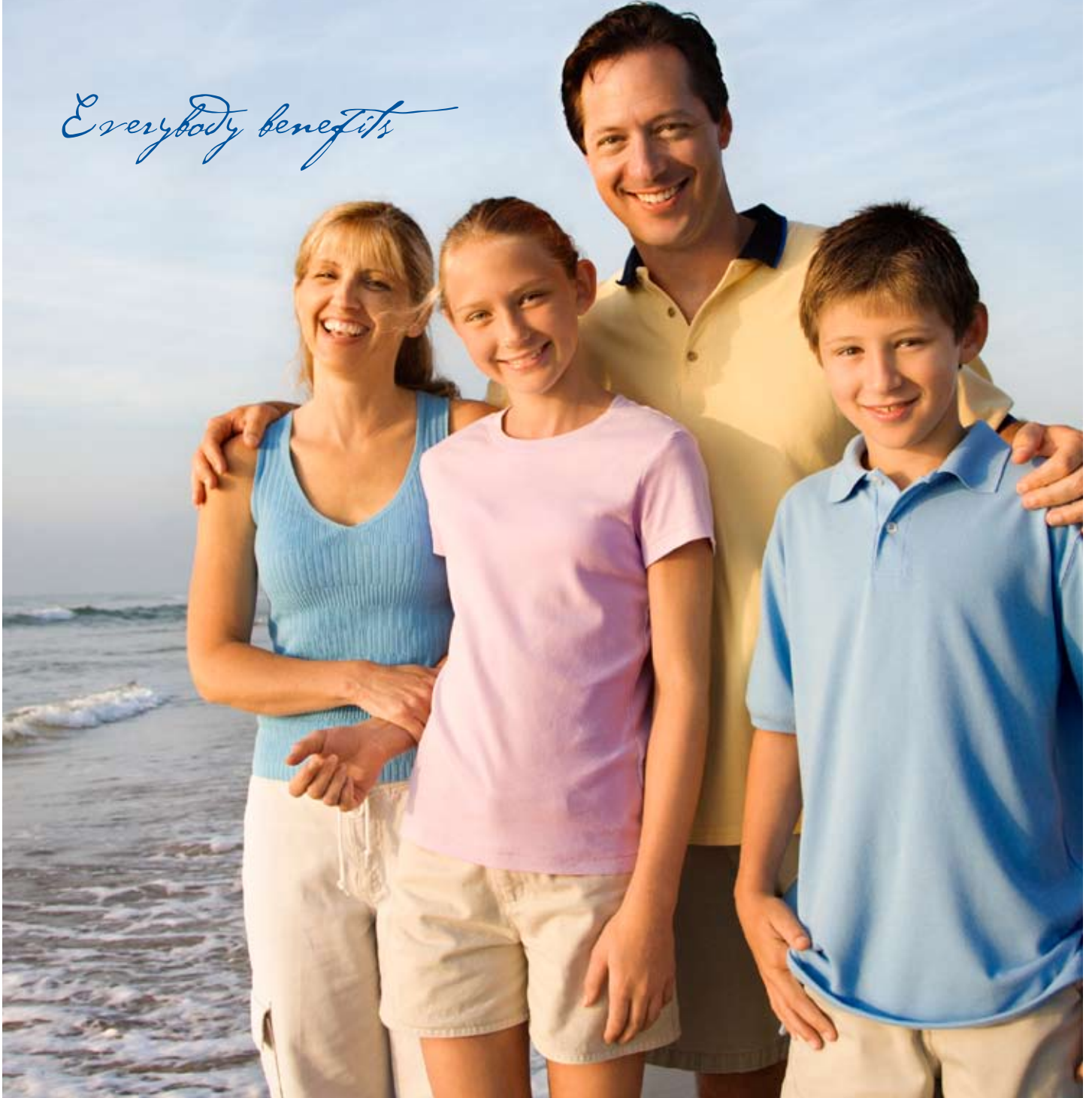


Annual Report 2007/2008

Everybody benefits



EveryBody benefits from ^{our} health cover 

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Report to Members

Introduction

It is a pleasure to present Latrobe's Annual Report for 2007 / 2008, to provide a summary of the Fund's performance during the year and comment upon further changes that impact the private health insurance industry.

Financial Position

The Fund has had another successful year and has consolidated its sound financial position at the end of the current year. This continual financial success has allowed Latrobe to once again maintain its contribution rate increase at significantly less than the industry average.

Member Services

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".

Latrobe's reputation for quality member service continues and is evidenced by the many compliments that are received through the telephone service centre. Comments about the overall friendliness of consultants, how easy they are to deal with and the level of help provided are routinely received from members. Callers often express surprise at talking to a "real person" when contacting Latrobe.

Our claims assessors also receive comments from members regarding the excellent and clear communication provided by Latrobe staff concerning their benefit entitlements and funding options available for various types of treatments.

Risk Management

The Latrobe Board and Management continue to ensure that the risk management plan for the organisation is both appropriate and suitable to manage the number of financial, business and environmental risks Latrobe is exposed to as a participant in Australia's private health insurance industry.

During the year, a capital management plan was developed in order to ensure that sufficient capital is held to sustain the Fund in the long-term and to mitigate the adverse effect of risks that it is exposed to, as well as take advantage of any strategic opportunities.

An updated investment policy was adopted during the year that will provide a stronger focus on the management of the Fund's investments to always be ready to meet benefit payments, as and when required and to ensure maximum security of Fund assets.

Strategic Planning

The second year of the triennial strategic plan was completed during the period under review and continued progress was made in all key areas of the plan.

