Board of Healthcare Funders of Southern Africa

B·H·F
SOUTHERN AFRICA
www.bhfglobal.com

Annual Report 2013

SERVING MEDICAL SCHEME MEMBERS

Contact BHF
Office Hours: Monday – Friday 08h00 – 16h30
Physical address
Lower Ground Floor 1Sixty Jan Smuts
cnr Jan Smuts Avenue and Tyrwhitt Avenue
Rosebank
Postal address
PO Box 2324 Parklands 2121

Client services: 0861 30 20 10
Switchboard: +27 11 537 0200
Facsimile: +27 11 880 8798
email: clientservices@bhfglobal.com
web: www.bhfglobal.com

Back row from left:
Dr H Z Zokufa, Managing Director
Dr M A Mahlaba, Deputy Chairman
H Kelly
G S Newton
G U Mbapaha (Namibia)
B J Kruger
M A Du Bois
PH Bester

Seated from left:
A Kanyemba (Zimbabwe)
Dr S J Velzeboer (Australia), Chairman
T E G Borrill

(Non-Profit Company in Terms of Section 10 of the Companies Act, 2008)

Contents

Chairman's Report

for the year ended 31 December 2013

As with most years in the life of the BHF and the healthcare funding industry, the 2013 financial year presented a number of far-reaching challenges and opportunities.

BHF Conference 2013

Attesting to the ability of the BHF to bring the industry together was the 2013 Annual Southern African Conference, held at the Cape Town International Conference Centre. This event attracted in excess of 1000 delegates represented by 300 organisations.

The erudite programme and the quality of speakers made me proud to be part of an organisation which is clearly in touch with cutting edge thinking in the realm of healthcare funding, both locally and internationally.

Member satisfaction and confidence survey

In order to better respond to the needs of its constituency, BHF conducted a member satisfaction and confidence survey during 2013 to gauge whether BHF's strategic objectives were in line with the expectations of its members and if not, to alter these to enable the organisation to respond adequately in order to add value to its members.

The survey targeted SA BHF members; SADC BHF members and SA non-members. The survey of the local market found that the most significant challenges for medical schemes, administrators and self-administered schemes were:

- High healthcare costs
- Funding high cost diseases and technology
- Lack of a regulated tariff
- PMBs
- Regulatory compliance
- Fraud levels
- NHI
- Consumer advocacy

74.3% of the respondents felt that BHF could assist with some or most of the scheme challenges.

Whilst much of the work of the BHF already includes these aspects, the BHF strategy will most certainly focus on these issues.

The SADC survey found that the most important factors in that region included:

- Volatility of the macroeconomic environment and its effects on the industry.
- Lack of collective discussion on tariffs.
- Financial gain by providers taking precedence over quality.
- Implementation of NHI in SA.
- Obtaining political recognition of SADC healthcare issues.
- Changing perceptions of the Competition Commissioners in the various countries.
- Affordability

Consultations on several of these issues have already taken place between BHF and its members in neighbouring countries. As with the issues raised by local members, the SADC issues will remain on the strategic plan for BHF.

Chairman's Report continued

for the year ended 31 December 2013

The BHF Trustee Training Programme
The BHF Trustee Training programme remains popular with members and non-members alike. A survey conducted amongst delegates at the April and October sessions revealed that the course was extremely relevant and useful.

Without exception, all delegates indicated that they would recommend the programme to a colleague.

Awareness building
To an ever increasing extent, BHF is becoming the 'go-to' organization on all commentary relating to healthcare funding. This spans both the business and consumer press and has resulted in more balanced reporting on medical schemes and increased understanding by the public of key industry issues. The new BHF website, to be launched in 2014, will enable easier access to industry information for consumers, media and the like.

The BHF risk register
Following a presentation by Dr Len Konar on the importance of developing and maintaining an accurate risk register, BHF director, Barry Kruger together with the executive, compiled a risk register.

This register, arranged in order of priority, reflects the strategic risks facing the organisation and the control processes to mitigate said risks. The risks facing the organization are a mirror of the risks facing our members. Seeing the number and severity of these risks has increased the resolve of the board and management to increase and focus our efforts to moderate and control these risks. The MD has been mandated to report on progress in this area at every Board and Exco meeting in the future.

Memorandum Review Committee (MRC)
Responding to concerns expressed by members that the organisation appeared to lack efficiency, and was slow to take decisions, a Memorandum Review Committee looked at possible solutions including reducing the size of the Board (theoretically 23 members). A number of different organizational models were examined and recommendations will be presented at the 2014 AGM. It is anticipated that these changes will result in more effective and timeous decision making and actions, as well as addressing the need for specific skill sets on the Board and for continuity of Directors.

The value proposition
The nature of a voluntary industry body like BHF is such that non-members benefit from the work done by the organisation almost as much as the members do. Thus, resignation from BHF becomes an easy decision for a scheme to make.

Much work is being done by the 'value proposition' working committee to try to counteract this perception and to find ways of rewarding loyal members. Amongst the proposals are: tiered conference fees; differentiated Trustee Training registration fees; and, alternative levy models for new members. The financial implications of these proposals are being evaluated and final details will be communicated to Members shortly.

Resignations
Resignations were received from Bankmed, and, Namibia Health Plan. Every effort will be made to demonstrate the value of the industry body and persuade these schemes to rejoin the BHF.

Chairman's Report continued

for the year ended 31 December 2013

Competition Commission Terms of Reference for the market inquiry into the health sector
This potentiallyground-breaking Inquiry will no doubt provoke anxiety from the entire industry.
I was pleased to note that the majority of BHF's preliminary input to the Competition Commission was included in the Terms of Reference. From these ToR, it is clear that the Commission will not only focus on costs but will also examine the questions of efficiencies and quality within the sector.

Preparation for the organisation's full submission is underway.

PMB/Regulation 8
The satisfactory resolution of Regulation 8 was one of the key factors identified in the membership survey, and highlighted in the Risk Register Its importance was such that the Board felt that the problem should be tackled through several channels.

Attempts to resolve the matter around the table with the Council for Medical Schemes have been frustrated by internal problems at the Council. As well, legal opinions were sought from Advocate David Unterhalter; Professor Pierre de Vos and Esmé Prins-Van den Berg on various aspects of the legislation. In addition, data from schemes has been analysed to illustrate the current and future impact of the current interpretation of Regulation 8.

This information will be collated and used to inform a meeting to be set up with the Minister of Health.

In view of the fact that several medical schemes have signalled their intention to take the issue of Regulation 8 to court again, the abovementioned information may be used to inform BHF position should it decide to participate in this action.

HFMU
A success story for the industry has been the BHF Healthcare Forensic Management Unit where information is shared across the industry to assist in mitigating fraud. I am pleased to report that this initiative is gaining membership from across financial services industry and is forming win-win partnerships with international organisations with similar mandates.

