity of investments of $ 250,000 (2009: $ 2,181,791) have not been included within revenue because they arise predominantly from the sale and re-investment of fixed interest securities and do not constitute revenue.

7 Other income

	Consolidated		Health Insurance Fund of Australia	
	2010 $	2009 $	**2010** $	2009 $
Profit from sale of property, plant and equipment	**-**	-	**6,772**	-
Rental revenue	**307,227**	297,238	**307,227**	297,238
Other revenue	**254,500**	106,260	**189,464**	145,404
	561,727	403,498	**503,463**	442,642

8 Net Claims incurred

	Consolidated and Health Insurance Fund of Australia		
	Current year	**Prior years**	**Total**
2010	**$**	**$**	**$**
Gross claims expense			
Gross claims incurred - undiscounted	**54,833,129**	**(1,370,421)**	**53,462,708**
Discount movement	**33,965**	**(19,583)**	**14,382**
	54,799,164	**(1,350,838)**	**53,448,326**
Risk equalisation expense			
Risk equalisation expense - undiscounted	**1,198,913**	**137,737**	**1,336,650**
Discount movement	**543**	**153**	**696**
	1,198,370	**137,584**	**1,335,954**
Net claims incurred	**55,997,534**	**(1,213,254)**	**54,784,280**
2009			
Gross claims expense			
Gross claims incurred - undiscounted	47,177,972	(602,081)	46,575,891
Discount movement	19,332	(42,522)	(23,190)
	47,158,640	(559,559)	46,599,081
Risk equalisation revenue			
Risk equalisation revenue - undiscounted	452,832	(16,562)	436,270
Discount movement	154	(432)	(278)
	452,678	(16,130)	436,548
Net claims incurred	46,705,962	(543,429)	46,162,533

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

For prior years, the movement in claims management expense allowance over the year is disregarded for consistency with the income statement. The Company values are the same as the consolidated values.

9 Other expenses

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
a) Other operating expenses				
Loss from write-off of property, plant & equipment	**85,090**	9,210	**-**	9,210
Commission	**188,959**	158,177	**188,959**	158,177
Information technology	**338,029**	345,512	**338,029**	345,512
Depreciation	**191,112**	162,962	**188,568**	150,865
Impairment of investment in and receivable from a subsidiary	**-**	-	**65,420**	483,321
Impairment / (reversal of impairment)	**(183,841)**	183,841	**-**	-
Post employment benefits	**306,428**	279,127	**303,462**	261,873
Other employee benefits	**3,122,863**	2,938,849	**3,063,643**	2,722,830
Legal fees	**121,051**	176,741	**120,212**	163,571
Postage and telephone	**226,108**	229,532	**223,614**	217,831
Printing and stationery	**132,849**	86,143	**132,849**	86,059
Rental and property expenses	**134,704**	299,498	**103,658**	151,465
Advertising	**1,541,424**	1,283,617	**1,540,398**	1,275,613
Other expenses	**871,883**	968,946	**762,026**	758,934
	7,076,659	7,122,155	**7,030,838**	6,785,261
Less: Acquisition costs	**(3,368,786)**	(2,952,374)	**(3,368,786)**	(2,952,374)
Claims handling costs	**(1,202,405)**	(973,404)	**(1,202,405)**	(973,404)
	2,505,468	3,196,377	**2,459,647**	2,859,483

9 Other expenses (continued)

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
b) Finance costs				
Financial charges and taxes	**238,097**	186,772	**237,303**	183,094
Less: Acquisition costs	**(120,601)**	(95,388)	**(120,601)**	(95,388)
Claims handling costs	**(98,444)**	(79,069)	**(98,444)**	(79,069)
	19,052	12,315	**18,258**	8,637