Report to Members (cont...)

Federal Government

A Federal Labor Government was elected in late 2007 and The Honourable Nicola Roxon is now the new Federal Minister for Health. This will be the first time in a decade that the health industry will have the opportunity to work with a Labor Government.

The new Government has put the private health insurance industry on notice regarding their appetite for change as evidenced by changes made to the Medicare Levy Surcharge income threshold introduced through the Federal Budget process.

Latrobe will be monitoring the effects of these changes and their impact on membership levels and subsequent impact on benefit payments and contribution rates.

Private Health Insurance Act

In accordance with the Private Health Insurance Act 2007, Latrobe applied to the Private Health Insurance Administration Council for registration as a private health insurer in its current legal structure as an Incorporated Association. Registration was granted on 14 December 2007.

A recent amendment to the Act requires currently registered organisations not incorporated under the Corporations Act 2001 to migrate to a qualifying company by 1 January 2010.

The stated objectives of the Government's action in imposing this requirement are :

- to ensure consistency of accountability standards and governance requirements for private health insurers; and
- to ensure that the Private Health Insurance Administration Council has the capacity to appropriately investigate and address issues such as solvency, capital adequacy and due diligence.

Latrobe is one of the Funds affected by this Legislation and is well advanced in its preparation to comply with this requirement well within the stipulated timeframe.

Demutualisations, Mergers and Acquisitions

There have been a number of major changes in the industry in the past twelve months.

Some of these include the demutualisation of Health Funds to facilitate the ability to list on the Australian Stock Exchange, as well as make it easier to enter into merger and acquisitional arrangements.

Several Funds have been the subject of mergers during the year. The largest of these, between BUPA Australia and MBF, required the approval of the Australian Competition and Consumer Commission.

Report to Members (cont...)

Maryvale Private Hospital

Maryvale continues to be the major private provider of acute hospital services in the region and Latrobe and its members can feel proud of its role in the establishment of such an excellent local facility.

The recent completion of the extension to the consulting suites at Maryvale will provide an even better level of access to private health care for the population of Gippsland.

Maryvale could not be as successful as it is without the ongoing commitment of its Board, Management, Staff and accredited medical providers. This is continually appreciated and hereby acknowledged.

The Year Under Review

It is pleasing to report that Latrobe has met all strategic and financial goals set by the Board for the year under review.

The 2008 operating surplus of \$9.651 million exceeded budget expectations primarily due to a higher offset in the risk equalisation pool, lower management expenses and higher investment income compared to our annual projections.

Latrobe's contribution rates increased by a weighted average of 2.45% during the year and once again this increase equated to only about half the increase for the private health insurance industry overall.

Membership

During the 2008 financial year, Latrobe's hospital table membership increased by 8.34% and at the same time, general treatment membership increased by 4.85%. Latrobe now provides private health insurance cover for 64,221 persons.

Financial Results

Latrobe's total change in equity for the period under review resulting from a trading surplus of \$9.651 million plus \$1.641 million from other sources, totalled \$11.292 million.

As at 30 June 2008, Latrobe's total assets were \$100.781 million which equates to an increase for the year of 13.5%. This increase in total assets underlines Latrobe's sound financial position and ensures that it is well placed to cope financially with the uncertain economic climate currently prevailing.

Latrobe's prudential solvency and capital adequacy ratios at 30 June 2008 were 3.95 and 3.87 respectively. These ratios

Report to Members (cont...)

compare more than favourably with Australia's private health insurance industry average of 1.76 and 1.66 for the same period.

Contribution income for the 2008 financial year increased by 7.2% and investment income increased by 28.6% during the same period.

Benefits paid for hospital accommodation during the year increased by 15.8%, gap medical benefits paid increased by 17.9%, benefits paid for surgically implanted prostheses increased by 18.5% and general treatment benefits paid increased by 2.3%. While Latrobe's contribution to the industry's risk equalisation trust fund increased by 63.9%, it was still a net receiver from the pool.

As at June 2008, Latrobe's management expense ratio was 10.6% of contribution income. This represents a 5.4% decrease from the previous year.

Benefit Data

During the 2008 financial year, Latrobe paid benefits on behalf of its members covering :

- 17,336 hospital episodes totalling 49,758 bed days at a cost of \$33.6 million.
- 158,547 in-hospital medical services totalling \$6.5 million.
- 10,271 surgically implanted prosthetic devices totalling \$8.8 million.
- 232,416 dental and other general treatment services totalling \$8.6 million.

During the year under review, Latrobe's ten highest individual claims ranged from \$61,879 to \$133,193.

Medical conditions resulting in these claims included cancer surgery with complications, the insertion of cardiac devices and the treatment of other cardiac conditions with severe and unexpected medical complications. The unit cost of surgically implanted cardiac devices ranged from \$53,928 to \$74,148. The ages of members involved in these treatments ranged from 52 years of age to 81 years of age.

Acknowledgements

Latrobe would like to acknowledge the continuing vision and stewardship of the Board of Management, as well as the dedication of the Management team and staff for their ongoing commitment to its members.

