Financial statements

Queensland Law Society Incorporated

Contents

*All amounts are denoted in Australian currency.

Statement of profit or loss and other comprehensive income for the year ended 30 June 2013

		Consolidated		Parent entity	
	NOTE	2013	2012	2013	2012
		$	$	$	$
Revenue					
Membership and practitioner fees	6	9,602,656	8,746,933	9,602,656	8,746,933
Department of Justice and Attorney-General grants	1(e)	1,594,893	1,408,427	1,594,893	1,408,427
Rent and administration revenue	7	897,368	716,311	1,305,467	1,096,171
Membership services and events	8	3,819,733	4,020,206	3,819,733	4,020,206
Commissions and funding	1(e)	412,661	373,914	412,661	373,914
Insurance premiums, levies and deductibles		28,925,243	27,914,432	–	–
Investment income	5(a)	7,702,870	7,093,557	737,260	807,451
Realised gains on financial assets – fair value through profit or loss	5(b)	(1,515,359)	(1,156,024)	–	–
Fair value gains on financial assets – fair value through profit or loss	5(b)	6,476,457	5,053	–	–
Other income		241,340	130,208	241,340	130,208
Total revenue		**58,157,862**	**49,253,017**	**17,714,010**	**16,583,310**
Expenses					
Membership services and events	8	2,084,679	2,301,857	2,084,679	2,301,857
Administration expenses	9	5,731,977	5,517,427	3,572,234	3,248,421
Employee benefit expense		9,910,726	10,053,865	7,957,986	8,069,745
Council and committee costs	10	421,924	367,671	421,924	367,671
Depreciation and amortisation	14	1,179,600	1,011,831	1,081,405	939,395
Law Council capitation fees		1,002,290	934,445	1,002,290	934,445
Reinsurance costs		2,804,859	3,520,723	–	–
Stamp duty		1,402,169	1,307,536	–	–
Insurance claims		19,594,890	20,555,167	–	–
Insurance recoveries		(3,982,039)	2,697,835	–	–
Claims handling expense		1,323,000	(139,000)	–	–
Brokerage fees		160,000	160,000	–	–
Total expenses		**41,634,075**	**48,289,357**	**16,120,518**	**15,861,534**
Operating surplus before income tax		**16,523,787**	**963,660**	**1,593,492**	**721,776**
Income tax expense (credit)	21	3,316,950	(639,196)	–	–
Operating surplus after income tax		**13,206,837**	**1,602,856**	**1,593,492**	**721,776**
Other comprehensive income, net of tax	15	(1,017,188)	399,864	(1,017,188)	399,864
Total comprehensive income for the year		**12,189,649**	**2,002,720**	**576,304**	**1,121,640**

The accompanying notes form part of these statements.

Statement of financial position as at 30 June 2013

	NOTE	Consolidated 2013 $	Consolidated 2012 $	Parent entity 2013 $	Parent entity 2012 $
Current assets					
Cash and cash equivalents	20(a)	64,137,885	59,655,211	22,001,180	20,442,838
Receivables	12	2,369,952	5,154,169	1,404,385	1,256,174
Income tax recoverable	22	–	34,179	–	–
Insurance contract liabilities ceded	11	2,002,000	2,988,000	–	–
Total current assets		**68,509,837**	**67,831,559**	**23,405,565**	**21,699,012**
Non-current assets					
Investment in Lexon Insurance Pte Ltd (Lexon)	4	–	–	19,000,000	19,000,000
Financial assets, fair value through profit or loss	5(b)	123,272,345	110,749,948	–	–
Property, plant and equipment	14	24,653,615	26,761,939	24,372,728	26,384,108
Deferred income tax asset	23	2,441,618	5,128,211	–	–
Insurance contract liabilities ceded	11	7,769,000	5,931,000	–	–
Total non-current assets		**158,136,578**	**148,571,098**	**43,372,728**	**45,384,108**
TOTAL ASSETS		**226,646,415**	**216,402,657**	**66,778,293**	**67,083,120**
Current liabilities					
Payables	13	43,801,890	42,639,121	14,177,016	15,022,718
Accrued employee benefits	16	570,226	670,938	475,896	559,499
Provision for outstanding claims	11	16,718,000	17,548,000	–	–
Total current liabilities		**61,090,116**	**60,858,059**	**14,652,912**	**15,582,217**
Non-current liabilities					
Provisions	16	879,803	813,382	776,297	728,123
Deferred income tax liability	23	630,357	–	–	–
Provision for outstanding claims	11	54,820,001	57,694,727	–	–
Total non-current liabilities		**56,330,161**	**58,508,109**	**776,297**	**728,123**
TOTAL LIABILITIES		**117,420,277**	**119,366,168**	**15,429,209**	**16,310,340**
NET ASSETS		**109,226,138**	**97,036,489**	**51,349,084**	**50,772,780**
EQUITY					
Retained surplus	15	94,363,803	81,156,966	36,486,749	34,893,257
Revaluation surplus	15	14,862,335	15,879,523	14,862,335	15,879,523
TOTAL EQUITY		**109,226,138**	**97,036,489**	**51,349,084**	**50,772,780**

