



Annual Report
2006/2007

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President's Report

Mission

Latrobe's mission is "to provide member access to a range of quality health care services when needed, in the most appropriate setting and at a manageable price".

Introduction

On behalf of the Board of Management, I take great pleasure in presenting Latrobe's Annual Report for the year ended 30 June 2007.

2007 has been another successful year, resulting in a strengthened position as a leading regional private health insurer.

Corporate Governance

The Board has a strong commitment to corporate governance. In addition, the Board continues to evaluate its performance and adapt its practices to the ever changing circumstances that confront Latrobe. Corporate governance remains an evolving process within the organisation.

Risk Management

An important focus for the Board is to effectively manage risks associated with the relatively complex and highly regulated health insurance environment. The management of risk has evolved with growth and is implemented via a policy framework designed to ensure that risks are identified and controls are adequate, in place and functioning throughout the organisation. The emphasis on risk management is aimed at ensuring that all business risks are managed to provide the optimum outcome for members and assurance to the Board.

Private Health Insurance Act

The introduction of the Private Health Insurance Act 2007 has presented both opportunities and challenges and will almost certainly require changes to Latrobe's corporate entity in the very near future. As a requirement within this new Act, Latrobe will need to re-register with the Private Health Insurance Administration Council as a Health Benefits Fund from 1 July 2008. The process for this re-registration application is now underway.

As a result of the new Private Health Insurance Act, a workshop was held earlier this year by the Board and management to review Latrobe's triennial strategic plan to ensure its currency in respect to changes made under the new Act.

President's Report (cont...)

Member Services

Member service continues and will always be a prime focus of Latrobe. An internal communications register is now used as part of the risk management process. This register tracks all member complaints and feedback throughout the organisation and enables internal controls and training to be implemented at every opportunity.

Latrobe remains committed to the Private Health Insurance Code of Conduct. This is a self regulatory code designed to promote informed relationships between private health insurers, members, agents and brokers.

Maryvale Private Hospital

Latrobe's wholly owned Maryvale Private Hospital continues to be able to offer a range of services to the Gippsland area and does so with an excellent quality of care. Our thanks are extended to the Board, management and staff for their ongoing commitment to this facility.

Other

Following the merger with Federation Health, there has been some rationalisation of infrastructure assets, notable ones being the sale of the property in Albert Street, Moe and relocation of our Moe branch to Moore Street.

Future Outlook

The coalition government has introduced many initiatives to promote and encourage private health insurance within Australia over a number of years. The forthcoming federal election may lead to a change of government which will more than likely result in even more changes in the private health insurance industry during the next few years.

It is encouraging to note that the ALP has announced it will continue to support the Private Health Insurance Rebate in its current form, as well as Lifetime Health Cover and a means tested Medicare surcharge.

The outlook for Latrobe continues to be positive, attributable in no small way to our dedicated management and staff and I urge all members to continue the journey with us.

BARRY PEACH
President

Chief Executive Officer's Report

Introduction

The one constant in Australia's and indeed the world's health care systems is change and the year under review, particularly in regard to private health insurance, has not proved to be an exception to that rule.

On 1 April 2007, the Private Health Insurance Act 2007 and accompanying rules came into effect.

The new legislation is intended to consolidate and simplify the legislative framework that currently regulates the private health insurance industry into a single Act which shifts the emphasis of regulation away from private health insurance funds, to the broader private health sector by focusing regulation more directly on private health insurance products rather than private health insurance funds.

The major changes introduced through the new Private Health Insurance Act and accompanying rules relate to:

- making a clear distinction between the private health insurer and the health benefits fund within that insurer;
- establishing restrictions on the movement of capital within 'not for profit' insurers compared to 'for profit' insurers.
- providing a framework for private health insurers to expand their range of products under the concept of broader health cover.
- additional pricing segments for health insurance products.
- Introduction of new risk equalisation arrangements to support community rating (previously known as reinsurance).
- changes to private health insurance fund prudential capital requirements.
- require that all private health insurance funds be re-registered as compliant under the new legislation by 30 June 2008.

Latrobe is now well underway with the re-registration process and expects to be compliant well within the required timeframe.

The Year Under Review

I am pleased to report that once again Latrobe has met all goals set by the Board for the year under review and indeed has exceeded expectations in a number of key areas.

This year's operating surplus of \$10.032 million exceeded budget expectations primarily because of a better than expected outcome under the new risk equalisation arrangements, lower than expected rate of growth in claims, reduced management expenses and a better than expected return on investment income as a result of our strong reserve position.

A further \$1.5 million from other sources was added to the year's surplus resulting in a total change in equity for the 2007 financial year of \$11.532 million.

Contribution rates increased by a weighted average of 3.9% during the year which now means Latrobe's weighted average increases over the last ten years have averaged just 3.84% per annum which we believe is a stunning result when you consider that Australia's health inflation rate has exceeded 6% per annum over the same period.