BARRY PEACH
President

BRUCE 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 2007/2008 | | Audit Committee Meetings 2007/2008 | | Corporate Governance Committee Meetings 2007/2008 | |
|----------------------|-----------------------------|------|---------------------------------------|------|---|------|
| | Attended | Held | Attended | Held | Attended | Held |
| Rasa Bennett | 9 | 12 | 3 | 5 | 6 | 8 |
| Ray Blaney | 9 | 12 | 4 | 5 | 6 | 8 |
| Barry Peach | 11 | 12 | 5 | 5 | 8 | 8 |
| Peter Renwick | 9 | 12 | 4 | 5 | 7 | 8 |
| Eric Tabuteau | 10 | 12 | 4 | 5 | 7 | 8 |

Income Statement

For the year ended 30 June 2008

| | Notes | Economic Entity | | Parent Entity | |
|---------------------------------|-------|-------------------|------------|-------------------|------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| Revenue | | | | | |
| Operating activities | 2 | 82,379,158 | 75,518,059 | 74,879,287 | 68,942,379 |
| Other income | 3 | 1,482,438 | 1,500,300 | 1,482,438 | 1,500,300 |
| Total revenue | | 83,861,596 | 77,018,359 | 76,361,725 | 70,442,679 |
| Expenses | | | | | |
| Fund benefits paid to members | 4 | 57,905,102 | 51,704,753 | 57,905,102 | 51,704,753 |
| Management expenses | 5 | 14,633,642 | 13,736,417 | 7,133,771 | 7,160,737 |
| State levies | 5 | 30,468 | 22,095 | 30,468 | 22,095 |
| Revaluation non-current assets | | - | 22,927 | - | 22,927 |
| Total expenses | | 72,569,212 | 65,486,192 | 65,069,341 | 58,910,512 |
| Profit before income tax | | 11,292,384 | 11,532,167 | 11,292,384 | 11,532,167 |
| Income tax expense | | - | - | - | - |
| Profit from operations | | 11,292,384 | 11,532,167 | 11,292,384 | 11,532,167 |

The accompanying notes form part of these financial statements.

Balance Sheet

As at 30 June 2008

| | Notes | Economic Entity | | Parent Entity | |
|--------------------------------------|-------|--------------------|------------|--------------------|------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| Current assets | | | | | |
| Cash and cash equivalents | 9 | 88,266,304 | 76,145,728 | 87,716,549 | 75,847,500 |
| Trade and other receivables | 10 | 4,873,215 | 4,821,262 | 3,756,857 | 4,119,478 |
| Other current assets | 11 | 338,594 | 274,454 | 85,325 | 58,391 |
| Total current assets | | 93,478,113 | 81,241,444 | 91,558,731 | 80,025,369 |
| Non-current assets | | | | | |
| Financial assets | 12 | 239,366 | 252,900 | 239,366 | 252,900 |
| Investments | 13 | - | - | 1,596,571 | 1,206,777 |
| Property, plant and equipment | 14 | 9,735,198 | 8,733,453 | 8,154,991 | 7,353,484 |
| Total non-current assets | | 9,974,564 | 8,986,353 | 9,990,928 | 8,813,161 |
| Total assets | | 103,452,677 | 90,227,797 | 101,549,659 | 88,838,530 |
| Current liabilities | | | | | |
| Trade and other payables | 15 | 2,535,467 | 2,940,759 | 1,790,581 | 2,479,050 |
| Provisions | 16 | 16,650,854 | 15,158,186 | 15,995,108 | 14,594,138 |
| Total current liabilities | | 19,186,321 | 18,098,945 | 17,785,689 | 17,073,188 |
| Non-current liabilities | | | | | |
| Provisions | 16 | 628,825 | 545,748 | 499,593 | 422,735 |
| Long term financial liabilities | 17 | 373,154 | 240,497 | - | - |
| Total non-current liabilities | | 1,001,979 | 786,245 | 499,593 | 422,735 |
| Total liabilities | | 20,188,300 | 18,885,190 | 18,285,282 | 17,495,923 |
| Net assets | | 83,264,377 | 71,342,607 | 83,264,377 | 71,342,607 |
| Equity | | | | | |
| Asset revaluation reserve | 18 | 629,386 | - | 629,386 | - |
| Retained earnings | | 82,634,991 | 71,342,607 | 82,634,991 | 71,342,607 |
| Total equity | | 83,264,377 | 71,342,607 | 83,264,377 | 71,342,607 |

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2008

| | Asset Revaluation Reserve | Retained Earnings | Total Equity |
|--------------------------------|---------------------------------|----------------------|--------------|
| | \$ | \$ | \$ |
| 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 | - | 71,342,607 | 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 | - | 71,342,607 | 71,342,607 |
| Parent entity | | | |
| Balance at 1 July 2007 | - | 71,342,607 | 71,342,607 |
| Profit attributable to members | - | 11,292,384 | 11,292,384 |
| Asset revaluation reserve | 629,386 | - | 629,386 |
| Balance at 30 June 2008 | 629,386 | 82,634,991 | 83,264,377 |
| Economic entity | | | |
| Balance at 1 July 2007 | - | 71,342,607 | 71,342,607 |
| Profit attributable to members | - | 11,292,384 | 11,292,384 |
| Revaluation of assets | 629,386 | - | 629,386 |
| Balance at 30 June 2008 | 629,386 | 82,634,991 | 83,264,377 |

The accompanying notes form part of these financial statements.