The accompanying notes form part of these statements.

Statement of changes in equity for the year ended 30 June 2013

Parent entity	NOTE	Revaluation surplus $	Retained surplus $	TOTAL $
Opening Balance – 1 July 2011		15,479,659	34,171,481	49,651,140
Operating surplus for the period		–	721,776	721,776
Other comprehensive income		399,864	–	399,864
Closing balance – 30 June 2012	15	15,879,523	34,893,257	50,772,780
Operating surplus for the period		–	1,593,492	1,593,492
Other comprehensive income		(1,017,188)	–	(1,017,188)
Closing balance – 30 June 2013	15	**14,862,335**	**36,486,749**	**51,349,084**

Consolidated	NOTE	Revaluation reserve $	Retained surplus $	TOTAL $
Opening balance – 1 July 2011		15,479,659	79,554,110	95,033,769
Operating surplus for the period		–	1,602,856	1,602,856
Other comprehensive income		399,864	–	399,864
Closing balance – 30 June 2012	15	15,879,523	81,156,966	97,036,489
Operating surplus for the period		–	13,206,837	13,206,837
Other comprehensive income		(1,017,188)	–	(1,017,188)
Closing balance – 30 June 2013	15	**14,862,335**	**94,363,803**	**109,226,138**

The accompanying notes form part of these statements.

Statement of cash flows for the year ended 30 June 2013

		Consolidated		Parent entity	
	NOTE	2013	2012	2013	2012
		$	$	$	$
Cash flows from operating activities					
Receipts from the profession		50,370,616	53,006,366	16,465,607	16,878,360
Receipts from Department of Justice and Attorney-General		76,955	2,602,231	76,955	2,602,231
Payments to suppliers and employees		(21,373,825)	(21,412,511)	(15,493,303)	(15,492,773)
Receipts collected for Society entities		–	–	33,862,822	33,058,868
Payments to Society entities		–	–	(30,350,589)	(29,679,730)
Receipts collected for Legal Practitioners' Fidelity Guarantee Fund		3,558,868	3,441,104	3,558,868	3,441,104
Payments to Legal Practitioners' Fidelity Guarantee Fund		(3,556,228)	(3,441,104)	(3,556,228)	(3,441,104)
Reinsurance recoveries		–	85,532	–	–
Reinsurance payments		(2,804,859)	(3,520,723)	–	–
Claims and claims related payments		(19,264,437)	(17,604,287)	–	–
Interest received		1,770,540	1,903,043	699,846	822,368
GST refunded from ATO		1,417,052	1,740,705	574,145	711,204
GST paid to ATO		(4,173,638)	(4,200,482)	(4,173,638)	(4,200,482)
Income tax refund	22	34,179	27,231	–	–
Net cash provided by operating activities	**20(c)**	**6,055,223**	**12,627,105**	**1,664,485**	**4,700,046**
Cash flows from investing activities					
Purchase of investments		(9,127,351)	(5,010,495)	–	–
Proceeds from investment redemptions		7,662,197	7,954,374	–	–
Payments for property, plant and equipment	14	(107,394)	(1,280,060)	(106,143)	(887,828)
Net cash provided by/(used in) investing activities		**(1,572,548)**	**1,663,819**	**(106,143)**	**(887,828)**
Net increase/(decrease) in cash and cash equivalents held		**4,482,675**	**14,290,924**	**1,558,342**	**3,812,218**
Cash and cash equivalents at the beginning of the period	**20(a)**	**59,655,210**	**45,364,286**	**20,442,838**	**16,630,620**
Cash and cash equivalents at the end of the period	**20(a)**	**64,137,885**	**59,655,210**	**22,001,180**	**20,442,838**

The accompanying notes form part of these statements.