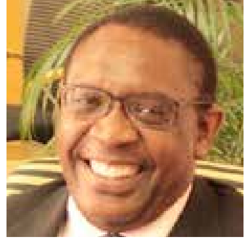
I believe that the changes introduced this year will enable the organization to function more efficiently and effectively and result in an industry body that all schemes will be proud to belong to. I invite you to participate actively within BHF as together we rise to meet the challenges and opportunities of the future.

It is with deep sadness that I report the passing of Mpho Ramokgopa in August 2013. Mpho was a treasured director on the BHF board and her valuable contributions to the board are missed.

A heartfelt thanks must go to my fellow Directors, who have, without exception given generously of their time and expertise since my election. A big thanks too must go to the exceptionally committed staff of the BHF who are tasked with driving and implementing the BHF strategy.

Dr S J Velzeboer *Chairman*

Managing Director's Review



All the issues related to Organisational objectives, Operations, Governance, Policy development and Budgets were adequately handled by BHF in 2013.

The mergers of Sappi with Bestmed, Nampak and IBM with Discovery Health did affect our membership numbers.

A meeting between BHF, a delegation of private healthcare providers and the Minister of Health in December 2012 requesting the formation of a Multi-stakeholder Conference was agreed to but did not materialise.

We appreciate the signing of the amended version of the Competition Act by the President on 5 March 2013. This version includes a Section which gives the Competition Act powers to subpoena, search and seize. This provision will strengthen the Competition Commission`s Enquiry into the Private Healthcare Industry which was scheduled to begin in 2013. The BHF submission and that of other stakeholders to this Commission can therefore be verified by the Commission.

BHF continues to engage with the Health Professions Council of South Africa (HPCSA) regarding the publication of a tariff schedule. Unfortunately the process was halted by HPCSA.

The PCNS Administration tender by BHF was extended until 31 December 2013. An agreement was reached between BHF and CMS in December 2013 that BHF will continue to administer the practice code numbers, through its PCNS division until a proper review of the tender process (on an expedited basis) has been conducted. We envisage that this review will take place during the course of 2014.

BHF made submissions to the following Bills;

- The Road Accident Benefit Scheme Bill
- Road Accident Fund Amendment Bill
- Protection Of Private Information (POPI) Bill, which was approved by the National Assembly on 29 August 2013.
- Licensing of Businesses Bill, 2013

On 17 May 2013, BHF sent out a member satisfaction survey, which would gauge the needs, wants and expectations from the industry.

On 16 and 19 of April 2013, a course satisfaction survey was conducted at the Trustee Development Programme sessions, held in Johannesburg and Cape Town, respectively.

On 8 May 2013, a PCNS customer satisfaction survey was introduced to all walk in clients as well as clients the PCNS consultants interact with via the call centre or email. The objective of this survey was to measure the quality of the PCNS service, identity gaps in service delivery and find areas for improvement.

The PMB/Regulation 8 issue remained the major threat to medical schemes. In October 2013 a meeting was held with Adv David Unterhalter who provided a legal opinion on this matter on 5 November 2013. The opinion stated that Regulation 8 may be challenged on two possible grounds viz; that the Regulation in question is *ultra vires* to the Medical Schemes Act, and it may be challenged on the basis that it is irrational.

The National Health Amendment Act No. 12 of 2013, which alters the National Health Act no 61 of 2003, was proclaimed and came into force on 2 September 2013. This Amendment Act formally introduces the Office of Health Standards Compliance or OHSC. The OHSC is empowered to monitor and enforce health standards in all health establishments throughout the country, including both private and public hospitals and clinics. This will have implications on how BHF runs the PCNS.

Managing Director's Review continued

The BHF Health Fraud Management Unit (HFMU) introduced a Fraud Hotline at BHF. An 8th Module for a Fraud Examiner was compiled. Meaningful participation took place at the GEMS Fraud Symposium on 15-16 August 2013 in Cape Town.

The 14th Annual BHF Conference was held in Cape Town on 18-21 August 2013 with the theme 'One vision – One future'

The following key points should be noted from the 2013 BHF Conference:

- Healthcare fraud is a major issue and requires proactive and reactive forensic interventions.
- The high cost of healthcare does not adequately justify the quality.
- The failure to introduce the REF and mandatory contributions as planned in the trajectory from 1998 is a major risk for medical schemes.
- The growth of Health Insurance and Hospital Plans is a major threat to the survival of medical schemes.
- We must find the connection between the public and private healthcare in South Africa and build on what is there.
- If NHI is implemented in a particular way, it will not be unconstitutional

A breakthrough round table discussion was held on 14 October 2013 at the National Department of Health (NDoH) between Dr Pillay, Gavin Steel and a BHF delegation. The aim of the discussion was to look at participation of the private funding industry in Pharmaco-economic Evaluations, Essential Drugs List Committee and the possibility of accessing some medicines at state tender prices.

Progress was made between BHF and the NDoH to bridge the gap between the two. We will build on this in 2014, as it is the major step that will provide a mechanism to deal with the healthcare issues in South Africa.

Dr Humphrey Z Zokufa *Managing Director*

Chief Financial Officer's Review

HIGHLIGHTS
In 2013 the company moved back into a surplus situation. This resulted in an increase in reserve levels to 79.1% of current year's member contributions, well above the target of 50% and continued to secure future solvency levels of the company, which is highlighted below under sustainability.

Key Financial Ratios

	2013	2012	2011	2010	2009	2008	2007
Reserves/levy income (%)	79.1	67.2	99.5	82.6	87.9	68.0	49.7
Reserves/revenue (%)	55.9	50.1	75.0	56.4	73.1	61.0	44.4
Levy income increase/ (decrease) (%)	(0.2)	6.3	6.8	(0.5)	(26.0)	0.8	11.3
Annual membership levy increase (%)	7.25	5/10	5.0	5.0	4.0	3.0	5.0
Operating expenses (decrease)/ increase (%)	(1.5)	50.3	(29.1)	9.5	3.8	6.6	4.5
Operating expenses/levy income (%)	184.3	186.7	132.1	199.0	180.4	128.6	121.6
Current ratio	2.3	1.7	2.6	2.0	2.0	2.5	2.0
Effective tax rate (%)	0.0	0.0	0.0	4.1	25.1	29.8	27.96

Levy Income
The majority of the company's revenue is derived from levy income. The levy increases for 2013 were contained to 7.25%. Despite this total levies received for 2013 decreased by 0.2% as a result of a loss of membership.

Interest Received
This income comprises an important segment of the total income for the company, hence the annual request to membership to pay levies as soon as possible. Interest received decreased from R1 209 916 to R1 139 697. The average interest rate earned in 2013 was 4.88% compared to 5.17% in 2012.

Tax
The company received a tax exemption certificate from the South African Revenue Service on 22 March 2012, the details of which are included in the Report of the Directors on page xx. As the company might not have qualified for exemption it had continued to provide for and pay income tax. Since its formation the company has paid approximately R7.9 million in tax. Written confirmation is being sought as to when the tax exemption is effective.