10 Income tax

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	$	$
Income tax expense				
Current tax	**3,935**	2,765	**-**	-
Deferred tax	**-**	-	**-**	-
Total tax expense charged to income statement	**3,935**	2,765	**-**	-
Reconciliation between net profit before tax and tax expense				
Profit before income tax expense	**5,042,891**	5,647,074	**5,001,716**	5,608,891
Tax at the Australian tax rate of 30% (2009 - 30%)	**1,512,867**	1,694,122	**1,500,515**	1,682,667
Exempt income of parent entity	**(1,500,515)**	(1,682,667)	**(1,500,515)**	(1,682,667)
	12,352	11,455	**-**	-
Deferred tax asset not recognised on loss in subsidiary	**11,210**	136,308	**-**	-
Provision for impairment	**(19,627)**	(144,998)	**-**	-
Tax charge for the year	**3,935**	2,765	**-**	-

11 Cash and bank balances

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	$	$
Cash on hand	**17,955**	18,850	**17,955**	18,500
Cash at bank and on call	**4,382,130**	3,020,639	**4,339,989**	2,969,849
Short-term deposits	**42,403,855**	37,374,980	**42,403,855**	37,374,980
	46,803,940	40,414,469	**46,761,799**	40,363,329

12 Receivables

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
Current				
Contributions in arrears	**374,001**	384,767	**374,001**	384,767
Amounts due from the Risk Equalisation Trust Fund	**200,375**	562,176	**200,375**	562,176
Investment income receivable	**557,174**	107,526	**557,174**	107,526
Amounts due from the Federal Government Rebate Incentives Scheme	**1,802,093**	1,511,295	**1,802,093**	1,511,295
Amounts receivable from controlled entities	**-**	-	**238,740**	254,588
Impairment	**-**	-	**(231,480)**	(247,328)
Other amounts receivable	**275,071**	178,778	**273,097**	159,812
Commercial loan - controlled entity	**-**	-	**381,137**	299,868
Impairment	**-**	-	**(381,137)**	(299,868)
	3,208,714	2,744,542	**3,214,000**	2,732,836

The commercial loan - controlled entity is represented by working capital loans extended to Maximeyes Optical Unit Trust (MaximEyes). Interest was charged at an average rate of 5.2% per annum (2009: 6.3% per annum). During the 2010 financial year, $81,269 in working capital loans were extended to MaximEyes by the Company to provide funding to meet MaximEyes' commitments. At 30 June 2009 the full outstanding loan amount as well as the inter-company debtor balance was provided against for impairment.

13 Inventories

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
Finished goods (at cost)	**-**	106,125	-	-
Impairment	**-**	(100,819)	-	-
Finished goods at cost or net realisable value whichever is lower	**-**	5,306	**-**	-

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
14 Financial assets at fair value through profit or loss				
Current				
Government bonds	**506,701**	251,392	**506,701**	251,392
Non-current				
Commercial notes	**3,592,966**	3,530,565	**3,592,966**	3,530,565
Government bonds	**-**	522,670	**-**	522,670
Investment in unit trusts	**1,999,124**	1,752,242	**1,999,124**	1,752,242
	5,592,090	5,805,477	**5,592,090**	5,805,477

		Consolidated		Health Insurance Fund of Australia	
		2010	2009	**2010**	2009
		$	$	**$**	$
15 Investments in controlled entities					
Subordinated loan - Maximeyes Optical Unit Trust	(i)	**-**	-	**200,000**	200,000
51 "A" class units in unit trust - Maximeyes Optical Unit Trust		**-**	-	**51**	51
49 "B" class units in unit trust - Maximeyes Optical Unit Trust		**-**	-	**244,620**	244,620
Maximeyes Optical Unit Trust		**-**	**-**	**444,671**	**444,671**
Impairment				**(444,671)**	(444,671)
HIF Financial Services Pty Ltd		**-**	-	**1**	1
		-	-	**1**	1

The subsidiary companies are 100% owned by Health Insurance Fund of Australia Limited.

(i) The subordinated loan does not bear interest and does not have a repayment term. The Company does not intend to rec the loan in the near future.