Membership

During the financial year, Latrobe's hospital table membership increased by 1.0%, while its ancillary table membership increased by 0.4% and as a result, Latrobe now provides private health insurance cover for 63,104 persons.

Financial Results

As previously noted, Latrobe's total change in equity resulting from a trading surplus of \$10.032 million plus

Chief Executive Officer's Report (cont...)

\$1.5 million from other sources, was \$11,532 million for the 2007 financial year.

At 30 June 2007, Latrobe's total assets were \$88.8 million which is comfortably in excess of the capital adequacy requirement under the new private health insurance legislation. This puts the fund in a sound financial position to consider any future opportunities which may become available as a result of the new legislation.

Latrobe's prudential solvency and capital adequacy ratios at 30 June 2007 were 3.75 and 4.51 respectively. I am pleased to note that these ratios compare more than favourably with Australia's private health insurance industry average of 1.81 and 1.72 for the same period.

Contribution income for the 2007 financial year increased by 4%, while investment income increased by 40.6% for the same period.

During the financial year under review, benefits paid for hospital accommodation increased by 9.0%, gap medical benefits paid increased by 8.9%, benefits paid for surgically implanted prostheses increased by 10.1%, while at the same time ancillary benefits paid increased by 2.1%. Latrobe's contribution to the industry's risk equalisation trust fund decreased by 44.2%, largely as a result of a better than expected outcome from the new risk equalisation arrangements which came into effect on 1 April 2007.

Latrobe's management expense ratio at 30 June 2007 was 11.2% of contribution income which represents a decrease of 0.1% from the previous year.

Benefit Data

During the last year, Latrobe paid to behalf of its members, benefits covering:

- 15,754 hospital episodes totalling 44,086 bed days at a cost of \$29.3 million.
- 128,826 in-hospital medical services totalling \$5.5 million.
- 9,474 surgically implanted prosthetic devices totalling \$7.4 million.
- 228,186 dental and other ancillary services totalling \$8.9 million.

During the last financial year, Latrobe's ten highest individual claims ranged from \$89,435 to \$61,086.

The medical conditions resulting in these payments included a total hip replacement with complications, gastroenterological surgery with complications and a number of cardiac conditions resulting in the insertion of an automatic defibrillator. The unit cost of the surgically implanted defibrillators ranged from \$53,040 to \$64,368. The ages of members treated for these conditions ranged from 48 years of age to 82 years of age.

Acknowledgements

On behalf of the policy holders of Latrobe Health Services, I would like to acknowledge the vision and stewardship of Latrobe's Board of Management during the year.

I would also like to personally thank our President, Mr Barry Peach and the other members of the Board of Management for their continued support, encouragement and valued counsel over my years at Latrobe.

Finally, I would also like to acknowledge the continuing dedication of our management team and staff for their commitment to member service, which I believe is the cornerstone of Latrobe's success in the very competitive market of private health insurance.

BRUCE J BEATSON
Chief Executive Officer

Members Of The Board Of Management

During the financial year, the following Board Members held office and details of meetings attended are as follows:

Elected to Board of Management

Rasa Bennett		28 October 1992
Ray Blaney	(Vice President)	17 December 2003
Barry Peach	(President)	29 March 1989
Peter Renwick	(Assistant Vice President)	28 September 1988
Eric Tabuteau		11 April 1984

	Board Meetings 2006/2007		Audit Committee Meetings 2006/2007		Corporate Governance Committee Meetings 2006/2007	
	Attended	Held	Attended	Held	Attended	Held
Rasa Bennett	9	11	4	5	6	9
Ray Blaney	9	11	2	5	6	9
Barry Peach	10	11	4	5	8	9
Peter Renwick	8	11	5	5	6	9
Eric Tabuteau	11	11	5	5	9	9

Income Statement

For The Year Ended 30 June 2007

	Notes	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Revenue					
Operating activities	3	75,518,059	70,744,726	68,942,379	64,807,618
Other income	4	1,500,300	7,385,998	1,500,300	7,385,998
Total Revenue		77,018,359	78,130,724	70,442,679	72,193,616
Expenses					
Fund benefits paid to members	5	51,704,753	48,769,791	51,704,753	48,769,791
Management expenses	6	13,736,417	12,654,853	7,160,737	6,717,745
State levies	6	22,095	16,475	22,095	16,475
Revaluation non current assets		22,927	-	22,927	-
Total Expenses		65,486,192	61,441,119	58,910,512	55,504,011
Profit Before Income Tax		11,532,167	16,689,605	11,532,167	16,689,605
Income tax expense		-	-	-	-
Profit From Operations		11,532,167	16,689,605	11,532,167	16,689,605

The accompanying notes form part of these financial statements.