Operating Expenses
Operating expenditure decreased by 1.5% in the period under review. This is attributable mainly to:

- The reversal of the unutilised portion of the provision for , in 2011, of a provision for doubtful debts as an expense owing to the settlement of the debt;
- 8.9% decrease in conferences expenditure as a result of the annual BHF conference being held in a major city than in a remote location;
- 43.2 % decrease in legal expenditure on the competition issues and the PCNS and circular 51 cases and
- 1.5% increase in employment costs, as indicated below.

Employment Costs
Employment costs (which comprise 48.7% of total operating expenses) increased over the previous year by 1.5%. This was increase was attributable mainly to market related annual remuneration adjustments and fewer posts.

Chief Financial Officer's Review continued

Capital Expenditure
During the period under review R221 489 was incurred for capital expenditure. Of this R100 800 was expended on new development of the Practice Code Numbering System, R40 645 was expended on replacement of computer equipment , R10 226 on furniture and fittings, R2 329 on office equipment and R62 989 on computer software and R4 500 on leasehold improvements.

Accounting Standards
For the 2013 period the financial statements have been converted from preparation in accordance with South African Statements of Generally Accepted Accounting Practice to preparation in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards for Small and Medium-sized entities.

SUSTAINABILITY

Solvency
The Board of Directors has recommended that a reserves level equal to 50% of current year's levy income be achieved. At the end of 2013 this level was 79.1%.

Membership Levies Increases
The company is fully aware of the scrutiny on non healthcare expenditure within the industry and the fact that membership is voluntary. However, membership expects a certain level of representation and value add by the company. These two factors, together with the need to build reserves, are taken into consideration when recommending annual membership levy increases.

Service Levels

With the company being a trade organisation, to which membership is voluntary, service levels are regarding as being of the greatest importance. In pursuit of this a service excellence intervention was continued during the year.

Tony Kreft *Chief Financial Officer*

Corporate Governance Report

BOARD OF DIRECTORS
The Memorandum of Incorporation provides for the corporate governance of the company.

Currently the Board comprises of up to 24 Directors (with a minimum of 11), whilst ensuring continued constituency representation at Board level. The three constituencies are:

- Administrators constituency
- Open Membership Schemes constituency and
- Restricted Membership Schemes constituency

Membership elects six Directors from the Administrator's constituency, seven Directors from the Open Membership Schemes constituency and six Directors form the Restricted Membership Schemes constituency. In addition, four Directors are elected by external schemes and their administrators. The Managing Director is appointed by the Board.

The nomination process provides for a second round where minimum numbers of nominations are not achieved in the following categories:

- Officials or employees
- Historically disadvantaged individuals and
- Women

At each Annual General Meeting three Directors from each constituency and two Directors elected on the basis of nominations from external schemes and administrators shall retire. A retiring member of the Board shall be eligible for re-election.

In addition to the election process, the Board may appoint additional persons to the Board to fill vacancies in the relevant constituency, with the appointed Director retiring at the following Annual General Meeting.

The Memorandum of Incorporation also provide for an Executive Committee comprising three Directors appointed by the Board, together with the Chairman, Deputy Chairman and Managing Director.

BOARD COMMITTEES
To assist in the governance of the company, the Board has established various committees, each of which has its own terms of reference. For 2013 the committees were:

- Finance and Audit
- Employee Remuneration
- Managing Director Remuneration

The Board delegated the management of day-to-day issues to the Managing Director, with any decisions made outside of his specific delegated powers being referred to the Board, Executive Committee or Finance and Audit Committee for approval as defined by a specific mandate that is reviewed annually.

No Director, other than the Managing Director, is paid any remuneration for his or her services.

No non-executive Director has any interest in the running of the company.

Corporate Governance Report continued

Finance and Audit Committee
The Finance and Audit Committee is comprised of four non-executive Directors, together with the Managing Director. The Committee was chaired by a non-executive Director, Grant Newton and met on a regular basis throughout the year. The attendance at meetings is recorded under general information on page xx. The external and internal auditors have direct and unrestricted access to the Committee and meet half-yearly with the Committee. The Committee reports to the Board of Directors.

Employee Remuneration Committee
The Employee Remuneration Committee is comprised of three non-executive Directors and was chaired by the Deputy Chairman of the Board, Mangaliso Mahlaba. The committee meets twice per annum to consider employees' remuneration, other than the Managing Director.

Managing Director Remuneration Committee

The Managing Director Remuneration Committee is comprised of three non-executive Directors and was chaired by the Chairman of the Board, Sally Velzeboer. The committee meets twice per annum to consider the Managing Director's remuneration.

REMUNERATION POLICIES
During this period the company employed an average of 26 employees. Temporary staff were also engaged where capacity constraints occurred.

It is the company's policy to ensure equitable remuneration of staff and is compared for benchmarking against external norms within the industry. This work is undertaken by the Employee Remuneration Committee in consultation with the Managing Director. Both committees have their own terms of reference.

INTERNAL AUDIT
Owing to the small size of the company and the potential costs involved, Directors had previously resolved not to establish an internal audit function. During 2011 the Directors resolved to establish an outsourced internal audit function and Outsourced Risk and Compliance Assessment (ORCA) were appointed for a three year term which ends in 2014. ORCA report directly to the Finance and Audit Committee.

ANNUAL FINANCIAL STATEMENTS
The Directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa. The external auditors are responsible for expressing an opinion on the annual financial statements, based on an audit conducted in accordance with International Standards on Auditing.

GOING CONCERN
The Board of Directors has every reason to believe that the company's operations will continue as a going concern. To arrive at this conclusion, the Board took into account the following:

- Reserves at 31 December 2013
- Budget for 2014
- Collection of membership levies by end May 2014
- Financial performance to April 2014
- General level of satisfaction by membership with the company's performance
- The strategies and plans of the company