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
16 Deferred acquisition costs				
Deferred acquisition costs as at 1 July	**273,724**	85,598	**273,724**	85,598
Acquisition costs deferred	**3,489,387**	3,047,763	**3,489,387**	3,047,763
Amortisation charged against income statement	**(3,530,069)**	(2,859,637)	**(3,530,069)**	(2,859,637)
Deferred acquisition costs as at 30 June	**233,042**	273,724	**233,042**	273,724

17 Property, plant and equipment

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
Land at revaluation	**5,185,000**	5,185,000	**5,185,000**	5,185,000
Buildings at revaluation	**965,000**	965,000	**965,000**	965,000
Less: accumulated depreciation	**24,125**	-	**24,125**	-
Capital work in progress	**33,930**	-	**33,930**	-
	6,159,805	6,150,000	**6,159,805**	6,150,000
Plant and equipment	**-**	31,311	**-**	-
Less: accumulated depreciation	**-**	29,044	**-**	-
	-	2,267	**-**	-
Office furniture and equipment - at cost	**1,417,623**	1,221,129	**1,417,623**	1,102,455
Less: accumulated depreciation	**780,849**	696,803	**780,849**	666,156
Less: Impairment	**-**	83,022	**-**	-
	636,774	441,304	**636,774**	436,299
Motor vehicles - at cost	**160,316**	171,523	**160,316**	140,426
Less: accumulated depreciation	**45,531**	76,004	**45,531**	56,120
	114,785	95,519	**114,785**	84,306
Total property, plant and equipment	**6,911,364**	6,689,090	**6,911,364**	6,670,605

The basis of valuation for land and buildings is the fair value based on existing use. The Company's Board of Directors is of the opinion that this basis provides a reasonable estimate of recoverable amount. There was a revaluation of the Company's freehold land and buildings in May 2009. The valuation was based on the fair market value of the two properties at that date and was conducted in accordance with independent valuations. The valuation was performed by Steven L Kish who is a Certified Practising Valuer (Licensed Valuer # 498). Management does not believe that the fair market value of the properties has changed materially since the May 2009 valuation. The historic cost of the revalued land and buildings was $2,501,645.

On 7 April 2008 the Company acquired land at a cost of $2,068,152. The fair value of this land was increased in the prior year to $2,150,000 as a result of the independant valuation in May 2009 referred to above. It is management's intention to develop a commercial property on this land for use by the Company as its head office and to earn rental income in the future. This is expected to take place in the next 18 - 24 months. Until the development is complete all costs related to the development will be capitalised as capital work in progress.

17 Property, plant and equipment (continued)

	Land & Buildings	Plant & Equipment	Office Furniture & Equipment	Motor Vehicles	Total
	$	$	$	$	$
Reconciliation of property, plant and equipment 2010 - consolidated					
Carrying amount at 1 July 2009	**6,150,000**	**2,267**	**441,304**	**95,519**	**6,689,090**
Revaluation	**-**	**-**	**-**	**-**	**-**
Additions	**33,930**	**-**	**333,818**	**85,889**	**453,637**
Disposals	**-**	**(1,282)**	**(85,497)**	**(33,217)**	**(119,996)**
Assets written off during the year	**-**	**(250)**	**(3,027)**	**-**	**(3,277)**
Impairment*	**-**	**-**	**83,022**	**-**	**83,022**
Depreciation expense	**(24,125)**	**(735)**	**(132,846)**	**(33,406)**	**(191,112)**
Carrying amount at 30 June 2010	**6,159,805**	**-**	**636,774**	**114,785**	**6,911,364**
Reconciliation of property, plant and equipment 2010 - Health Insurance Fund of Australia					
Carrying amount at 1 July 2009	**6,150,000**	**-**	**436,299**	**84,306**	**6,670,605**
Revaluation	**-**	**-**	**-**	**-**	**-**
Additions	**33,930**	**-**	**333,818**	**85,889**	**453,637**
Disposals	**-**	**-**	**-**	**(22,695)**	**(22,695)**
Assets written off during the year	**-**	**-**	**(1,615)**	**-**	**(1,615)**
Depreciation expense	**(24,125)**	**-**	**(131,728)**	**(32,715)**	**(188,568)**
Carrying amount at 30 June 2010	**6,159,805**	**-**	**636,774**	**114,785**	**6,911,364**
Reconciliation of property, plant and equipment 2009 - consolidated					
Carrying amount at 1 July 2008	4,834,402	4,776	295,225	102,220	5,236,623
Revaluation	1,332,473	-	-	-	1,332,473
Additions	-	375	356,816	27,322	384,513
Disposals	-	-	(252)	(6,894)	(7,146)
Assets written off during the year	-	-	(11,388)	-	(11,388)
Impairment*	-	-	(83,022)	-	(83,022)
Depreciation expense	(16,875)	(2,884)	(116,075)	(27,129)	(162,963)
Carrying amount at 30 June 2009	6,150,000	2,267	441,304	95,519	6,689,090
Reconciliation of property, plant and equipment 2009- Health Insurance Fund of Australia					
Carrying amount at 1 July 2008	4,834,402	-	200,905	88,419	5,123,726
Revaluation	1,332,473	-	-	-	1,332,473
Additions	-	-	356,483	27,322	383,805
Disposals	-	-	(252)	(6,894)	(7,146)
Assets written off during the year	-	-	(11,388)	-	(11,388)
Depreciation expense	(16,875)	-	(109,449)	(24,541)	(150,865)
Carrying amount at 30 June 2009	6,150,000	-	436,299	84,306	6,670,605