Balance Sheet

As At 30 June 2007

	Notes	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Current Assets					
Cash and cash equivalents	10	76,145,728	64,228,711	75,847,500	63,892,351
Trade and other receivables	11	4,821,262	4,216,896	4,119,478	3,342,030
Other current assets	12	274,454	483,626	58,391	263,572
Total Current Assets		81,241,444	68,929,233	80,025,369	67,497,953
Non-Current Assets					
Financial assets	13	252,900	265,607	252,900	265,607
Investments	14	-	-	1,206,777	1,010,812
Property, plant and equipment	15	8,733,453	7,818,420	7,353,484	6,606,906
Total Non-Current Assets		8,986,353	8,084,027	8,813,161	7,883,325
Total Assets		90,227,797	77,013,260	88,838,530	75,381,278
Current Liabilities					
Trade and other payables	16	2,940,759	1,805,404	2,479,050	1,156,119
Provisions	17	15,158,186	14,622,823	14,594,138	14,028,188
Total Current Liabilities		18,098,945	16,428,227	17,073,188	15,184,307
Non-Current Liabilities					
Provisions	17	545,748	499,129	422,735	386,531
Long term financial liabilities	18	240,497	275,464	-	-
Total Non-Current Liabilities		786,245	774,593	422,735	386,531
Total Liabilities		18,885,190	17,202,820	17,495,923	15,570,838
Net Assets		71,342,607	59,810,440	71,342,607	59,810,440
Equity					
Retained earnings		71,342,607	59,810,440	71,342,607	59,810,440
Total Equity		71,342,607	59,810,440	71,342,607	59,810,440

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity

For The Year Ended 30 June 2007

	Retained Earnings	Total Equity
	\$	\$
Parent Entity		
Balance At 1 July 2005	42,839,914	42,839,914
Prospective application on adoption of AASB 1023	(125,000)	(125,000)
Profit attributable to members	16,689,606	16,689,606
Equity in Maryvale Private Hospital from prior years	405,920	405,920
Balance At 30 June 2006	59,810,440	59,810,440
Economic Entity		
Balance At 1 July 2005	42,839,914	42,839,914
Prospective application on adoption of AASB 1023	(125,000)	(125,000)
Profit attributable to members	16,689,606	16,689,606
Equity in Maryvale Private Hospital from prior years	405,920	405,920
Balance At 30 June 2006	59,810,440	59,810,440
Parent Entity		
Balance At 1 July 2006	59,810,440	59,810,440
Profit attributable to members	11,532,167	11,532,167
Balance At 30 June 2007	73,814,172	71,342,607
Economic Entity		
Balance At 1 July 2006	59,810,440	59,810,440
Profit attributable to members	11,532,167	11,532,167
Balance At 30 June 2007	73,814,172	71,342,607

The accompanying notes form part of these financial statements.

Cash Flow Statement

For The Year Ended 30 June 2007

	Notes	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Cash Flows From Operating Activities					
Receipts from operating activities		75,849,568	68,124,324	66,571,398	63,142,718
Payments to suppliers/employees		(75,059,429)	(70,439,674)	(66,083,828)	(62,541,720)
Interest and other income		10,249,069	19,294,550	10,254,169	16,012,748
Net Cash Provided By Operating Activities	24	11,039,208	16,979,200	10,741,739	16,613,746
Cash Flows From Investing Activities					
Fixed asset purchases		(2,125,970)	(946,929)	(1,699,788)	(742,583)
Proceeds on sale of fixed assets		1,295,717	244,077	1,295,717	244,077
Net Cash Provided By (Used In) Investing Activities		(830,253)	(702,852)	(404,071)	(498,506)
Cash Flows From Financing Activities					
Proceeds from borrowings		111,334	251,355	-	-
Proceeds from Government grants		216,085	163,493	-	-
Repayment of borrowings		(236,838)	(239,596)	-	-
Net Cash Provided By (Used In) Financing Activities		90,581	175,252	-	-
Net increase in cash held		10,299,536	16,451,600	10,337,668	16,115,240
Cash at beginning of year		64,228,711	47,777,111	63,892,351	47,777,111
Cash At End Of Year	24	74,528,247	64,228,711	74,230,019	63,892,351

The accompanying notes form part of these financial statements.

Notes To The Financial Statements

For The Year Ended 30 June 2007

1 Statement Of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the Association's Incorporation Act 1981 Victoria.

The financial report covers Latrobe Health Services Inc. as an individual parent entity and Latrobe Health Services and the controlled entity as an economic entity.

The controlled entity is Maryvale Private Hospital Pty Ltd.

The financial report of Latrobe Health Services Inc and the controlled entity and Latrobe Health Services as an individual parent entity complies with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Principles of consolidation

The consolidated financial reports are those of the economic entity, comprising Latrobe Health Service (the parent entity) and Maryvale Private Hospital Pty Ltd., which it has controlled since July 2005.

All inter organisation balances and transactions, including unrealised profits resulting from intra-economic entity transactions, have been eliminated in full.

The financial reports of the controlled entity have been prepared for the same reporting period as the parent entity, using consistent accounting policies.

Accounting policies

(a) Contributions in advance

Subscriptions received from members which partially or wholly relate to future accounting periods have been recognised as contributions in advance.