Seven Year Review

	2013 R	2012 R	2011 R	2010 R	2009 R	2008 R	2007 R
Statements of Financial Performance							
Revenue	20 063 011	19 072 608	17 728 660	18 320 027	15 112 095	18 951 235	18 864 321
Cost of sales	–	–	–	–	–	(20 758)	(321 843)
Other income	6 591 122	5 567 374	4 530 188	4 831 677	5 154 517	5 185 867	5 056 664
Investment revenue	1 118 390	1 139 697	1 209 916	1 273 206	1 807 727	2 467 560	1 607 830
Donation received	–	–	–	–	–	–	76 536
Interest paid	–	–	–	–	–	–	(22 510)
Operating expenses	(26 108 372)	(26 518 068)	(17 647 761)	(24 898 866)	(22 739 815)		
Actuarial losses	(2 479)	(2 254)	–	–	–	(21 846 552)	(20 501 233)
Net surplus/(deficit) before taxation	1 661 672	(3 740 643)	5 821 003	(473 956)	(665 476)	4 737 352	4 759 765
Taxation	–	–	(2 864 873)	(246 964)	166 995	(1 558 725)	(1 330 828)
Net surplus/(deficit) for the year	1 661 672	(3 740 643)	2 956 130	(720 920)	(498 481)	3 178 627	3 428 937
Statements of Financial Position							
Assets							
Non-current assets	619 745	1 352 103	1 143 795	3 241 743	3 068 007	1 987 955	2 412 594
Current assets	18 924 438	20 533 682	19 643 876	14 447 943	15 959 980	15 936 997	12 239 324
Total assets	19 544 183	21 885 785	20 787 671	17 689 686	19 027 987	17 924 952	14 651 918
Equities and liabilities							
Reserves	11 209 117	9 547 445	13 288 088	10 331 958	11 052 878	11 551 359	8 372 732
Non-current liabilities	27 269	24 790	22 537	20 488	18 625	15 393	184 839
Current liabilities	8 307 797	12 313 550	7 477 046	7 337 240	7 956 484	6 358 200	6 094 347
	19 544 183	21 885 785	20 787 761	17 689 686	19 027 987	17 924 952	14 651 918
Cash flow statements							
Cash flows from operating activities	2 524 608	(1 887 250)	3 854 509	(652 438)	(205 381)	3 722 430	3 958 991
Cash flows from investing activities	(221 489)	(559 157)	(314 001)	(123 492)	(365 974)	(407 583)	(507 124)
Cash flows from financing activities	–	–	–	–	–	–	–
Net increase/(decrease) in cash and cash equivalents	2 303 115	(2 446 407)	3 540 508	(775 930)	(571 355)	3 314 847	3 451 867
Net foreign exchange difference	–	–	–	–	–	(1 111)	75 704
Cash and cash equivalents at beginning of the period	14 702 425	17 148 832	13 608 324	14 384 254	14 955 609	11 641 873	8 114 302
Cash and cash equivalents at end of the period	17 005 540	14 702 425	17 148 832	13 608 324	14 384 254	14 955 609	11 641 873
Reserves/levy income	79.1%	67.2%	99.5%	82.6%	87.9%	68.0%	49.7%

Annual Financial Statements

for the year ended 31 December 2013

COUNTRY OF INCORPORATION AND DOMICILE
South Africa

NATURE OF BUSINESS
"To promote the interest of its members as medical schemes and administrators with a view to efficient access of their subscribing members to health care benefits."

DIRECTORS

SJ Velzeboer	(Administrators)	(Australia)/(Chair)
D Alexander	(SADC)	(Botswana)
K Aron	(Administrators)	
P Bester	(Restricted Schemes)	
TEG Borrill	(Open Schemes)	
AM de Koker	(Restricted Schemes)	
MA du Bois	(Restricted Schemes)	
A Kanyemba	(SADC)	(Zimbabwe)
H Kelly	(Administrators)	
BJ Kruger	(Open Schemes)	
M Mahlaba	(Administrators)	
IS Masike	(Open Schemes)	
GU Mbapaha	(SADC)	(Namibia)
A Meyer	(Administrators)	
N Munyonga	(SADC)	(Zimbabwe)
NA Nair	(Restricted Schemes)	
GS Newton	(Administrators)	
JJ Pretorius	(Administrators)	
PS Raleche	(SADC)	(Lesotho)
B Ramasia	(Open Schemes)	
ZH Zokufa	(Executive)	

SECRETARY
AJ Kreft

COMPANY REGISTRATION NUMBER
2001/003387/08

REGISTERED OFFICE
3rd Floor
37 Bath Avenue
Rosebank
2196

POSTAL ADDRESS
PO Box 2324
Parklands
2121

ATTORNEYS
Routledge Modise Inc.

BANKERS
Nedbank Limited

AUDITORS
Ernst & Young Inc.
Registered Auditors

Annual Financial Statements
for the year ended 31 December 2013

FINANCE AND AUDIT COMMITTEE REPORT

Functions of the Audit Committee

Owing to the small size of the company, the Board of Directors resolved to appoint an audit committee that will undertake additional functions. All of these functions are undertaken by the Finance and Audit Committee.

The Board also appointed the Finance and Audit Committee as the Risk Committee. A risk register was compiled and is reviewed on a regular basis. These risks are monitored by this Committee.

At 31 December 2013 membership of the Finance and Audit Committee comprised of five Directors, of which four are Non-Executive Directors and the Managing Director who is the only Executive Director on the Board.

The Chairman of the Audit Committee is a Non-Executive Director.

The Chairman, or in his absence, at least one member of the Finance and Audit Committee attends the Annual General Meeting.

Functions of the Audit Committee

The Audit Committee performs the duties laid upon it by Section 94(7) of the Companies Act 71 of 2008 by holding meetings with the key role players on a regular basis and by the unrestricted access granted to external auditors. In the current year, three meetings were held by the Finance and Audit Committee. The details of membership and attendance are set out on the inside back coveer.

The Terms of Reference of the Finance and Audit Committee are reviewed on a regular basis to ensure that they remain effective.

In these Terms of Reference the main responsibilities are:

- Considering the appointment of the external auditors, assessing their independence and making appropriate recommendations, through the Board, to members for consideration at the Annual General Meeting;
- Discussing, with the external auditors, the auditor's engagement letter;
- Recommending to the Board the external audit fee and pre-approving any non-audit services;
- Ensuring that the provision of non-audit services does not impair the external auditor's independence or objectivity;
- Reviewing the annual financial statements prior to Board submissions;
- Reviewing policies and processes;
- Enquiring of the external auditors about significant financial risks or exposure;
- Reviewing with the internal auditors the internal audit process;
- Reviewing and monitoring corporate governance practices and
- Reviewing the company's risk management assessment.

Annual Financial Statements continued
for the year ended 31 December 2013

FINANCE AND AUDIT COMMITTEE REPORT continued

Internal Audit

ORCA (Outsourced Risk and Assessment (Pty) Ltd) continued their appointment as internal auditor during 2013.

External Auditor

The auditors are engaged to provide members with an independent opinion as to whether or not the annual financial statements fairly present, in all material aspects, the financial position of the company and its financial performance and cash flows.

The Finance and Audit Committee is provided with a management letter by the external auditors.

G S Newton
Johannesburg
22 May 2014

Annual Financial Statements continued

for the year ended 31 December 2013

DIRECTORS RESPONSIBILITIES AND APPROVAL

The Directors are required by the Companies Act of South Africa, 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the International Financial Reporting Standards for Small and Medium-sized entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the International Financial Reporting Standards for Small and Medium-sized entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 December 2013 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 17.

The annual financial statements set out on pages 18 to 40 which have been prepared on the going concern basis, were approved by the Board on 22 May 2014 and were signed on its behalf by:

Sally Velzeboer

Dr S J Velzeboer
Johannesburg
22 May 2014

Dr Z H Zokufa

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Board of Healthcare Funders of Southern Africa

Independent Auditor's Report

to the Members of Board of Healthcare Funders of Sothern Africa

Report on the Financial Statements

We have audited the financial statements of Board of Healthcare Funders of Southern Africa set out on pages 18 to 40, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards for Small and Medium-sized entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Board of Healthcare Funders of Southern Africa at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards for Small and Medium-sized entities and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act
As part of our audit of the financial statements for the year ended 31 December 2013, we have read the Directors' Report and the Finance and Audit Committee's Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ernst & Young Inc.