Cash Flow Statement

For the year ended 30 June 2008

| | Notes | Economic Entity | | Parent Entity | |
|--|-------|-------------------|--------------|-------------------|--------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| Cash flows from operating activities | | | | | |
| Receipts from operating activities | | 81,597,489 | 75,849,568 | 69,963,923 | 66,571,398 |
| Payments to suppliers/employees | | (74,987,123) | (75,059,429) | (63,913,478) | (66,083,828) |
| Interest and other income | | 5,873,473 | 8,748,769 | 5,873,347 | 8,753,869 |
| Net cash provided by operating activities | 24 | 12,483,839 | 9,538,908 | 11,923,792 | 9,241,439 |
| Cash flows from investing activities | | | | | |
| Fixed asset purchases | | (1,332,516) | (2,125,970) | (718,384) | (1,699,788) |
| Cash assets from merger | | 1,482,438 | 1,500,300 | 1,482,438 | 1,500,300 |
| Proceeds on sale of fixed assets | | 137,943 | 1,295,717 | 30,069 | 1,295,717 |
| Net cash provided by (used in) investing activities | | 287,865 | 670,047 | 794,123 | 1,096,229 |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowings | | 282,788 | 111,334 | - | - |
| Proceeds from Government grants | | 34,654 | 216,085 | - | - |
| Repayment of borrowings | | (119,705) | (236,838) | - | - |
| Net cash provided by (used in) financing activities | | 197,737 | 90,581 | - | - |
| Net increase in cash held | | 12,969,441 | 10,299,536 | 12,717,914 | 10,337,668 |
| Cash at beginning of year | | 74,528,247 | 64,228,711 | 74,230,019 | 63,892,351 |
| Cash at end of year | 24 | 87,497,688 | 74,528,247 | 86,947,933 | 74,230,019 |

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2008

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 Associations 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.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

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 Services (the parent entity) and Maryvale Private Hospital Pty Ltd. (the controlled entity), 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 parent entity 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 the controlled entity are assigned on a first in first out basis.

Notes to the Financial Statements

For the year ended 30 June 2008

1 Statement of significant accounting policies (cont...)

(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 of Management 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.

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 employee 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.

Notes to the Financial Statements

For the year ended 30 June 2008

1 Statement of significant accounting policies (cont...)

(f) Employee benefits (cont...)

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. The controlled entity 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.

(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.

The controlled entity is exempt from income tax under Subsection 23 (ea) of the Income Tax Assessment Act.

(k) Financial instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

Notes to the Financial Statements

For the year ended 30 June 2008

1 Statement of significant accounting policies (cont...)

Classification and subsequent measurement

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

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Income Statement.

Notes to the Financial Statements

For the year ended 30 June 2008

1 Statement of significant accounting policies (cont...)

Financial guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118 Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using the probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year's period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Critical accounting estimates and judgements

The Board of Management evaluated 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 15th September 2008 by the Board of Management.

Notes to the Financial Statements

For the year ended 30 June 2008

| | Notes | Economic Entity | | Parent Entity | |
|---|-------|-------------------|-------------------|-------------------|-------------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| 2 Revenue | | | | | |
| Operating activities | | | | | |
| • Member contributions | 7 | 68,586,079 | 63,960,999 | 68,586,079 | 63,960,999 |
| • Interest | | 5,823,381 | 4,541,278 | 5,793,482 | 4,504,818 |
| • Other income | | 79,265 | 35,628 | 79,865 | 35,628 |
| • Gain on disposal of property, plant and equipment | | 51,071 | 244,968 | 30,069 | 244,968 |
| • Trading profit - Maryvale Private Hospital | | - | - | 389,792 | 195,966 |
| • Hospital income | | 7,804,708 | 6,470,283 | - | - |
| • Commonwealth grants | | 34,654 | 265,403 | - | - |
| Total revenue | | 82,379,158 | 75,518,059 | 74,879,287 | 68,942,379 |
| 3 Other income | | | | | |
| Federation Health assets transferred | | 1,482,438 | 1,500,300 | 1,482,438 | 1,500,300 |
| Total other income | | 1,482,438 | 1,500,300 | 1,482,438 | 1,500,300 |
| 4 Member benefits | | | | | |
| Fund benefits paid to members | | 57,493,182 | 50,755,696 | 57,493,182 | 50,755,696 |
| Amount payable reinsurance trust / risk equalisation | | (273,080) | 755,517 | (273,080) | 755,517 |
| Increase / (decrease) to outstanding claims provision | | 685,000 | 193,540 | 685,000 | 193,540 |
| Total fund benefits paid to members | | 57,905,102 | 51,704,753 | 57,905,102 | 51,704,753 |
| 5 Management expenses | | | | | |
| Auditor's remuneration | 6 | 50,322 | 54,860 | 39,912 | 43,130 |
| Commissions | | 661,567 | 499,918 | 661,567 | 499,918 |
| Computer expenses | | 440,404 | 414,940 | 413,380 | 390,980 |
| Depreciation | | 765,728 | 678,621 | 437,478 | 421,289 |
| Financial charges and taxes | | 274,134 | 252,136 | 230,119 | 214,951 |
| Labour costs | | 8,538,706 | 8,418,073 | 3,775,461 | 4,194,859 |
| Postage and telephone | | 285,151 | 274,525 | 235,219 | 226,000 |
| Printing and stationery | | 175,994 | 145,695 | 141,102 | 116,941 |
| Rental on operating leases | | 34,194 | 39,726 | 34,194 | 39,726 |
| Property expenses | | 802,391 | 728,336 | 238,319 | 204,738 |
| Research, advertising and publicity | | 290,544 | 261,810 | 270,657 | 241,332 |
| Other expenses | | 2,314,507 | 1,967,777 | 656,363 | 566,873 |
| Total management expenses | | 14,633,642 | 13,736,417 | 7,133,771 | 7,160,737 |
| State levies | | 30,468 | 22,095 | 30,468 | 22,095 |
| Revaluation non-current assets | | - | 22,927 | - | 22,927 |
| Total fund benefits paid to members | | 57,905,102 | 51,704,753 | 57,905,102 | 51,704,753 |
| Total expenses | | 72,569,212 | 65,486,192 | 65,069,341 | 58,910,512 |