(b) Agent and group debtors

An estimate of the amounts received by agents and groups at balance date and which were subsequently received by the Association have been brought to account as agents and group debtors.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs for the parent entity are assigned on a specific identification basis, whereas costs for Maryvale are assigned on a first in first out basis.

(d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually by the Board to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Notes To The Financial Statements

For The Year Ended 30 June 2007

1 Statement Of Significant Accounting Policies (cont...)

The depreciable amount of all fixed assets, excluding buildings and freehold land, are depreciated on a straight line basis over their useful lives commencing from the time the asset is held ready for use.

Note: The depreciation rates used for each class of depreciable assets are :

Class of fixed asset	Depreciation rate
Land and buildings	Nil
Motor vehicles	22.5% - 25%
Office furniture and equipment	10% - 15%
Fixtures and fittings	10% - 15%
Computers	20%

As indicated, contrary to the applicable Accounting Standard, no depreciation has been provided on buildings, as the parent entity's policy is to regard land and buildings together as a unit of property. In the opinion of the parent entity's Board of Management, based on this year and prior year revaluations, the combined values shown in the Balance Sheet are a fair reflection of their current value.

(e) Leases

Leased assets other than operating leases where substantially all the risks and benefits incidental to the ownership of the leased assets are transferred to the lessee are classified as finance leases. Finance leases are capitalised by recording an initial asset and liability equal to the present value of the minimum lease payments, including any guaranteed residual value.

Leased assets are depreciated over the shorter of their expected useful life or the lease term. Lease payments are allocated between interest expenses and lease liability.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits cover wages and salaries, annual leave and long service leave. Sick leave is non-vesting and is accounted for as incurred.

The liability for wages and salaries, annual leave and any other employee entitlements expected to be settled within one year is calculated at nominal amounts based on remuneration rates which are expected to be paid when the liability is settled, plus related on-costs.

The long service leave liability for employee entitlements represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to the reporting date. Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using Australian Bond rates.

In determining the liability for employee entitlements, the parent entity has considered future increases in salary rates and the experience with staff departures. Related on-costs have also been included in the liability. Maryvale Private Hospital has calculated its long service liability at nominal values.

Employee contributory superannuation payments are made when due and are recognised against profits when due.

(g) Revenue

Revenue from the sale of the parent entity's health insurance policies is recognised by adjusting receipts for all contributions in advance and 90% of all contributions in arrears or until membership has lapsed.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Commission revenue for the sale of general insurance policies and ambulance subscription policies is recognised upon receipt of policy premiums.

Notes To The Financial Statements

For The Year Ended 30 June 2007

1 Statement Of Significant Accounting Policies (cont...)

(h) Cash

For the purpose of the Cash Flow Statement, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

(i) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

(j) Income tax

The parent entity is exempt from income tax under Section 50-30 Item 6.3 (b) of the Income Tax Assessment Act 1997 which allow the income of a health benefits organisation to be exempt from income tax.

Maryvale Private Hospital is exempt from income tax under Subsection 23 (ea) of the Income Tax Assessment Act.

Critical accounting estimates and judgements

The Board Members evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information.

Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Association.

The financial report was authorised for issue on 26 September 2007.

Notes To The Financial Statements

For The Year Ended 30 June 2007

2 Financial Instruments

(a) Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, short term investments, accounts receivable and payable.

The Association does not have any derivative instruments at 30 June 2007.

i) Treasury Risk Management

Management reviews instrument rate exposure on a regular basis in the context of the most recent economic conditions and forecasts.

ii) Financial Risks

The main risks the Association is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

- *Interest Rate Risk*

Interest rate risk is managed with a mixture of fixed and floating rate debt.

- *Liquidity Risk*

The Association manages liquidity risk by monitoring forecast cash flows.

- *Credit Risk*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Balance Sheet and Notes to the Financial Statements.

The Association does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Association.

- *Price Risk*

The Association is not exposed to any material commodity price risk.

Notes To The Financial Statements

For The Year Ended 30 June 2007

2 Financial Instruments (cont...)

(b) Interest Rate Risk

The Association's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows :

	Parent Entity				
	Average Effective Interest Rate	Average Effective Interest Rate	Fixed Interest Within 1 Year	Fixed Interest Rate Maturing Over 5 Years	Non Interest Bearing
	2007	2006	2007	2006	2007
	\$	\$	\$	\$	\$
Financial Assets					
Cash and cash equivalents	-	-	-	-	*(1,503,115)
Debtors	6.5%	6.5%	-	252,900	-
Bank bills / term deposits	6.25%	5.64%	75,733,134	-	-
Total		-	75,733,134	252,900	(1,503,115)
Financial Liabilities					
Creditors	-	-	-	-	455,717
Total		-	-	-	455,717