* The impairment loss recorded in MaximEyes in the prior year was reversed in the current year on disposal of the assets.

18 Trade and other payables

	Consolidated 2010 $	Consolidated 2009 $	Health Insurance Fund of Australia 2010 $	Health Insurance Fund of Australia 2009 $
Trade payables	**322,015**	466,447	**317,652**	421,366
Other creditors	**363,763**	349,311	**373,689**	341,950
Amounts payable to controlled entities	**-**	-	**2,175**	6,763
	685,778	815,758	**693,516**	770,079

The average credit period on purchases is 30 days. No interest is charged on the trade payables for the first 30 days from the date of the invoice.

19 Outstanding claims liability

		Consolidated 2010 $	Consolidated 2009 $	Health Insurance Fund of Australia 2010 $	Health Insurance Fund of Australia 2009 $
a) Outstanding claims liability					
Central estimate	**(A)**	**6,156,660**	4,607,086	**6,156,660**	4,607,086
Discount to present value		**(32,294)**	(19,428)	**(32,294)**	(19,428)
		6,124,366	4,587,658	**6,124,366**	4,587,658
Claims handling costs	**(B)**	**210,088**	319,824	**210,088**	319,824
Risk margin	**(C)**	**209,037**	304,652	**209,037**	304,652
Gross outstanding claims liability		**6,543,491**	5,212,134	**6,543,491**	5,212,134
Gross claims incurred - undiscounted	**(A)+(B)+(C)**	**6,575,785**	5,231,562	**6,575,785**	5,231,562
b) Reconciliation of movement in discounted outstanding claims liability					
Brought forward	**(D)**	**5,212,134**	6,031,747	**5,212,134**	6,031,747
Effect of changes in assumptions		**(1,225,448)**	(564,093)	**(1,225,448)**	(564,093)
Increase in claims incurred / recoveries anticipated over the year		**6,543,491**	5,178,247	**6,543,491**	5,178,247
Incurred claims recognised in income statement	**(E)**	**5,318,043**	4,614,154	**5,318,043**	4,614,154
Claim payments / recoveries during the year	**(F)**	**3,986,686**	5,433,767	**3,986,686**	5,433,767
Carried forward	**(D)+(E)-(F)**	**6,543,491**	5,212,134	**6,543,491**	5,212,134

c) Claims development tables

The claims development table is not required where uncertainty about amount and timing is typically resolved within one year. As greater than 99.0% of the Company's claims are resolved within one year, the claims development table has not been included.

d) Risk margins

Uncertainty was analysed for each portfolio taking into account potential uncertainties relating to the actuarial models and assumptions, the data quality, the health insurance environment and the impact of legislative reform.
As the Company is a single portfolio comprising two correlated classes of risk, no allowance is made for diversification when setting the risk margin. The risk margin applied is to increase the level of adequacy of the central estimate to 80% is 3.3%