Notes to the Financial Statements

For the year ended 30 June 2008

| | Economic Entity | | Parent Entity | |
|--|--------------------|-------------|--------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 6 Auditor's remuneration | | | | |
| Remuneration of the auditor for auditing or reviewing the financial report | 50,322 | 54,860 | 39,912 | 43,130 |
| 7 Member contributions | | | | |
| Gross contributions received | 70,995,075 | 65,931,985 | 70,995,075 | 65,931,985 |
| (Increase) / decrease contributions in advance | 26,976 | (29,112) | 26,976 | (29,112) |
| (Increase) / decrease contributions in arrears | (640,223) | (275,225) | (640,223) | (275,225) |
| Discounts | (1,795,749) | (1,666,649) | (1,795,749) | (1,666,649) |
| Total contributions received | 68,586,079 | 63,960,999 | 68,586,079 | 63,960,999 |
| 8 Key management personnel compensation | | | | |
| Short term benefit | 768,687 | 768,488 | 768,687 | 768,488 |
| Post employment benefit | 246,708 | 264,449 | 246,708 | 264,449 |
| Total key management compensation | 1,015,395 | 1,033,157 | 1,015,395 | 1,033,157 |
| 9 Cash and cash equivalents | | | | |
| Cash on hand | 38,365 | 39,365 | 37,450 | 38,450 |
| Bank - Commonwealth | - | - | - | - |
| Bank - ANZ | 303,073 | 75,916 | 303,073 | 75,916 |
| Bank - ANZ (Maryvale Private Hospital) | 548,840 | 297,313 | - | - |
| | 890,278 | 412,594 | 340,523 | 114,366 |
| Term deposits | | | | |
| Commonwealth bank | 29,246,628 | 35,730,449 | 29,246,628 | 35,730,449 |
| National bank | 26,381,606 | 15,985,670 | 26,381,606 | 15,985,670 |
| ANZ bank | 26,747,792 | 24,017,015 | 26,747,792 | 24,017,015 |
| Westpac bank | 5,000,000 | - | 5,000,000 | - |
| | 87,376,026 | 75,733,134 | 87,376,026 | 75,733,134 |
| Total cash assets | 88,266,304 | 76,145,728 | 87,716,549 | 75,847,500 |

The effective interest rate on short-term bank deposits was 7.05% (2007: 6.25%)

Notes to the Financial Statements

For the year ended 30 June 2008

| | Economic Entity | | Parent Entity | |
|---|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 10 Trade and other receivables | | | | |
| Current | | | | |
| Federal Government Private Health Insurance Rebate | 1,860,744 | 1,723,093 | 1,860,744 | 1,723,093 |
| Agents and groups | (26,852) | 7,231 | (26,852) | 7,231 |
| Contributions in arrears | 209,666 | 182,691 | 209,666 | 182,691 |
| Accrued revenue | 903,199 | 631,790 | 903,199 | 631,790 |
| Trade debtors | 1,178,267 | 1,465,268 | 61,909 | 763,484 |
| Health benefits reinsurance trust / risk equalisation | 303,399 | 405,337 | 303,399 | 405,337 |
| Unearned contributions | 444,792 | 405,852 | 444,792 | 405,852 |
| Total current receivables | 4,873,215 | 4,821,262 | 3,756,857 | 4,119,478 |
| 11 Other current assets | | | | |
| Current | | | | |
| Prepayments | 166,728 | 140,729 | 64,457 | 43,629 |
| Inventory | 171,866 | 133,725 | 20,868 | 14,762 |
| Total other current assets | 338,594 | 274,454 | 85,325 | 58,391 |
| 12 Financial assets | | | | |
| Non-current | | | | |
| Registered mortgage - Chief Executive Officer | 239,366 | 252,900 | 239,366 | 252,900 |
| Total non-current financial assets | 239,366 | 252,900 | 239,366 | 252,900 |
| 13 Investments | | | | |
| Non-current | | | | |
| Investment in Maryvale Private Hospital | - | - | 1,596,571 | 1,206,777 |
| Total non-current investments | - | - | 1,596,571 | 1,206,777 |