*includes CBA account balance of \$1,617,481 in overdraft for accrual purposes

	Economic Entity				
	Average Effective Interest Rate	Average Effective Interest Rate	Fixed Interest Within 1 Year	Fixed Interest Rate Maturing Over 5 Years	Non Interest Bearing
	2007	2006	2007	2006	2007
	\$	\$	\$	\$	\$
Financial Assets					
Cash and cash equivalents	-	-	-	-	*(1,204,387)
Debtors	6.5%	6.5%	-	252,900	-
Bank bills / term deposits	6.25%	5.64%	75,733,134	-	-
Total		-	75,733,134	252,900	(1,204,387)
Financial Liabilities					
Creditors	-	-	-	-	917,426
Hire purchase contracts	-	-	123,505	116,992	-
Total		-	123,505	116,992	917,426

*includes CBA account balance of \$1,617,481 in overdraft for accrual purposes

(c) Net Fair Values

The net fair values of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets. Financial assets, where the carrying amount exceeds net fair values, have not been written down as the economic entity intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Balance Sheet and in the notes to and forming part of the accounts.

Notes To The Financial Statements

For The Year Ended 30 June 2007

	Notes	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
3 Revenue					
Operating Activities					
• Member contributions	8	63,960,999	61,222,391	63,960,999	61,222,391
• Interest		4,541,278	3,204,310	4,504,818	3,204,310
• Other income		35,628	76,861	35,628	38,866
• Gain on disposal of property, plant and equipment		244,968	143,082	244,968	143,082
• Trading profit - Maryvale Private Hospital		-	-	195,966	198,969
• Hospital income		6,470,283	5,934,589	-	-
• Commonwealth grants		265,403	163,493	-	-
Total Revenue		75,518,059	70,744,726	68,942,379	64,807,618
4 Other Income					
Federation Health assets transferred		1,500,300	7,385,998	1,500,300	7,385,998
Total Other Income		1,500,300	7,385,998	1,500,300	7,385,998
5 Member Benefits					
Fund benefits paid to members		50,755,696	47,020,562	50,755,696	47,020,562
Amount payable reinsurance trust / risk equalisation		755,517	1,427,240	755,517	1,427,240
Increase / (decrease) to outstanding claims provision		193,540	321,989	193,540	321,989
Total Fund Benefits Paid To Members		51,704,753	48,769,791	51,704,753	48,769,791
6 Management Expenses					
Auditors' Remuneration	7	54,860	36,957	43,130	30,497
Commissions		499,918	483,234	499,918	483,234
Computer expenses		414,940	422,981	390,980	408,402
Depreciation		678,621	660,747	421,289	423,050
Financial charges and taxes		252,136	247,741	214,951	229,932
Labour costs		8,418,073	7,617,548	4,194,859	3,745,163
Postage and telephone		274,525	313,116	226,000	269,784
Printing and stationery		145,695	143,846	116,941	143,846
Rental on operating leases		39,726	70,628	39,726	70,628
Property expenses		728,336	543,342	204,738	176,598
Research, advertising and publicity		261,810	221,008	241,332	221,008
Other expenses		1,967,777	1,893,705	566,873	515,603
Total Management Expenses		13,736,417	12,654,853	7,160,737	6,717,745
State levies		22,095	16,475	22,095	16,475
Revaluation non current assets		22,927	-	22,927	-
Total Fund Benefits Paid To Members		51,704,753	48,769,791	51,704,753	48,769,791
Total Expenses		65,486,192	61,441,119	58,910,512	55,504,011

Notes To The Financial Statements

For The Year Ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
7 Auditors' Remuneration				
Remuneration of the auditor for auditing or reviewing the financial report	54,860	36,957	43,130	30,497
8 Member Contributions				
Gross contributions received	65,931,985	63,097,647	65,931,985	63,097,647
(Increase) / decrease contributions in advance	(29,112)	(80,985)	(29,112)	(80,985)
(Increase) / decrease contributions in arrears	(275,225)	(264,498)	(275,225)	(264,498)
Discounts	(1,666,649)	(1,529,773)	(1,666,649)	(1,529,773)
Total Contributions Received	63,960,999	61,222,391	63,960,999	61,222,391
9 Key Management Personnel Compensation				
Short term benefit	768,488	772,734	768,488	772,734
Post employment benefit	264,449	174,824	264,449	174,824
Total Key Management Compensation	1,033,157	947,558	1,033,157	947,558
10 Cash And Cash Equivalents				
Cash on hand	39,365	45,200	38,450	45,200
Bank - Commonwealth	-	7,003	-	7,003
Bank - ANZ	75,916	71,728	75,916	71,728
Bank - ANZ (Maryvale Private Hospital)	297,313	336,360	-	-
	412,594	460,291	114,366	123,931
Term deposits				
Commonwealth bank	35,730,449	27,450,332	35,730,449	27,450,332
National bank	15,985,670	15,104,185	15,985,670	15,104,185
ANZ bank	24,017,015	21,213,903	24,017,015	21,213,903
	75,733,134	63,768,420	75,733,134	63,768,420
Total Cash Assets	76,145,728	64,228,711	75,847,500	63,892,351

The effective interest rate on short-term bank deposits was 6.25% (2006: 5.64%)