Notes to and forming part of the financial statements for the year ended 30 June 2013

NOTES

Objectives and principal activities

The Queensland Law Society Incorporated (the Society) is the professional association for solicitors in Queensland and continues in existence under the *Legal Profession Act 2007* (the Act). While the Society is defined as a statutory body for the purposes of the *Financial Accountability Act 2009*, it remains an independent professional body, subject to the governance of its elected Council.

These accounts include the Society, Law Claims Levy Fund and Lexon Insurance Pte Ltd (Lexon) and when combined are referred to as “the Group”.

The Group is responsible for issuing of practicing certificates, providing continuing legal education, investigating complaints against solicitors referred by the Legal Services Commission, administering funds under the control of the Group, providing services and support to members and the general public and providing general insurance and services as licensed under the *Singapore Insurance Act*. Major sources of income for the Society include annual fees paid by its members, contributions from the Department of Justice and Attorney-General, continuing legal education to the profession, investment income and insurance premiums.

1. Summary of significant accounting policies

The significant accounting policies which have been adopted in the preparation of the Group’s financial statements are:

a. Statement of Compliance

The Group has prepared these financial statements in compliance with section 43 of the *Financial and Performance Management Standard 2009*.

These financial statements are general purpose financial statements and have been prepared on an accrual basis in accordance with Australian Accounting Standards and interpretations. In addition, the financial statements comply with the Treasurer’s Minimum Reporting Requirements for the year ended 30 June 2013 and other authoritative pronouncements.

Except where stated, the historical cost convention is used.

b. The reporting entity

The financial statements include the values of all revenues, expenses, assets, liabilities and equity of the Society and the entities that it controls where they are material.

The Society controlled the following entities at the reporting date:

- Law Claims Levy Fund (This Fund was wholly controlled for the whole period).
- Lexon (formerly QLS Insurance Pte Ltd). This Company was established on 23 June 2001 in Singapore and is 100% owned by the Society. This Company was wholly controlled for the whole period.

c. Principles of consolidation

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences to the date control ceases. In the process of reporting the Society as a single economic entity, unrealised gains and losses, inter-entity balances resulting from transactions with or between controlled entities are eliminated on consolidation where material. The accounting policies have been consistently applied by each entity in the consolidated entity.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

d. Taxation

Income tax is recognised on consolidation.

The Queensland Law Society Inc (parent entity) is exempt from income tax by virtue of Section 50-25 of the *Income Tax Assessment Act 1997* with the exception of Fringe Benefits Tax (FBT) and the 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 (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing activities and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Lexon is registered in Australia for income tax. The company has dual tax residency in Australia and Singapore. In relation to offshore insurance business, the Company has been granted tax exempt status for a period of 10 years from 1 April 2010 under the tax exemption scheme for captive insurers by the Monetary Authority of Singapore.

Current income tax is recognised at the amount expected to be paid to or recovered from the tax authorities.

Deferred income tax is recognised for all temporary differences except when the deferred income tax arises from the initial recognition of an asset or liability affects neither accounting nor taxable profit or loss at the time of the transaction.

Current and deferred income tax is measured using the tax rates and tax laws that have been enacted or substantively enacted by the Statement of Financial Position date, and are recognised as income or expenses in the Statement of Profit or Loss and Other Comprehensive Income, except to the extent that the tax arises from a transaction which is recognised directly in equity.

e. Revenue recognition

i. Premium income

Premium income is recognised as revenue at the commencement of the risk period covered by the policy and accrued proportionally over the period of coverage.

ii. Interest income

Interest income is accrued on a time-proportion basis using the effective interest method.

iii. Distribution on assets

Income from distribution on assets is recognised when declared by fund managers.

iv. Other income

Revenues are recognised at fair value of the consideration received net of any amount of GST payable to the ATO. Practitioner fees are recognised when payment is received. Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset and is also recognised net of bank charges.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

e. Revenue recognition (continued)

v. Commissions and funding

Grants, donations and gifts that are non-reciprocal in nature are recognised as revenue in the year in which the Society obtains control over them. Where grants are received that are reciprocal in nature, revenue is accrued over the term of the funding arrangement.