Ernst & Young Inc
Director – Charles Edgar Trollope
Registered Auditor
Chartered Accountant (SA)
EY 102 Rivonia Road Sandton 18 July 2014

Directors' Report
for the year ended 31 December 2013

The Directors present their report for the year ended 31 December 2013.

MAIN BUSINESS AND OPERATIONS

The company promotes the interest of its members as medical schemes and administrators with a view to efficient access of their subscribing members to health care benefits.

The operating results state of affairs of the company are set out in the attached financial statements and do not, in our opinion, require any further comment.

DIRECTORS

Name	Date of Appointment	Date of Resignation	Nationality
D Alexander	20 August 2013		Botswana
GR Anderson	17 July 2012	28 November 2013	South Africa
K Aron	6 March 2014		South Africa
P Bester	14 March 2013		South Africa
TEG Borrill	27 September 2012		South Africa
E Chitekedza	17 July 2012	20 August 2013	Zimbabwe
M Dawson	17 July 2012	14 March 2013	British
AM de Koker	17 July 2012		South Africa
BM Dick	17 July 2012	14 March 2013	South Africa
MA du Bois	17 July 2012		South Africa
GC Grobler	17 July 2012	20 August 2013	Namibia
A Kanyemba	6 March 2014		Zimbabwe
H Kelly	20 August 2013		South Africa
BJ Kruger	20 August 2013		South Africa
M Mahlaba	17 July 2012		South Africa
A Mahmood	17 July 2012	14 March 2013	South Africa
L McDonald	17 July 2012	6 June 2013	South Africa
GU Mbapaha	20 August 2013		Namibia
A Meyer	17 July 2012	6 March 2014	South Africa
T Mosomothane	20 August 2013	30 September 2013	South Africa
N Munyonga	20 August 2013	6 March 2014	Zimbabwe
NA Nair	20 August 2013		South Africa
GS Newton	17 July 2012		South Africa
DLC Pienaar	17 July 2012	20 August 2013	South Africa
JJ Pretorius	17 July 2012		South Africa
PS Raleche	3 October 2013		Lesotho
B Ramasia	27 September 2012		South Africa
MNS Ramokgopa	3 June 2010	3 October 2013	South Africa
HC Schäfer	17 July 2012	20 August 2013	Namibia
A Shezi	17 July 2012	14 March 2013	South Africa
SJ Velzeboer	17 July 2012		Australia
EW Vermaak	17 July 2012	20 August 2013	South Africa
ZH Zokufa (Executive Director)	15 November 2005		South Africa

Directors' Report continued
for the year ended 31 December 2013

CHANGE IN ACCOUNTING FRAMEWORK

The financial statements for the current year have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) for Small and Medium-sized entities. Previous the financial statements were prepared in accordance with South African Statements of Generally Accepted Accounting Practice, that were abolished on 1 December 2012.

TAXATION

Prior to its incorporation as a section 21 company Board of Healthcare Funders of Southern Africa (BHF) was an unincorporated association, exempt from income tax. After incorporation under Section 21 of the Companies Act, BHF had to reapply for a tax exemption certificate. The exemption certificate was approved on 22 March 2012. The South African Revenue Service has not confirmed the effective date of the exemption. For the current year, no taxation has been provided as a result of the tax exemption granted by status the South African Revenue Service.

PRACTICE CODE NUMBERING SYSTEM

On 18 March 2013 Council for Medical Schemes wrote to the company advising that the tender for the administration of PCNS had not been awarded to the company. The company then launched legal proceedings contesting the legality of the tender award. An arrangement was also reached with the Council for Medical Schemes that the company would continue to administer PCNS pending the outcome of the legal proceedings.

EVENTS SUBSEQUENT TO YEAR END

There have been no facts or circumstances of a material nature that have occurred between the accounting date and the date of this report.

GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

This basis presumes that funds will be available to finance future operations and the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

AUDITORS

Ernst & Young were appointed as external auditors for a three year term which ends in 2016.

Statement of Comprehensive Income
for the year ended 31 December 2013

	Notes	2013 R	2012 R
Revenue	3	20 063 011	19 072 608
Other income	4	6 591 122	5 567 374
Operating expenses		(26 108 372)	(26 518 068)
OPERATING SURPLUS/(DEFICIT)	5	545 761	(1 878 086)
Investment revenue	6	1 118 390	1 139 697
Other expenses	7	-	(3 000 000)
TOTAL SURPLUS/(DEFICIT) FOR THE YEAR		1 664 151	(3 738 389)
OTHER COMPREHENSIVE INCOME - AMOUNTS NOT SUBSEQUENTLY CLASSIFIED TO SURPLUS/(DEFICIT)			
Actuarial losses	14	(2 479)	(2 254)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		1 661 672	(3 740 643)

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Board of Healthcare Funders of Southern Africa

Statement of Financial Position
as at 31 December 2013

	Notes	2013 R	2012 R
ASSETS			
Non-current assets		619 745	1 352 103
Property, plant and equipment	9	619 744	1 352 102
Intangible asset	10	1	1
Current assets		18 924 438	20 533 682
Trade and other receivables	11	1 291 461	5 203 820
Taxation		627 437	627 437
Cash and cash equivalents	12	17 005 540	14 702 425
TOTAL ASSETS		19 544 183	21 885 785
FUNDS AND RESERVES			
Reserves			
Accumulated funds	13	11 209 117	9 547 445
Non-current liabilities			
Employee benefit liability	14	27 269	24 790
Current liabilities		8 307 797	12 313 550
Trade and other payables	15	7 585 162	8 976 253
Provisions	16	722 635	3 337 297
TOTAL FUNDS RESERVES AND LIABILITIES		19 544 183	21 885 785

Statement of Changes in Funds and Reserves

for the year ended 31 December 2013

	Accumulated funds R	Actuarial gains/ losses R	Total R
Balance at 31 December 2011	13 288 088	-	13 288 088
Deficit for the year	(3 738 389)	(2 254)	(3 740 643)
Balance at 31 December 2012	9 549 699	(2 254)	9 547 445
Surplus for the year	1 664 151	(2 479)	1 661 672
Balance at 31 December 2013	11 213 850	(4 733)	11 209 117

Board of Healthcare Funders of Southern Africa

Statement of Cash Flows

for the year ended 31 December 2013

	Notes	2013 R	2012 R
CASH FLOWS FROM OPERATING ACTIVITIES		2 524 604	(1 887 250)
Cash receipts from customers/members		25 158 058	22 711 638
Cash paid to suppliers and employees		(23 751 844)	(25 738 585)
Cash generated/(utilised) by operating activities	19	1 406 214	(3 026 947)
Interest received		1 118 390	1 139 697
CASH FLOWS FROM INVESTING ACTIVITIES		(221 489)	(559 157)
Replacement of property, plant and equipment		(221 489)	(559 157)
Proceeds on disposal of property, plant and equipment		-	-
Net increase/(decrease) in cash and cash equivalents		2 303 115	(2 446 407)
Cash and cash equivalents at the beginning of the year	12	14 702 425	17 148 832
Cash and cash equivalents at the end of the year	12	17 005 540	14 702 425

(Non-Profit Company in Terms of Section 10 of the Companies Act, 2008)

Accounting Policies
for the year ended 31 December 2013

1. CORPORATE INFORMATION

The financial statements of Board of Healthcare Funders of Southern Africa (Non-Profit Company in Terms of Section 10 of the Companies Act,2008) (the "company") for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 22 May 2014. The company is a non-profit company in terms of Section 10 of the Companies Act, 2008 incorporated and domiciled in South Africa with its membership comprising administrators, medical schemes and societies in South Africa, Botswana, Lesotho, Namibia and Zimbabwe.

2. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

These financial statements have been converted from preparation in accordance with South African Statements of Generally Accepted Accounting Practice to preparation in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) for Small and Medium-sized entities (SMEs), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and in accordance with the Companies Act of South Africa (2008). This conversion has not resulted in any change to the financial statements.

These financial statements are presented in Rands which also represents the functional currency of the entity.

2.1 Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when the cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets to their residual values.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Financial Performance in the year the asset is derecognised.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

When each major inspection is performed, its cost is recognised in the carrying amount of property and equipment as a replacement if the recognition criteria are satisfied.

The useful life of the assets is estimated as follows:

	2013	2012
- Motor vehicle	3 years	3 years
- Furniture and fittings	6 to 16 years	6 to 16 years
- Office equipment	2 to 10 years	2 to 10 years
- Computer equipment	2 to 6 years	2 to 6 years
- Computer software	3 to 6 years	3 to 6 years
- Leasehold improvements	10 years	10 years

Accounting Policies continued
for the year ended 31 December 2013

2.2 Intangible assets

Intangible assets acquired separately are measured on initial recognition cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets are not capitalised and expenditure is charged against surpluses in the year in which the expenditure is incurred. The useful life of the intangible asset is assessed to be finite and has been impaired to R1 in prior periods. There are no intangible assets with an indefinite life.

Research costs

Research costs are expensed as incurred.

2.3 Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's or cash generating unit's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless that asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The difference between the carrying value and recoverable amount is recorded in profit and loss. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus or deficit unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over the remaining useful life.

Accounting Policies continued
for the year ended 31 December 2013

2.4 Financial instruments
Initial recognition and measurement
All financial instruments are recognised on the reporting date at the trade date. Trade date is the date at which the entity committed to purchase the asset. Financial instruments are initially recognised when the company becomes party to the contractual terms of the instruments and are initially measured at fair value, including transaction costs if not measured at fair value through profit and loss, of the consideration given (financial asset) or received (financial liability or equity instrument) for it. Financial liabilities and equity instruments are classified according to the substance of the contractual agreement on initial recognition. Transaction costs are included in the initial measurement of the financial instrument. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets
Accounts receivable

Trade receivables are recognised and carried at amortised cost less an allowance for any impairment. Provision is made when there is objective evidence that the company will not be able to collect the debts. Bad debts are written off when identified. Trade receivables are non-interest bearing and are generally settled within 30 – 90 days.

Cash and cash equivalents

The accounting policy for cash and cash equivalents is set out in 2.5 below.

Financial liabilities
The company's principal financial liabilities are non-interest bearing debt and trade and other payables. These are categorised under "other liabilities".

Trade and other payables

Trade and other payables are carried at amortised cost. Trade payables are non-interest bearing and are normally settled on 60 day terms. Other payables are non-interest bearing and have an average term of six months.

Derecognition
Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

Accounting Policies continued
for the year ended 31 December 2013

2.4 Financial instruments continued
Derecognition
Financial assets

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the company's continuing involvement is the amount of the transferred asset that the company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

Fair value methods and assumptions
The carrying amount of financial assets and liabilities with a maturity of less than one year is assumed to approxmate their nominal amount.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

2.5 Cash and cash equivalents
Cash and cash equivalents are measured at their amortised cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call and investments in money market instruments all of which are available for use by the company unless otherwise stated.

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

2.6 Provisions
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of that amount of the obligation. Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Accounting Policies continued
for the year ended 31 December 2013

2.7 Post employment benefits
Post retirement benefits are made up of those obligations which the company has towards retired employees.

Defined contribution fund
Contributions in respect of defined contribution plans are recognised as an expense in the year to which the related service is rendered.

Post retirement medical benefits
The company operates a defined medical benefit plan which requires contributions to be made to a separately administered fund. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in other comprehensive income.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

2.8 Leases
The determination of whether an arrangement is, or contains a lease based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Company as a Lessee
Finance Lease
Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term.

Operating Lease
Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

2.9 Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognised at the fair value of the consideration received excluding discount rebates and other SARS taxes and duty. The following specific recognition criteria must also be met before revenue is recognised:

PCNS provider income
PCNS income from providers is accounted for on the cash basis when payment is received.

Levy income
Levy income from members and user income from the Practice Code Numbering System is accounted for on the accrual basis where there is reasonable assurance that the levy will be received.

Sale of goods
Revenue from the sale of ICD-10 compact discs is recognised when the significant risks and rewards of ownership are transferred to the buyer.

Accounting Policies continued
for the year ended 31 December 2013

2.9 Revenue recognition continued
Interest income
Interest is recognised using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period, where appropriate, on a time proportion basis that takes into account the effective yield on the asset.

All other income is accounted for on the accrual basis.

2.10 Taxes
Value added tax
Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset, or as part of the expense item, as applicable. The net amount of VAT recoverable from, or payable to, is included as part of receivables or payables in the statement of financial position.

2.11 Foreign currencies
Transactions in foreign currencies are initially recorded in the functional currency ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

2.12 Significant accounting judgements and estimates
Estimation of uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below:

Property, plant and equipment
Estimation is used in approximating the useful lives and residual values of property, plant and equipment. These assessments are made on an annual basis and use historical evidence and current economic factors to estimate the values (see note 9).

Post retirement medical benefits
As the provision for post retirement medical benefits is considered immaterial, it was based on management estimations. Management determined that the assumptions used are reasonable. The details of the post retirement medical benefits are listed in note 14.

Notes to the Annual Financial Statements

for the year ended 31 December 2013

	2013 R	2012 R
3. REVENUE		
Revenue comprises:		
Levy income	14 168 616	14 202 705
Practice Code Numbering System income	5 890 276	4 861 433
Sale of ICD-10 compact disks	4 119	8 470
	20 063 011	19 072 608
4. OTHER INCOME		
Conference income and sponsorship	5 921 759	4 502 571
Trustee training income	47 960	139 844
Seminars	97 481	-
Legal fees recovered	-	500 000
Sundry income	523 922	424 959
	6 591 122	5 567 374
5. OPERATING SURPLUS/(DEFICIT)		
Operating surplus/deficit is stated after:		
- Litigation settlements	2 106 534	340 753
- Reversals of provisions	-	-
- Depreciation	953 795	317 171
- Operating leases – equipment	21 264	21 140
- Operating leases – premises	1 291 194	1 271 040
- Salaries and wages	12 485 237	12 309 646
- Pension/provident fund contributions	-	-
- Internal audit services	375 613	123 200
6. INVESTMENT INCOME		
Interest received on cash and short term deposits	1 118 390	1 139 697

Notes to the Annual Financial Statements continued

for the year ended 31 December 2013

	2013 R	2012 R
7. OTHER EXPENSES		
Settlement costs paid to date	-	340 753
Estimated remaining settlement cost	-	2 659 247
	-	3 000 000

(2012 - settlement awarded against BHF as a result of the Regulation 8 court case resulting in the payment of legal fees by BHF of R2 106 534 in the current year.)