20 Unearned premium liability

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
Unearned premium liability at beginning of the period	**6,676,577**	6,133,786	**6,676,577**	6,133,786
Deferral of premiums on contracts paid in the period	**7,451,323**	6,676,577	**7,451,323**	6,676,577
Earning of premiums paid in previous periods	**(6,676,577)**	(6,133,786)	**(6,676,577)**	(6,133,786)
Unearned premium liability at the end of the period	**7,451,323**	6,676,577	**7,451,323**	6,676,577

21 Provisions for employee entitlements

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
Current				
Annual leave	**164,156**	189,688	**164,156**	163,633
Long service leave	**73,185**	63,171	**73,185**	63,171
	237,341	252,859	**237,341**	226,804
Non-current				
Long service leave	**63,066**	44,838	**63,066**	36,883
Company directors' retirement	**395,643**	341,986	**395,643**	341,986
	458,709	386,824	**458,709**	378,869

Company directors' retirement liability represents monies held in an AMP Linked Investment Plan. These monies are held jointly in the Company's name and the individual director's name and may be paid out at the discretion of the Company's Board upon retirement by a director of the Company. An equal and opposite receivable has been recognised as an asset, included in "Investment in unit trusts" (refer note 14).

22 Unexpired risk liability

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
(a) Unexpired risk liability				
Unexpired risk liability opening balance	**-**	99,262	**-**	99,262
Recognition / (release) of unexpired risk liability in the period	**-**	(99,262)	**-**	(99,262)
Unexpired risk liability closing balance	**-**	**-**	**-**	**-**
(b) Calculation of deficiency				
Unearned premium liability	**7,451,323**	6,676,578	**7,451,323**	6,676,578
Less related deferred acquisition costs	**233,042**	273,723	**233,042**	273,723
	7,218,281	6,402,855	**7,218,281**	6,402,855
Central estimate of present value of expected future cash flows arising from future claims including risk equalisation and policy handling expenses	**6,874,553**	6,041,368	**6,874,553**	6,041,368
Risk margin	**343,728**	361,487	**343,728**	361,487
	7,218,281	6,402,855	**7,218,281**	6,402,855
Unexpired risk liability	**-**	-	**-**	-

Comparative numbers have been updated to include Hospital and General (Ancillary) unearned premium liability to align with current period disclosures.

The liability adequacy test identified a surplus for the combined portfolio of Hospital and General (Ancillary) contracts that are subject to broadly similar risks that are managed together as a single portfolio. The process for determining the overall risk margin of 4.0%, as with outstanding claims, is intended to achieve an 80% probability of adequacy.

Deferred acquisition costs were recognised to the extent of the surplus.

As health insurance contracts have no end date, unlike a general insurance contract, health funds are obliged to keep offering and renewing their products to members thus giving rise to a constructive obligation. The constructive obligation is required to be included when performing the liability adequacy test to determine the unexpired risk liability. It is generally recognised that whilst health insurance contracts have no end date, a health fund will be able to alter its product's prices at least annually (from 1 April), thus limiting the impact of the constructive obligation. The liability adequacy test did not determine that any unexpired risk liability was required for the constructive obligation as at 30 June 2010.

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
23 Reserves				
Reserves comprise revaluation of:				
Land and buildings	**3,698,980**	3,698,980	**3,698,980**	3,698,980

The land and buildings revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings.

The reserves of the Company meet the requirements of The Private Health Insurance (Health Benefits Fund Administration) Rules 2007 - Solvency Standard. the Company had net Health Benefits Fund Capital of $47,835,000 compared to the required Solvency Reserve of $7,008,814.

Acquisition reserve	**(238,624)**	(238,624)	**-**	-

The Company acquired the remaining 49% minority interest in Maximeyes Optical Unit Trust as at 1 February 2007. The acquisition reserve reflects the excess of the consideration paid of $244,620 over the carrying value of $5,996.