Notes to the Financial Statements

For the year ended 30 June 2008

| | Economic Entity | | Parent Entity | |
|--|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 14 Property, plant and equipment | | | | |
| Freehold land and buildings | | | | |
| At valuation | | | | |
| 38 Comans Street, Morwell | 120,829 | 116,804 | 120,829 | 116,804 |
| Level 12, 343 Collins St, Melbourne | 1,466,301 | 1,463,221 | 1,466,301 | 1,463,221 |
| 27 Boolarra Avenue, Newborough | 101,433 | 101,433 | 101,433 | 101,433 |
| Lot 6 Reserve Road, Yallourn North | 25,358 | 25,358 | 25,358 | 25,358 |
| 52-54 Franklin Street, Traralgon | 645,000 | 641,840 | 645,000 | 641,840 |
| 36 McDonald Street, Morwell | 115,000 | 115,000 | 115,000 | 115,000 |
| 32-34 McDonald Street, Morwell | 825,000 | 547,330 | 825,000 | 547,330 |
| Lot 9 Maryvale Road, Morwell | 3,433,321 | 3,097,980 | 3,130,916 | 2,795,575 |
| Lot 1 Maryvale Road, Morwell | 131,250 | 67,694 | 131,250 | 67,694 |
| 38 George Street, Moe | - | 140,000 | - | 140,000 |
| 34-36 Darlimurla Avenue, Newborough | 360,000 | 100,000 | 360,000 | 100,000 |
| Reserve Road, Yallourn North | 75,000 | 50,000 | 75,000 | 50,000 |
| | 7,298,492 | 6,466,660 | 6,996,087 | 6,164,255 |
| Motor vehicles | | | | |
| At cost | 199,940 | 201,836 | 177,712 | 177,362 |
| Less accumulated depreciation | 134,993 | 131,844 | 132,399 | 107,370 |
| | 64,947 | 69,992 | 45,313 | 69,992 |
| Office furniture and equipment | | | | |
| At cost | 4,266,738 | 4,013,647 | 666,454 | 620,980 |
| Less accumulated depreciation | 3,066,822 | 2,921,358 | 480,317 | 432,273 |
| | 1,199,916 | 1,092,289 | 186,137 | 188,707 |
| Fixtures and fittings | | | | |
| At cost | 951,774 | 855,979 | 694,779 | 649,454 |
| Less accumulated depreciation | 556,290 | 448,781 | 354,797 | 310,810 |
| | 395,484 | 407,198 | 339,982 | 338,644 |
| Computer equipment | | | | |
| At cost | 2,524,282 | 2,090,660 | 2,207,567 | 1,891,562 |
| Less accumulated depreciation | 1,747,923 | 1,393,346 | 1,620,095 | 1,299,677 |
| | 776,359 | 697,314 | 587,472 | 591,885 |
| Total property, plant and equipment | 9,735,198 | 8,733,453 | 8,154,991 | 7,353,483 |

Notes to the Financial Statements

For the year ended 30 June 2008

14 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 2008 financial year:

| | 2008 | | | | | |
|--------------------------------|------------------|------------------|------------------|----------------|------------------|------------------|
| | WDV at Beginning | Additions | Disposals | Revaluation | Depn | WDV at End |
| Freehold land and buildings | 6,466,660 | 342,446 | (140,000) | 629,386 | - | 7,298,492 |
| Motor vehicles | 69,992 | 22,578 | - | - | (27,623) | 64,947 |
| Office furniture and equipment | 1,092,287 | 527,285 | (106,892) | - | (312,764) | 1,199,916 |
| Fixtures and fittings | 407,198 | 54,607 | (2,600) | - | (63,721) | 395,484 |
| Computer equipment | 697,314 | 440,883 | (217) | - | (361,620) | 776,359 |
| Total fixed assets | 8,733,451 | 1,387,798 | (249,709) | 629,386 | (765,728) | 9,735,198 |

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 in 2008 as follows:

| Address | Revaluation date | Certified Practising Valuer |
|-------------------------------------|------------------|-----------------------------|
| 32-34 McDonald Street, Morwell | June 2008 | Tim Shaw AAPI |
| Lot 1 Maryvale Road, Morwell | June 2008 | Tim Shaw AAPI |
| 52-54 Franklin Street, Traralgon | June 2008 | Tim Shaw AAPI |
| Reserve Road, Yallourn North | June 2008 | Tim Shaw AAPI |
| 34-36 Darlimurla Avenue, Newborough | June 2008 | Tim Shaw AAPI |

Subsequent to the above revaluations, the Board of Management adopted 75% of all valuations for balance sheet adjustments.

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 2007 financial year:

| | 2007 | | | | | |
|--------------------------------|------------------|------------------|--------------------|-----------------|------------------|------------------|
| | WDV at Beginning | Additions | Disposals | Revaluation | Depn | WDV at End |
| 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) | 8,733,451 |

Notes to the Financial Statements

For the year ended 30 June 2008

14 Property, plant and equipment (cont...)

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 in 2007 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.

| | Economic Entity | | Parent Entity | |
|---|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 15 Trade and other payables | | | | |
| Current | | | | |
| Bank - Commonwealth | 768,616 | 1,617,481 | 768,616 | 1,617,481 |
| Health benefits reinsurance trust / risk equalisation | - | - | - | - |
| Trade creditors | 1,322,059 | 917,426 | 577,173 | 455,717 |
| Unearned premium liability | 444,792 | 405,852 | 444,792 | 405,852 |
| Total current payables | 2,535,467 | 2,940,759 | 1,790,581 | 2,479,050 |

Notes to the Financial Statements

For the year ended 30 June 2008

| | Economic Entity | | Parent Entity | |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 16 Provisions | | | | |
| Current | | | | |
| Outstanding claims | | | | |
| Ordinary | 5,544,000 | 4,857,000 | 5,544,000 | 4,857,000 |
| Reinsurance / risk equalisation | (7,000) | 81,000 | (7,000) | 81,000 |
| Administration | 315,000 | 299,000 | 315,000 | 299,000 |
| Outstanding claims risk margin | 369,000 | 299,000 | 369,000 | 299,000 |
| Contributions in advance | 8,952,944 | 8,312,721 | 8,952,944 | 8,312,721 |
| Annual leave | 871,398 | 758,877 | 617,318 | 562,338 |
| Long service leave | 605,512 | 550,588 | 203,846 | 183,079 |
| Total current provisions | 16,650,854 | 15,158,186 | 15,995,108 | 14,594,138 |

The outstanding claims provisions represents claims for hospitalisation and other services rendered prior to balance date.