Notes To The Financial Statements

For The Year Ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
11 Trade And Other Receivables				
Current				
Federal Government Private Health Insurance Rebate	1,723,093	1,585,417	1,723,093	1,585,417
Agents and groups	7,231	3,389	7,231	3,389
Contributions in arrears	182,691	211,802	182,691	211,802
Accrued revenue	631,790	439,464	631,790	439,463
Trade debtors	1,465,268	1,611,569	763,484	736,704
Health benefits reinsurance trust / risk equalisation	405,337	-	405,337	-
Unearned contributions	405,852	365,255	405,852	365,255
Total Current Receivables	4,821,262	4,216,896	4,119,478	3,342,030
12 Other Current Assets				
Current				
Prepayments	140,729	344,924	43,629	246,383
Inventory	133,725	138,702	14,762	17,189
Total Other Current Assets	274,454	483,626	58,391	263,572
13 Financial Assets				
Non Current				
Registered mortgage - Chief Executive Officer	252,900	265,607	252,900	265,607
Total Non-Current Financial Assets	252,900	265,607	252,900	265,607
14 Investments				
Non Current				
Investment in Maryvale Private Hospital	-	-	1,206,777	1,010,812
Total Non-Current Investments	-	-	1,206,777	1,010,812

Notes To The Financial Statements

For The Year Ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
15 Property, Plant And Equipment				
Freehold Land And Buildings				
At valuation				
38 Comans Street, Morwell	116,804	-	116,804	-
Level 12, 321 Collins St, Melbourne	1,463,221	-	1,463,221	-
27 Boolarra Avenue, Newborough	101,433	-	101,433	-
Lot 6 Reserve Road, Yallourn North	25,358	-	25,358	-
52-54 Franklin Street, Traralgon	641,840	641,840	641,840	641,840
36 McDonald Street, Morwell	115,000	137,927	115,000	137,927
32-34 McDonald Street, Morwell	200,000	200,000	200,000	200,000
Lot 9 Maryvale Road, Morwell	3,097,980	2,901,119	2,795,575	2,598,714
Lot 1 Maryvale Road, Morwell	67,694	67,694	67,694	67,694
38 George Street, Moe	140,000	140,000	140,000	140,000
46-48 Albert Street, Moe	-	1,016,276	-	1,016,276
34-36 Darlimurla Avenue, Newborough	100,000	100,000	100,000	100,000
Reserve Road, Yallourn North	50,000	50,000	50,000	50,000
	6,119,330	5,254,856	5,816,925	4,952,451
At cost				
32-34 McDonald Street, Morwell	347,330	347,330	347,330	347,330
	347,330	347,330	347,330	347,330

Notes To The Financial Statements

For The Year Ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
15 Property, Plant And Equipment (cont...)				
Motor Vehicles				
At cost	201,836	210,243	177,362	185,769
Less accumulated depreciation	131,844	123,162	107,370	98,688
	69,992	87,081	69,992	87,081
Office Furniture And Equipment				
At cost	4,013,647	3,639,416	620,980	609,411
Less accumulated depreciation	2,921,358	2,562,885	432,273	413,828
	1,092,289	1,076,531	188,707	195,583
Fixtures And Fittings				
At cost	855,979	723,434	649,454	539,468
Less accumulated depreciation	448,781	432,246	310,810	271,352
	407,198	291,188	338,644	268,116
Computer Equipment				
At cost	2,090,660	2,116,559	1,891,562	1,958,420
Less accumulated depreciation	1,393,346	1,355,125	1,299,677	1,202,074
	697,314	761,434	591,885	756,346
Total Property, Plant And Equipment	8,733,453	7,818,420	7,353,483	6,606,907

Notes To The Financial Statements

For The Year Ended 30 June 2007

15 Property, Plant And Equipment (cont...)

Movements In Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	WDV at Beginning	Additions	Disposals	Revaluation	Depn	WDV at End
Freehold Land And Buildings						
Level 12, 343 Little Collins Street, Melbourne	-	1,463,221	-	-	-	1,463,221
36 McDonald Street, Morwell	137,927	-	-	(22,927)	-	115,000
38 Comans Street, Morwell	-	116,804	-	-	-	116,804
32-34 McDonald Street, Morwell	547,330	-	-	-	-	547,330
Lot 9 Maryvale Road, Morwell	2,901,119	196,861	-	-	-	3,097,980
Lot 1 Maryvale Road, Morwell	67,694	-	-	-	-	67,694
52-54 Franklin Street, Traralgon	641,840	-	-	-	-	641,840
38 George Street, Moe	140,000	-	-	-	-	140,000
Lot 6 Reserve Road, Yallourn North	-	25,358	-	-	-	25,358
Reserve Road, Yallourn North	50,000	-	-	-	-	50,000
27 Boolarra Avenue, Newborough	-	101,433	-	-	-	101,433
34-36 Darimurla Avenue, Newborough	100,000	-	-	-	-	100,000
46-48 Albert St, Moe	1,016,276	-	(1,016,276)	-	-	-
Total Freehold Land And Buildings	5,602,186	1,903,677	(1,016,276)	(22,927)	-	6,466,660
Motor vehicles	87,081	36,716	(28,096)	-	(25,709)	69,992
Office furniture and equipment	1,076,531	647,621	(349,668)	-	(282,195)	1,092,287
Fixtures and fittings	291,188	192,864	(27,505)	-	(49,349)	407,198
Computer equipment	761,434	259,787	(2,539)	-	(321,368)	697,314
Total Fixed Assets	7,818,420	3,040,665	(1,424,084)	(22,927)	(678,621)	8,733,453

Revaluations

The revaluations of freehold land and buildings are based on the assessment of their current market value.