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
24 Reconciliation of net cash provided by operating activities to profit or loss				
Net profit from ordinary activities after tax	**5,038,956**	5,644,309	**5,001,716**	5,608,891
Adjustments for:				
Depreciation	**191,112**	162,962	**188,568**	150,865
(Profit) / loss on sale and write-off of property, plant and equipment	**85,090**	9,210	**(6,772)**	9,210
Fair value gains on financial assets	**(179,635)**	1,532,448	**(179,635)**	1,532,448
Impairment	**(83,022)**	83,022	**65,421**	483,321
	5,052,501	7,431,951	**5,069,298**	7,784,735
(Increase) / decrease in deferred acquisition costs	**40,682**	(188,126)	**40,682**	(188,126)
Increase in unearned premium liability	**774,746**	542,791	**774,746**	542,791
(Decrease) in unexpired risk liability	**-**	(99,262)	**-**	(99,262)
(Increase) / decrease in contributions in arrears	**10,766**	(119,240)	**10,766**	(119,240)
Increase / (decrease) in outstanding claims	**1,331,357**	(819,613)	**1,331,357**	(819,613)
Increase / (decrease) in employee entitlements	**56,367**	(117,088)	**90,377**	(123,161)
Decrease in other assets	**5,306**	81,417	**-**	-
(Increase) in other debtors	**(25,290)**	(303,390)	**(26,434)**	(387,482)
Increase / (decrease) in creditors	**(129,575)**	221,247	**(76,563)**	226,593
(Increase) / decrease in interest receivable	**(449,648)**	50,816	**(449,648)**	50,816
Cash flows from operating activities	**6,667,212**	6,681,503	**6,764,581**	6,868,051

25 Related party disclosures

The names of each person holding the position of director of the Company during the financial year are:

M. A. Dudley (Chairman), G. A. Airey, E. L. Chapple (retired 30 June 2010), G. N. Gibson (Managing Director), R. Homsany (appointed 24 June 2010), M. L. S. Howard, T. S. Smith and N. J. Timoney.

Directors of the Company are entitled to receive health benefits at subsidised rates applicable to all employees.

Transactions with related entities

Purchases

Rent of $2,667 (2009: $38,671) was paid by the Company to Maximeyes Optical Unit Trust for the sub-rent of space at its Kingsway store for the months of July and August 2009.

Payables

Commission of $2,174 (2009: $3,829) was owed to HIF Financial Services Pty Ltd and rent of $ nil (2009: $2,934) was owed to Maximeyes Optical Unit Trust as at 30 June 2010.

Fees for Services

The Company provided accounting services to Maximeyes Optical Unit Trust for a fee of $ nil (2009: $50,004) and management and administrative services to HIF Financial Services Pty Ltd for a fee of $79,200 (2009: $79,200).

Loans

The subordinated loan value to Maximeyes Optical Unit Trust (MaximEyes) as at 30 June 2010 was $200,000 (2009: $200,000). A total amount of $70,000 was advanced to MaximEyes by the Company as commercial loans in financial year 2010 (2009: $175,020). No repayments (2009: $nil) have been made during the year in respect of these loans. The balance outstanding at 30 June 2010 was $381,136 (2009: $299,868). A provision for impairment has been raised for the full amount of these loans of $581,136 as at 30 June 2010 (2009: $499,866).

Interest

Interest income of $910 (2009: $9,615) was charged against the MaximEyes commercial loans during the financial year.

Receivables

An amount of $231,480 (2009: $247,328) is owed by MaximEyes for consulting fees, accounting fees and other inter-company charges. An allowance for impairment of $231,480 (2009: $247,328) has been made against this receivable as at 30 June 2010. An amount of $7,260 (2009: $7,260) is owed by HIF Financial Services Pty Ltd for management fees.

Transactions with director related entities

A director, Mr N. J. Timoney, is a partner in the firm of Stables Scott, Barristers & Solicitors. Stables Scott provided legal services to the Company during the prior year of $133.

Key management personnel compensation

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

	Consolidated		Health Insurance Fund of Australia	
	2010 $	2009 $	**2010** $	2009 $
Short-term employee benefits	**599,678**	539,704	**599,678**	539,704
Post-employment benefits	**99,143**	71,892	**99,143**	71,892
	698,821	611,596	**698,821**	611,596

	Consolidated		Health Insurance Fund of Australia	
	2010	2009	**2010**	2009
	$	$	**$**	$
26 Remuneration of external auditor				
Remuneration of the external auditor for audit of the consolidated financial statements of HIF and regulatory reporting	**79,800**	76,700	**79,800**	76,700

The auditor of Health Insurance Fund of Australia Limited in 2010 is Deloitte Touche Tohmatsu; in 2009 the auditor was Ernst & Young.