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.

| | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| Non-current | | | | |
| Long service leave | 628,825 | 545,748 | 499,593 | 422,735 |
| Total non-current provisions | 628,825 | 545,748 | 499,593 | 422,735 |

17 Borrowings

Non-current

| | | | | |
|-------------------------------------|----------------|----------------|----------|----------|
| Hire purchase contracts | 373,154 | 240,497 | - | - |
| Total non-current borrowings | 373,154 | 240,497 | - | - |

18 Reserves

Asset revaluation reserve

The asset revaluation reserve records revaluations of non-current assets.

19 Capital and leasing commitments

Finance lease commitments

| | | | | |
|--|----------------|----------------|----------|----------|
| Payable - minimum lease payments | | | | |
| not later than 12 months | 118,231 | 123,505 | - | - |
| between 12 months and 5 years | 254,922 | 116,992 | - | - |
| greater than 5 years | - | - | - | - |
| Minimum lease payments | - | - | - | - |
| Less future finance charges | - | - | - | - |
| Present value of minimum lease payments | 373,153 | 240,497 | - | - |

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 Group are classified as finance leases.

The 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 values.

Leased assets are amortised over their expected useful life using the straight line method. Leased payments are allocated between interest expenses and lease liability.

Notes to the Financial Statements

For the year ended 30 June 2008

| | Economic Entity | | Parent Entity | |
|---|-----------------|---------|---------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 19 Capital and leasing commitments (cont...) | | | | |
| Operating lease commitments | | | | |
| Payable - minimum lease payments | | | | |
| not later than 12 months | 26,755 | 26,755 | 6,624 | 6,624 |
| between 12 months and 5 years | 171,348 | 198,103 | 79,493 | 86,117 |
| greater than 5 years | - | - | - | - |
| Minimum lease payments | - | - | - | - |
| Less future finance charges | - | - | - | - |
| Present value of minimum lease payments | 198,103 | 224,858 | 86,117 | 92,741 |

The property leases are non cancellable leases with various terms ranging from two years to five years. Contingent rental provisions within the lease agreements require that the minimum lease payments shall be increased yearly by referring to the Australian Bureau of Statistics All Groups – Melbourne CPI index. Two out of the three leases contain various options to renew them from three to five years. No lease allows for subletting of any part of the leased areas.

Lease payments under 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.

Capital expenditure commitments

| | | | | |
|--|---------------|---|---|---|
| Capital expenditure commitments contracted for | | | | |
| Plant and equipment purchases | - | - | - | - |
| Capital expenditure projects | 89,898 | - | - | - |
| Total capital expenditure commitments | 89,898 | - | - | - |

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 Inc. During the year, Latrobe paid \$4,563,830 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 2008 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 Latrobe Health Services as at 30 June 2008 is \$8,743,000 (2007 - \$7,538,000).

Notes to the Financial Statements

For the year ended 30 June 2008

| | Parent Entity | |
|---|-------------------|-------------------|
| | 2008 | 2007 |
| | \$ | \$ |
| 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 | 11,292,384 | 11,532,167 |
| Depreciation | 437,478 | 421,289 |
| Net (profit) / loss on disposal of plant and equipment | (30,069) | (244,968) |
| Provision for leave | 75,748 | 133,389 |
| Outstanding claims | 685,000 | 205,712 |
| Fixed assets received on merger | (1,482,438) | (1,500,300) |
| Maryvale Private Hospital income | (389,792) | (195,966) |
| Changes in assets and liabilities | | |
| (Increase) / decrease in receivables | 650,200 | 576,595 |
| (Increase) / decrease in inventories | (6,106) | 2,427 |
| (Increase) / decrease in prepayments | (20,828) | 202,753 |
| (Increase) / decrease in loans receivable | 13,534 | 12,717 |
| (Increase) / decrease in investments | - | - |
| Increase / (decrease) in creditors | 160,396 | 4,009 |
| Increase / (decrease) in contributions in advance | 640,223 | 275,225 |
| Increase / (decrease) in health benefits reinsurance trust / risk equalisation | (101,938) | (683,310) |
| Net cash provided by operating activities | 11,923,792 | 10,741,739 |
| Cash on hand | 37,450 | 38,450 |
| Bank - Commonwealth | (768,616) | (1,617,481) |
| Bank - ANZ | 303,073 | 75,916 |
| Bank - ANZ (Maryvale Private Hospital) | - | - |
| | (428,093) | (1,503,115) |
| Term deposits | | |
| Commonwealth bank | 29,246,628 | 35,730,449 |
| National bank | 26,381,606 | 15,985,670 |
| ANZ bank | 26,747,792 | 24,017,015 |
| Westpac bank | 5,000,000 | - |
| | 87,376,026 | 75,733,134 |
| Total cash assets | 86,947,933 | 74,230,019 |

Notes to the Financial Statements

For the year ended 30 June 2008

25 Financial risk management

(a) Financial risk management policies

The economic entity's financial instruments consist mainly of deposits with banks in the form of short term investments, accounts receivable and payable and leases.

The economic entity does not have any derivative instruments at 30 June 2008.

(i) Treasury risk management

Senior executives review financial risk exposure on a regular basis in the context of the most recent economic conditions and forecasts.

The overall risk management strategy seeks to assist in meeting financial targets, whilst minimising potential adverse effects on financial performance.

Senior executives operate under policies approved by the Board of Management. The risk management policy is reviewed and approved by the Board on an annual basis. Ongoing risks reviewed include credit risk, cash flow and future cash flow requirements.

(ii) Financial risk exposures and management

The main risks the Association is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk. These risks are managed through the application of a capital management plan, investment policy and the risk management process.