The Society receives grants from the Department of Justice and Attorney-General through the Legal Practitioners Interest on Trust Accounts Fund. These funds are used for regulatory functions only and any funds not spent during the year are included as a payable in Note 13.

vi. Recovery of expenditure

Under the rules of the Act, certain operating expenses of the Society are recoverable from the Legal Practitioners' Fidelity Guarantee Fund. The gross amounts recovered are disclosed as income. Expenses incurred on behalf of the fund form part of the administration expenses incurred by the Society.

vii. Insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

f. Operating leases

Payments made under operating leases (net of any incentives received from the lessor) are taken to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

g. Cash and cash equivalents

For the purposes of the Statement of Financial Position and Statement of Cash Flows, cash assets include all cash and cheques receipted but not banked at 30 June as well as deposits on call with financial institutions. The Cash Deposit Account is an interest bearing account which is readily convertible to cash on hand at the Group's option.

h. Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group where significant insurance risk is transferred are classified as reinsurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurer's share of insurance liabilities. These assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected recovery. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

h. Reinsurance contracts (continued)

The Group assesses its reinsurance assets for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amount that the Group will receive from the reinsurer.

The Group ceded reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

i. Financial assets

The Group classifies its financial assets at 'fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification at initial recognition and re-evaluates this designation at every reporting date.

i. Receivables

Receivables include trade and other receivables in the Statement of Financial Position.

These financial assets are initially recognised at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. They are presented as current assets, except for those maturing later than 12 months after the reporting date which are presented as non-current assets.

The Group assesses at each reporting date whether there is objective evidence that these financial assets are impaired and recognises an allowance for impairment when such evidence exists. Allowance for impairment is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

ii. Financial assets, fair value through profit or loss

Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting date.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

j. Property, plant and equipment

i. Acquisition of assets

All assets acquired are recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Plant and equipment acquired are expensed unless the initial cost exceeds $5000. Buildings and additions are recognised upon acquisition if the initial cost exceeds $10,000.

The Society has followed Queensland Treasury and Trade's guidelines in relation to intangible assets and as such expenses all software purchases less than $100,000.

ii. Depreciation and amortisation

All assets including strata title buildings have limited useful lives and are depreciated using the straight line method over their estimated useful lives, taking into account estimated residual values.

Assets are depreciated from the date of acquisition. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount depreciated over the remaining useful life of the asset. Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods.

The depreciation and amortisation rates used for each class of asset are as follows:

Asset class	2013	2012
Strata title building	2.5%	2.5%
Leasehold Improvements	2.5%	–
Plant and equipment	4% – 33%	4% – 33%
Computer equipment	33% – 100%	33% – 100%
Software	20% – 33%	20% – 33%

iii. Impairment of non-financial assets

Plant and equipment are reviewed for impairment whenever there is any objective evidence or indication that these assets may be impaired or annually.

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset is reversed if, and 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. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the assets in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

j. Property, plant and equipment (continued)

iv. Revaluations

The strata title building is measured at fair value and is independently revalued every five years to ensure the carrying amount does not materially differ from the fair value at reporting date. In between independent valuations, the Society uses the Implicit Price Deflator for non-residential buildings indices to index the carrying amount of the building where there has been a material variation in the index. Revaluation increments are recognised in the asset revaluation reserve except where amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments and any excess is recognised as an expense.

k. Insurance liabilities

Insurance liabilities comprise of outstanding claims provision and unearned premiums provision.

i. Outstanding claims provision

Full provision is made for the estimated cost of all claims admitted or intimated but not settled at the reporting date, less reinsurance recoveries, using the best information available at that time.

In addition, provision is made for claims incurred but not reported (IBNR) at the date of the reporting based on claims experience and industry statistics.

ii. Unearned premiums provision

The portion of premiums that relates to unexpired risk at the reporting date is reported as the unearned premium liability. Unearned premiums are calculated based on the 1/365 method applied to the net premiums written for the financial year.

iii. Liability adequacy test

At the reporting date, a liability adequacy test is performed to ensure the adequacy of the contract liability. In performing this test, current estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to general insurance revenue account by establishing a provision for losses arising from liability adequacy tests.

l. Payables

Trade creditors are recognised on receipt of the goods or services and are carried at actual amounts, gross of applicable trade and other discounts. Amounts are unsecured and are generally settled on 30 day terms.

m. Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

n. Employee benefits

i. Annual leave

Current annual leave entitlements represent present obligations resulting from services provided by employees up to balance date, calculated at undiscounted amounts based on remuneration rates that the entity expects to pay as at the reporting date including related on-costs such as employer superannuation contributions, workers compensation insurance and payroll tax.

ii. Sick leave

Prior history indicates that on average, sick leave taken each reporting period is less than the entitlement accrued. This is expected to recur in future periods and therefore it is unlikely that existing accumulated entitlements will be used by employees and no liability for unused sick leave entitlements is recognised.

iii. Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to the reporting date.