27 Financial instruments

Consolidated 2010	**Note**	Floating interest rate $	Fixed interest maturing in: 1 year or less $	1 to 5 years $	Non interest bearing $	Total $
Financial assets						
Cash and cash equivalents	11	**46,785,985**	**-**	**-**	**17,955**	**46,803,940**
Contributions in arrears	12	**-**	**-**	**-**	**374,001**	**374,001**
Other receivables	12	**-**	**-**	**-**	**2,277,539**	**2,277,539**
Investment income receivable	12	**-**	**-**	**-**	**557,174**	**557,174**
Financial assets at fair value through profit and loss	14	**-**	**506,701** *	**3,592,966** *	**1,999,124**	**6,098,791**
		46,785,985	**506,701**	**3,592,966**	**5,225,793**	**56,111,445**
Weighted average interest rate		**5.78%**	**5.75%**	**4.32%**		
Financial liabilities						
Payables	18	**-**	**-**	**-**	**685,778**	**685,778**
		-	**-**	**-**	**685,778**	**685,778**
Net financial assets		**46,785,985**	**506,701**	**3,592,966**	**4,540,015**	**55,425,667**

Consolidated 2009	**Note**	Floating interest rate $	Fixed interest maturing in: 1 year or less $	1 to 5 years $	Non interest bearing $	Total $
Financial assets						
Cash and cash equivalents	11	40,395,619	-	-	18,850	40,414,469
Contributions in arrears	12	-	-	-	384,767	384,767
Other receivables	12	-	-	-	2,252,249	2,252,249
Investment income receivable	12	-	-	-	107,526	107,526
Financial assets at fair value through profit and loss	14		251,392 *	4,053,235 *	1,752,242	6,056,869
		40,395,619	251,392	4,053,235	4,515,634	49,215,880
Weighted average interest rate		3.88%	5.73%	4.43%		
Financial liabilities						
Payables	18	-	-	-	815,758	815,758
		-	-	-	815,758	815,758
Net financial assets		**40,395,619**	**251,392**	**4,053,235**	**3,699,876**	**48,400,122**

* The fixed interest financial instruments are level 3 fair value measurements, all other financial instruments are level 1 fair value measurements as described below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

27 Financial instruments (continued)

Health Insurance Fund of Australia 2010	Note	Floating interest rate	Fixed interest maturing in: 1 year or less	Fixed interest maturing in: 1 to 5 years	Non interest bearing	Total
		$	$	$	$	$
Financial assets						
Cash and cash equivalents	11	**46,743,844**	**-**	**-**	**17,955**	**46,761,799**
Contributions in arrears	12	**-**	**-**	**-**	**374,001**	**374,001**
Other receivables	12	**-**	**-**	**-**	**2,282,825**	**2,282,825**
Investment income receivable	12	**-**	**-**	**-**	**557,174**	**557,174**
Financial assets at fair value through profit and loss	14	**-**	**506,701 ***	**3,592,966 ***	**1,999,124**	**6,098,791**
		46,743,844	**506,701**	**3,592,966**	**5,231,079**	**56,074,590**
Weighted average interest rate		**5.78%**	**5.75%**	**4.32%**		
Financial liabilities						
Payables	18	**-**	**-**	**-**	**693,516**	**693,516**
		-	**-**	**-**	**693,516**	**693,516**
Net financial assets		**46,743,844**	**506,701**	**3,592,966**	**4,537,563**	**55,381,074**