	2013 R	2012 R
8. AUDITORS REMUNERATION		
External Audit fees - current year	276 967	300 000
- prior year under provision	-	4 487
	276 967	304 487

Notes to the Annual Financial Statements continued
for the year ended 31 December 2013

9. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles R	Furniture and fittings R	Office equipment and text books R	Computer equipment R	Computer software R	Leasehold improvements R	Capital work in progress R	Total R
Cost:								
At 1 January 2012	128 916	728 475	708 859	908 776	408 017	140 468	419 920	3 443 431
Additions	–	33 502	18 628	235 983	10 231	–	260 813	559 157
Disposals	–	(2 936)	–	(102 166)	(76 275)	–	–	(181 377)
At 31 December 2012	128 916	759 041	727 487	1 042 593	341 973	140 468	680 733	3 821 211
Additions	–	10 226	2 329	40 645	62 989	4 500	100 800	221 489
Disposals	–	(24 299)	–	–	–	(45 072)	–	(69 371)
Impairment	–	–	–	–	(680 733)	–	–	(680 733)
Transfer	–	–	–	–	680 733	–	(680 733)	–
At 31 December 2013	128 916	744 968	729 816	1 083 238	404 962	99 896	100 800	3 292 596
Accumulated Depreciation:								
At 1 January 2012	19 816	529 630	475 798	827 551	347 045	99 806	–	2 299 637
Depreciation charge for the year	23 437	39 614	86 829	121 516	31 622	14 153	–	317 171
Disposals	–	(2 935)	–	(97 592)	(47 172)	–	–	(147 699)
At 31 December 2012	43 253	566 309	562 618	851 475	331 495	113 959	–	2 469 109
Depreciation charge for the year	23 437	50 818	48 692	127 489	692 280	11 079	–	953 795
Disposals	–	(24 252)	–	–	–	(45 069)	–	(69 321)
Impairment	–	–	–	–	(680 731)	–	–	(680 731)
At 31 December 2013	66 690	592 875	611 310	978 964	343 044	79 969	–	2 672 852
Net book value:								
At 31 December 2013	62 226	152 093	118 506	104 274	61 918	19 927	100 800	619 744
At 31 December 2012	85 663	192 732	164 869	191 118	10 478	26 509	680 733	1 352 102

Notes to the Annual Financial Statements continued
for the year ended 31 December 2013

10. INTANGIBLE ASSET

PCNS Copyright

The carrying value is determined as follows:

	2013 R	2012 R
Cost	2 850 000	2 850 000
Accumulated impairment	(2 849 999)	(2 849 999)
Carrying value at end of year	1	1

The PCNS copyright was purchased from Bestmed Medical Scheme, in terms of an out of court settlement.

The Council for Medical Schemes, which accredits BHF with the administration of PCNS, stipulated that no profit may be derived from PCNS. The excess PCNS income over the actual expenditure is refunded to subscribers.

The impairment was assessed on the date of acquisition of the copyright and represents the recoverable amount. The recoverable amount was determined at the PCNS cash-generating unit level and was based on the value in use of zero, as no profit may be derived from the PCNS administration.

11. TRADE AND OTHER RECEIVABLES

	2013 R	2012 R
Trade receivables	764 355	4 080 013
Provision for credit allowances	(537 211)	(513 571)
	227 144	3 566 442
Other receivables	10 000	510 863
Prepayments	131 242	342 230
South African Revenue Services VAT	923 075	784 285
	1 291 461	5 203 820

Provision for impairment

	2013 R	2012 R
Balance at beginning of year	513 571	1 850 183
Arising during the year	20 737	31 524
Utilised	–	(1 359 749)
Unused amounts reversed	2 903	(8 387)
Balance at end of year	537 211	513 571

Notes to the Annual Financial Statements continued

for the year ended 31 December 2013

11. TRADE AND OTHER RECEIVABLES continued

Age analysis of financial assets that are past due but not impaired

	0 – 30 Days R	31 – 60 Days R	61 – 90 Days R	91+ Days R	Total R
Trade Receivables	450 574	(155 464)	(42 034)	(25 932)	**227 144**
As at 31 December 2013	**450 574**	**(155 464)**	**(42 034)**	**(25 932)**	**227 144**
Trade Receivables	10 343	18 219	9 319	3 528 561	**3 566 442**
As at 31 December 2012	10 343	18 219	9 319	3 528 561	**3 566 442**

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms. Trade and other receivables that are not past due nor impaired are considered to be fully recoverable.

Due to the short term nature of the instruments their fair value approximates the carrying amounts.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial statements of each class of trade and other receivable mentioned above. The company does not hold any collateral as security.

12. CASH AND CASH EQUIVALENTS

	2013 R	2012 R
Cash and cash equivalents comprise:		
Cash on hand	2 586	4 734
Bank balances	207 741	359 927
Short term deposits	16 795 213	14 337 764
	17 005 540	14 702 425

At 31 December 2013 the company had an outstanding letter of guarantee for R80 000 issued by Nedbank to Broll Properties (Pty) Ltd in respect of the lease agreement between BHF and Redefine Properties (Pty) Ltd.

13. ACCUMULATED FUNDS

In terms of the Companies Act, these funds are not distributable to constituent members in the normal course of business but can be used to create a specific reserve.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2013

14. EMPLOYEE BENEFIT LIABILITY

Defined contribution fund

The company continues to contribute to the Board of Healthcare Funders Momentum Funds at Work Pension Fund, a defined contribution plan. The fund is registered under and governed by the Pension Funds Act, 1956. 53.8% (2012 – 53.8%) of the company's employees belongs to the defined contribution fund.

Post retirement medical benefits

The principal assumptions used in determining the post employment medical benefit obligations are:

	2013 %	2012 %
Medical contribution escalation rate	10.0	10.0

The liability has not been discounted at all as it is believed that the effects of any discounting would be immaterial.

Post retirement medical benefit net expense recognised in the Statement of Comprehensive Income:

	2013 R	2012 R
Estimated loss	2 479	2 254
Net benefit expense	2 479	2 254
Post retirement medical benefit obligation:		
Present value of obligation	27 269	24 791
Movements in the benefit obligation during the year are as follows:		
Opening net obligation	24 791	22 537
Actuarial loss	2 479	2 254
	27 270	24 791

Notes to the Annual Financial Statements continued
for the year ended 31 December 2013

	2013 R	2012 R
15. TRADE AND OTHER PAYABLES		
Trade payables	355 912	192 130
Accruals	312 183	405 530
Other payables	941 958	699 283
Refunds – PCNS over recovery	5 962 591	7 456 523
Salaries control accounts	12 518	222 787
	7 585 162	8 976 253
Other payables comprise the following items:		
Provision for audit fees	490 547	399 228
Debtors with credit balances	451 411	300 055
	941 958	699 283

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 60-day terms.