Interest rate risk

The economic entity's debt is minimal. Most interest rate risk pertains to rates received on investments placed with financial institutions on fixed interest rates and these are managed in accordance with the investment policy.

Foreign currency risk

The economic entity is not exposed to fluctuations in foreign currencies.

Liquidity risk

Short term liquid assets exceed the liabilities. The asset liquidity risks are small. Forecast cash flows are monitored in order to ensure daily cash flow requirements.

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.

Credit risk is reviewed regularly as part of the risk management review process. It arises mainly from exposures from deposits with financial institutions.

Senior executives monitor credit risk by actively assessing the rating quality and liquidity of counter parties.

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

The receivables balances at 30 June 2008 and 30 June 2007 do not include any counter parties with external credit ratings.

Price risk

The economic entity is not exposed to any material commodity price risk.

Notes to the Financial Statements

For the year ended 30 June 2008

25 Financial risk management (cont...)

(b) Financial instrument composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as the expectation of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the Balance Sheet.

| | 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 |
| | 2008 | 2007 | | | |
| | \$ | \$ | \$ | \$ | \$ |
| Financial assets | | | | | |
| Cash and cash equivalents | - | - | - | - | *(428,093) |
| Debtors | 7.05% | 6.50% | - | 239,366 | - |
| Bank bills / term deposits | 7.69% | 6.25% | 87,376,026 | - | - |
| Total | | - | 87,376,026 | 239,366 | (428,093) |
| Financial liabilities | | | | | |
| Creditors | - | - | - | - | 577,173 |
| Total | | - | - | - | 577,173 |

*includes CBA account balance of \$768,616 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 |
| | 2008 | 2007 | | | |
| | \$ | \$ | \$ | \$ | \$ |
| Financial assets | | | | | |
| Cash and cash equivalents | - | - | - | - | *121,662 |
| Debtors | 7.05% | 6.50% | - | 239,366 | - |
| Bank bills / term deposits | 7.69% | 6.25% | 87,376,026 | - | - |
| Total | | - | 87,376,026 | 239,366 | 121,662 |
| Financial liabilities | | | | | |
| Creditors | - | - | - | - | 1,322,059 |
| Hire purchase contracts | - | - | 118,231 | 254,922 | - |
| Total | | - | 118,231 | 254,922 | 1,322,059 |

*includes CBA account balance of \$768,616 in overdraft for accrual purposes

Notes to the Financial Statements

For the year ended 30 June 2008

25 Financial risk management (cont...)

(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.

(d) Sensitivity analysis

Interest rate risk

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

Interest rate sensitivity analysis:

At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as follows:

| | Economic Entity | | Parent Entity | |
|---------------------------------|--------------------|-------------|--------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Change in profit | | | | |
| Increase in interest rate by 2% | 1,747,520 | 1,514,663 | 1,747,520 | 1,514,663 |
| Decrease in interest rate by 2% | (1,747,520) | (1,514,663) | (1,747,520) | (1,514,663) |
| Change in equity | | | | |
| Increase in interest rate by 2% | 1,747,520 | 1,514,663 | 1,747,520 | 1,514,663 |
| Decrease in interest rate by 2% | (1,747,520) | (1,514,663) | (1,747,520) | (1,514,663) |

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged. No sensitivity analysis has been performed on foreign exchange risk, as the entity is not exposed to foreign currency fluctuations.

Notes to the Financial Statements

For the year ended 30 June 2008

26 Accounting policy amendments

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

| AASB Amendment | Affected Standard(s) | Outline of Amendment | Application Date of Standard | Application Date for Group |
|----------------|---|---|------------------------------|----------------------------|
| AASB 2007-3 | AASB 5: Non-current Assets Held for Sale and Discontinued Operations AASB 6: Exploration for and Evaluation of Mineral AASB 102: Inventories AASB 107: Cash Flow Statements AASB 119: Employee Benefits AASB 127: Consolidated and Separate Financial Statements AASB 134: Interim Financial Reporting AASB 136: Impairment of Assets AASB 1023: General Insurance Contracts AASB 1038: Life Insurance Contracts | The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report, as the entity does not fall within the scope of AASB 8. | 1 January 2009 | 1 July 2009 |
| AASB 8 | AASB 114: Segment Reporting | As above. | 1 January 2009 | 1 July 2009 |
| AASB 2007-6 | AASB 1: First time adoption of AIFRS AASB 107: Cash Flow Statements AASB 111: Construction Contracts AASB 116: Property, Plant and Equipment AASB 138: Intangible Assets | The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets. | 1 January 2009 | 1 July 2009 |
| AASB 123 | AASB 123: Borrowing Costs | As above | 1 January 2009 | 1 July 2009 |
| AASB 2007-8 | AASB 101: Presentation of Financial Statements | The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity. | 1 January 2009 | 1 July 2009 |
| AASB 101 | AASB 101: Presentation of Financial Statements | As above | 1 January 2009 | 1 July 2009 |

27 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 :

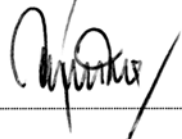
- (i) the financial statements and notes of the Association and of the consolidated entity have been prepared in accordance with Australian Accounting Standards, Mandatory Professional Reporting Requirements and other authoritative pronouncements of the Australian Accounting Standards Board.
- (ii) the 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 2008 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



15 September 2008

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 2008 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 Members 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 2008 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 Accounty

LSH ACCOUNTING



JOANNE LOH
Partner

MORWELL

Dated this 15th day of September 2008