The revaluations are made in accordance with a policy of revaluing land and buildings every three years.

The following land and buildings were independently revalued as follows:

Address	Revaluation date	Certified Practising Valuer
36 McDonald Street, Morwell	June 2007	Tim Shaw AAPI
38 Comans Street, Morwell	June 2007	Tim Shaw AAPI
27 Boolarra Avenue, Newborough	June 2007	Tim Shaw AAPI
Lot 6 Reserve Road, Yallourn North	June 2007	Tim Shaw AAPI
Lot 9 Maryvale Road, Morwell	June 2007	Robert Lister LDA FAPI
Level 12, 343 Little Collins St, Melbourne	June 2007	Richard Isaac AAPI

Subsequent to the above revaluations, the Board of Management adopted the valuation for 36 McDonald Street, Morwell resulting in a devaluation of \$22,927 in the Income Statement.

Notes To The Financial Statements

For The Year Ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
16 Trade And Other Payables				
Current				
Bank - Commonwealth	1,617,481	-	1,617,481	-
Health benefits reinsurance trust / risk equalisation	-	277,973	-	277,973
Trade creditors	917,426	1,162,176	455,717	512,891
Unearned premium liability	405,852	365,255	405,852	365,255
Total Current Payables	2,940,759	1,805,404	2,479,050	1,156,119
17 Provisions				
Current				
Outstanding claims				
Ordinary	4,857,000	4,587,902	4,857,000	4,587,902
Reinsurance / risk equalisation	81,000	144,386	81,000	144,386
Administration	299,000	350,928	299,000	350,928
Outstanding claims risk margin	299,000	259,244	299,000	259,244
Contributions in advance	8,312,721	8,037,496	8,312,721	8,037,496
Annual leave	758,877	660,175	562,338	480,758
Long service leave	550,588	582,692	183,079	167,474
Total Current Provisions	15,158,186	14,622,823	14,594,138	14,028,188
<p>The outstanding claims provisions represents claims for hospitalisation and other services rendered prior to balance date.</p> <p>The outstanding claims provision was calculated by KPMG Actuaries Pty Ltd in accordance with AASB 1023 which stipulates the principles for recognition and measurement of the outstanding claims liability.</p>				
Non Current				
Long service leave	545,748	499,129	422,735	386,531
Total Non Current Provisions	545,748	499,129	422,735	386,531
18 Borrowings				
Non Current				
Hire purchase contracts	240,497	275,464	-	-
Total Non Current Borrowings	240,497	275,464	-	-

Notes To The Financial Statements

For The Year Ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
19 Capital And Leasing Commitments				
Finance Lease Commitments				
Payable - minimum lease payments				
not later than 12 months	123,505	90,048	-	-
between 12 months and 5 years	116,992	185,416	-	-
greater than 5 years	-	-	-	-
Minimum lease payments	-	-	-	-
Less future finance charges	-	-	-	-
Present Value Of Minimum Lease Payments	240,497	275,464	-	-

20 Related Party Transactions

Maryvale Private Hospital Pty Ltd is a private company of which 100% of its shares are owned by Latrobe Health Services. During the year, Latrobe paid \$3,768,509 to Maryvale Private Hospital Pty Ltd for hospital claims on behalf of members in accordance with normal commercial terms and conditions.

21 Segment Reporting

The parent entity operates predominately in one business and geographic segment, being in the health insurance sector where it provides cover to members throughout Australia.

22 Related Party Disclosures

Latrobe Health Services Board Members holding office during the year ended 30 June 2007 were:

Rasa Bennett

Ray Blaney (Vice President)

Barry Peach (President)

Peter Renwick (Assistant Vice President)

Eric Tabuteau

Board Members were paid a remuneration package of \$15,000 (including superannuation).

The President was paid a remuneration package of \$25,000 (including superannuation).

23 Solvency Reserve

In accordance with Part 2 (5) (2) of the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, the Solvency Reserve of this Association as at 30 June 2007 is \$7,538,000 (2006 - \$6,557,000).