Accruals and other payables are non-interest bearing and have on average a term of six months.

The provision for the refund of PCNS over recoveries arises from the stipulation from Council for Medical Schemes, which accredits BHF with the administration of PCNS, that no profit may be derived from PCNS. The excess PCNS income over the actual expenditure is refunded to subscribers.

Due to the short term nature of the instruments their fair value approximates the carrying amounts.

Notes to the Annual Financial Statements continued
for the year ended 31 December 2013

	2013 R	2012 R
16. PROVISIONS		
Provision for settlement amount	–	2 659 247
Provision for leave pay	722 635	678 050
Balance at beginning of year	678 050	501 804
Provision raised during year	940 764	916 929
Provision utilised during year	(896 179)	(740 683)
	722 635	3 337 297

Provision for Settlement Amount
Refer to note 7.

Leave pay
A provision is recognised for the estimated value of the outstanding leave entitlement for all members of staff but not yet taken.

The outflow of benefits will occur as the leave is taken. There are no cash flow implications unless the employment is terminated.

	2013 R	2012 R
17. BHF CONFERENCE		
Other income and operating expenses are stated after:		
Conference income and sponsorship (included in other income – note 4)	5 921 759	4 502 571
Conference expenses (included in operating expenses)	(4 539 995)	(4 977 090)
Conference surplus/(deficit)	1 381 764	(474 519)

Notes to the Annual Financial Statements continued

for the year ended 31 December 2013

18. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The company has entered into leases on property. The lease has an average life of three years. There are no restrictions placed upon the lessee by entering into the lease.

Future minimum rentals payable under non-cancellable operating lease agreements at year-end are as follows:

	2013 R	2012 R
Up to one year	260 259	1 552 997
After one year but not more than five years	–	263 393
	260 259	1 816 390

19. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net surplus before taxation to cash generated by operations

	2013 R	2012 R
Net surplus/(deficit)	1 664 151	(3 738 389)
Adjustments:		
Depreciation	953 796	317 171
Loss on disposals of property and equipment	51	33 677
Interest received	(1 118 390)	(1 139 697)
(Decrease)/increase in provisions	(2 614 662)	2 835 493
	(1 115 054)	(1 691 745)
Decrease/(increase) in working capital	2 521 268	(1 335 202)
Decrease /(increase) in trade and other receivables	3 912 359	(3 336 213)
(Decrease)/increase in trade and other payables	(1 391 091)	2 001 011
Cash generated/(utilised) by operating activities	1 406 214	(3 026 947)

Notes to the Annual Financial Statements continued

for the year ended 31 December 2013

20. DIRECTOR'S EMOLUMENTS

Executive

	2013 R	2012 R
Short term employee benefits–emoluments received by director	2 411 619	2 254 458
Post employment pension benefits–contributions paid by director	144 264	134 826
Medical aid benefit plan	23 889	21 718
	2 579 772	2 411 002

Only the managing director is an executive director, no other directors' or chamber members' emoluments are paid. The managing director's service contract is a permanent contract, with no time lines applicable, other than notice periods.

21. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The company's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the company's operations. The company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Credit risk

Receivables balances are monitored on an ongoing basis. The maximum exposure is the carrying amount as disclosed in note 11. There is the possibility for a concentration of credit risk within the provision for impairment of trade receivables, the majority of which is for a resigned member's levies and may be the subject of litigation.

With respect to credit risk arising from the other financial assets of the company, which comprise cash and cash equivalents, the company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The company only deposits cash surpluses with financial institutions with a credit rating of not less than the equivalent of B+ with Global Credit Rating Company Limited.

The company trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant.

The maximum credit risk exposure arises from trade and other receivables and cash and bank balances.

There are no significant concentrations of credit risk.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2013

21. FINANCIAL INSTRUMENTS continued

Liquidity risk

The company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g. accounts receivable) and projected cash flows from operations.

The company has not entered into any loan arrangements and does not have any overdraft facilities.

Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business.

No changes were made in the objectives, policies or processes during the years ending 31 December 2013 and 31 December 2012.

B·H·F Southern Africa www.bhfglobal.com
Board of Healthcare Funders of Southern Africa

General Information

for the year ended 31 December 2013

MANAGEMENT TEAM

Humphrey Zokufa – Managing Director
Tony Kreft – Chief Financial Officer
Heidi Kruger – Head: Corporate Communications
Rajesh Patel – Head: Benefit and Risk

ATTENDANCE AT BOARD OF DIRECTORS MEETINGS

	2013			
Director	**14th March**	**6th June**	**3rd October**	**28th November**
D Alexander	n/a	n/a	•	A
GR Anderson	A	A	•	A
P Bester	•	•	•	A
TEG Borrill	•	•	•	A
E Chitekedza	•	•	n/a	n/a
AM de Koker	•	•	•	A
BM Dick	•	n/a	n/a	n/a
MA du Bois	A	A	•	•
GC Grobler	•	•	n/a	n/a
H Kelly	n/a	n/a	•	•
BJ Kruger	n/a	n/a	•	•
M Mahlaba	•	•	•	•
GM Mbapaha	•	A	•	•
IS Masike	n/a	n/a	•	•
L McDonald	•	n/a	n/a	n/a
A Meyer	•	•	•	A
N Munyonga	n/a	n/a	•	•
NA Nair	n/a	n/a	A	•
GS Newton	A	•	•	•
DLC Pienaar	A	A	n/a	n/a
JJ Pretorius	•	•	•	•
PS Raleche	n/a	n/a	n/a	•
B Ramasia	•	•	A	A
MNS Ramokgopa	•	•	n/a	n/a
HC Schäfer	•	•	n/a	n/a
SJ Velzeboer	•	•	•	•
EW Vermaak	•	•	n/a	n/a
HZ Zokufa	•	•	•	•

• - attended meeting. A - apologies given. n/a - not a member of the board.

AUDIT COMMITTEE

The role of the Audit Committee is fulfilled by the Finance and Audit Committee.

Finance and Audit Committee meetings

	2013		
Director	**28th February**	**23rd May**	**14th November**
AM de Koker	n/a	n/a	•
BM Dick	•	n/a	n/a
BJ Kruger	n/a	n/a	•
IS Masike	n/a	n/a	•
GU Mbapaha	A	A	n/a
GS Newton	•	•	•
SJ Velzeboer	•	•	n/a
HZ Zokufa	•	•	•

• - attended meeting. A - apologies given. n/a - not a member of the committee.

(Non-Profit Company in Terms of Section 10 of the Companies Act, 2008)

Designed by Brendan Finnegan