Health Insurance Fund of Australia 2009	Note	Floating interest rate	Fixed interest maturing in: 1 year or less	Fixed interest maturing in: 1 to 5 years	Non interest bearing	Total
		$	$	$	$	$
Financial assets						
Cash and cash equivalents	11	40,344,829	-	-	18,500	40,363,329
Contributions in arrears	12	-	-	-	384,767	384,767
Other receivables	12	-	-	-	2,240,543	2,240,543
Investment income receivable	12	-	-	-	107,526	107,526
Financial assets at fair value through profit and loss	14	-	251,392 *	4,053,235 *	1,752,242	6,056,869
		40,344,829	251,392	4,053,235	4,503,578	49,153,034
Weighted average interest rate		3.88%	5.73%	4.43%		
Financial liabilities						
Payables	18	-	-	-	770,079	770,079
		-	-	-	770,079	770,079
Net financial assets		**40,344,829**	**251,392**	**4,053,235**	**3,733,499**	**48,382,955**

* The same categorisation of fair value measurement levels applies to the Company as to the Group.

27 Financial instruments (continued)

Reconciliation of net financial assets to net assets

	Notes	Consolidated 2010 $	Consolidated 2009 $	Health Insurance Fund of Australia 2010 $	Health Insurance Fund of Australia 2009 $
Net financial assets	27	**55,425,667**	48,400,122	**55,381,074**	48,382,955
Inventories	13	**-**	5,306	**-**	-
Investment in controlled entities	15	**-**	-	**1**	1
Deferred acquisition costs	16	**233,042**	273,724	**233,042**	273,724
Property, plant and equipment	17	**6,911,364**	6,689,090	**6,911,364**	6,670,605
Provisions	19,20,21,22	**(14,232,155)**	(12,141,570)	**(14,232,155)**	(12,115,515)
Non-current liabilities	21	**(458,709)**	(386,824)	**(458,709)**	(378,869)
Net assets per the balance sheet		**47,879,209**	42,839,848	**47,834,617**	42,832,901

Net fair value of financial assets and liabilities per the balance sheet

The net fair value of financial assets and liabilities approximate their carrying value.

28 Operating lease arrangements

Operating leases relate to the two properties owned by the Company. One property (60 Stirling Street) with an original lease term of 5 years, with an option to extend for a further two 3 year periods, the last of which ends on 31 October 2010. A new 3 year lease term has been agreed with the tenant with no option to extend. The lessee does not have an option to purchase the property at the expiry of the lease period.

The lease term for the other property (100 Stirling Street) is 1 year with no option to extend. The lease ends on 31 December 2010 after which the property will be redeveloped as a future head office for the Company.

The property rental income earned by the Company from its property, which is leased out under operating leases, amounted to $307,227 (2009: $297,238). Direct operating expenses arising on the investment property in the period amounted to $72,284 (2009: $60,581).

<u>Non-cancellable operating lease receivables</u>

	Consolidated 2010 $	Consolidated 2009 $	Health Insurance Fund of Australia 2010 $	Health Insurance Fund of Australia 2009 $
Not later than 1 year	**261,134**	340,411	**261,134**	307,227
Later than 1 year and not longer than 5 years	**715,447**	363,429	**715,447**	363,429
Later than 5 years	**-**	-	**-**	-
	976,581	**703,840**	**976,581**	**670,656**

29 Subsequent events

There has not arisen in the interval between 30 June 2010 and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Board of Directors of the Company, to effect significantly the operations of the Group, the results of its operation, or the state of affairs of the Group in future years, other than the matters disclosed in this report.

HEALTH INSURANCE FUND OF AUSTRALIA LIMITED

DIRECTORS' DECLARATION

The directors declare that in the directors' opinion:

(a) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity;

(c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

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

On behalf of the Directors

M. A. Dudley
Director

Perth, 20 September 2010

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Woodside Plaza
Level 14
240 St. Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 (0) 8 9365 7000
Fax: +61 (0) 8 9365 7001
www.deloitte.com.au

Independent Auditor's Report to the members of Health Insurance Fund of Australia Limited

We have audited the accompanying financial report of Health Insurance Fund of Australia Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 10 to 51.

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*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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.

Member of
Deloitte Touche Tohmatsu

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

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

(a) the financial report of Health Insurance Fund of Australia Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Leanne Karamfiles
Partner
Chartered Accountants
Perth, 20 September 2010