Notes To The Financial Statements

For The Year Ended 30 June 2007

Parent Entity

2007 **2006**
\$ \$

24 Cash Flows Information

Reconciliation Of Cash Flows From Operations With Profit From Ordinary Activities After Income Tax

Profit After Income Tax

Profit from ordinary activities after income tax	11,532,167	16,689,605
Depreciation	421,289	423,050
Net (profit) / loss on disposal of plant and equipment	(244,968)	(31,378)
Provision for leave	133,389	183,022
Outstanding claims	205,712	1,231,727
Fixed assets received on merger	(1,500,300)	(2,462,571)
Maryvale Private Hospital income	(195,966)	(198,969)

Changes In Assets And Liabilities

(Increase) / decrease in receivables	576,595	(1,246,271)
(Increase) / decrease in inventories	2,427	(3,774)
(Increase) / decrease in prepayments	202,753	(155,877)
(Increase) / decrease in loans receivable	12,717	11,932
(Increase) / decrease in investments	-	-
Increase / (decrease) in creditors	4,009	(635,484)
Increase / (decrease) in contributions in advance	275,225	2,514,127
Increase / (decrease) in health benefits reinsurance trust / risk equalisation	(683,310)	294,605

Net Cash Provided By Operating Activities

10,741,739 16,613,746

Cash on hand	38,450	45,200
Bank - Commonwealth	(1,617,481)	7,003
Bank - ANZ	75,916	71,728
Bank - ANZ (Maryvale Private Hospital)	-	-
	(1,503,115)	123,931

Term deposits		
Commonwealth bank	35,730,449	27,450,332
National bank	15,985,670	15,104,185
ANZ bank	24,017,015	21,213,903
	75,733,134	63,768,420

Total Cash Assets

74,230,019 63,892,351

Notes To The Financial Statements

For The Year Ended 30 June 2007

25 Accounting Policy Amendments

The following Australian Accounting Standards issued or amended and are applicable to the Association but not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected	Outline of Amendment	Application Date Of Standard	Application Date For Group
2005–10: Amendments to Australian Accounting Standards	AASB 1: First time adoption of AIFRS AASB 4: Insurance Contracts AASB 101: Presentation of Financial Statements AASB 114: Segment Reporting AASB 117: Leases AASB 133: Earnings per Share AASB 1023: General Insurance Contracts AASB 1038: Life Insurance Contracts AASB 139: Financial Instruments: Recognition and Measurement	The disclosure requirements of AASB 132: Financial Instruments: Disclosure and Presentation have been replaced due to the issuing of AASB 7: Financial Instruments: Disclosures in August 2005. These amendments will involve changes to financial instrument disclosures within the financial report. However, there will be no direct impact on amounts included in the financial report as it is a disclosure standard.	1 Jan 2007	1 July 2007
AASB 7: Financial Instruments: Disclosures	AASB 132: Financial Instruments: Disclosure and Presentation	As above	1 Jan 2007	1 July 2007

Notes To The Financial Statements

For The Year Ended 30 June 2007

26 Association Details

The registered office of the Association is:

Latrobe Health Services Inc
32 McDonald Street
Morwell Victoria 3840

The principle place of business is:

Latrobe Health Services Inc
32 McDonald Street
Morwell Victoria 3840

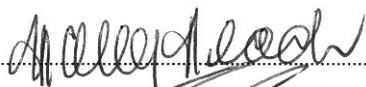
Statement By Members Of The Board

In accordance with a resolution of the Board of Management of Latrobe Health Services Inc., in the opinion of the Board Members :

- (i) the financial statements and notes of the Association and of the consolidated entity have been prepared in accordance with Australian Accounting Standards, Mandatory Professional Reporting Requirements and other authoritative pronouncements of the Australian Accounting Standards Board.
- (ii) the financial statements comprising Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement and Notes to the Financial Statements present a true and fair view of the Association's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (iii) there are reasonable grounds to believe that the Association will be able to pay its debts as and when they become due and payable.

On behalf of the Board :

Board Member



Board Member



26 September 2007

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF LATROBE HEALTH SERVICES INCORPORATED****Report on the Financial Report**

We have audited the accompanying financial report of Latrobe Health Services Inc. (the Association) and the consolidated entity which comprises the balance sheet as at 30 June 2007 and the income statement, statement of Changes in Equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Statement by the Member of the Board.

The Board's Responsibility for the Financial Report

The Board of Management of the Association 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 *Associations Incorporations Act (VIC)*. 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.

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 judgment, 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.

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

Independence

In conducting our audit, we have complied with the independence requirements of Australian professional ethical pronouncements.

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Basis for Qualified Auditor's Opinion

As disclosed in Note 1 to the financial statements, no depreciation has been provided in the financial statements for buildings. This practice, in our opinion, is not in accordance with Australian Accounting Standards. If the accounting standard had been adhered to, a charge would have been made against the operating profit, however we were unable to determine the estimated useful life of the assets and are unable to quantify the effect on the financial report.

Qualified Auditor's Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial report of Latrobe Health Services Inc. and the consolidated entity is in accordance with the Associations Incorporation Act (VIC) including:

- a) giving a true and fair view of the Association's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Associations Incorporation Act (VIC).

LSH Accounting

LSH ACCOUNTING



JOANNE LOH
Partner

MORWELL

Dated this 26th day of September 2007