The provision is calculated using expected future increases in remuneration rates including related on-costs and is based on experience of employee departure per year of service. Long service leave expected to be paid in the next 12 months is recorded as a current liability in the Statement of Financial Position. Long service leave expected to be paid later than one year is recorded as a non-current liability and is discounted using the Commonwealth Bond rate at the reporting date which most closely matches the terms of maturity of the related liabilities.

iv. Key executive management personnel and remuneration

Key executive management personnel and remuneration disclosures are made in accordance the *Financial Reporting Requirements (FRR) for Queensland Government Agencies* issued by Queensland Treasury and Trade. Refer to note 18 (b) for the disclosures on key executive management personnel remuneration.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. Following consideration, the Society has decided that the Council, sub-committees and CEO are the only employees with the authority and responsibility for these activities for the entire agency. This is supported through the Council Charter which is available on the Society's website.

o. Foreign currency

Foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

p. *Legal Profession Act 2007*

The *Legal Profession Act 2007* (Qld) came into effect on 1 July 2007. The provisions contained within the Act cover a range of matters including the establishment of the Legal Services Commission, Legal Practice Tribunal and Committee and the Legal Practitioners Admissions Board, together with a number of technical measures including those relating to transitional provisions to facilitate the transfer to the new legislation.

q. Issuance of financial statements

The financial statements are authorised for issue by the Council of the Queensland Law Society Inc. at the date of signing the management certificate.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

r. New and revised accounting standards

The Group did not voluntarily change any of its accounting policies during 2012-13. Australian Accounting Standard changes applicable for the first time for 2012-13 have had minimal effect on the Group's financial statements, as explained below.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 and 1049] became effective from reporting periods beginning on or after 1 July 2012. The change impacts the Statement of Profit or Loss and Other Comprehensive Income whereby items within the Other Comprehensive Income section need to be presented in different sub-sections, according to whether or not they are subsequently re-classifiable to the operating result. Whether subsequent re-classification is possible depends on the requirements or criteria in the accounting standard/interpretation that relates to the item concerned.

The Group is not permitted to early adopt a new or amended accounting standard ahead of the specified commencement date unless approval is obtained from Queensland Treasury and Trade. Consequently, the Group has not applied any Australian accounting standards and interpretations that have been issued but are not yet effective. The Group applies standards and interpretations in accordance with their respective commencement dates.

At the date of authorisation of the financial report, the expected impacts of new or amended Australian accounting standards with future commencement dates are as set out below.

AASB 13 Fair Value Measurement applies from reporting periods beginning on or after 1 January 2013. AASB 13 sets out a new definition of fair value, as well as new principles to be applied when determining the fair value of assets and liabilities. The new requirements will apply to all of the Group's assets and liabilities (excluding leases) that are measured and/or disclosed at fair value or another measurement based on fair value. The potential impacts of AASB 13 relate to the fair value measurement methodologies used, and financial statement disclosures made in respect of, such assets and liabilities.

The Group has not yet assessed the full impact of this standard, however, no significant changes are anticipated, based on the fair value methodologies presently used. Therefore, at this stage, no consequential material impacts are expected for the Group's property, plant and equipment as from 2013-14.

AASB 13 will require an increased amount of information to be disclosed in relation to fair value measurements for both assets and liabilities. To the extent that any fair value measurement for an asset or liability uses data that is not observable outside the Group, the amount of information to be disclosed will be relatively greater.

A revised version of AASB 119 Employee Benefits applies from reporting periods beginning on or after 1 January 2013. The revised AASB 119 is generally to be applied retrospectively. The revised AASB 119 includes changed criteria for accounting for employee benefits as short-term employee benefits whereby short-term employee benefits will only include benefits that are expected to be wholly settled before 12 months after the end of the reporting period in which the employees provide the associated service. If that criterion is not met, such benefits will need to be categorised and accounted for as other long-term employee benefits (which may comprise both current and non-current components). The distinction between short-term and other long-term employee benefits should be made on a whole-of class basis ie not according to differing circumstances that may apply from employee to employee.

Under the revised AASB 119, the recognition and measurement of employer obligations for other long-term employee benefits will need to be accounted for according to most of the requirements for defined benefit plans.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

r. New and revised accounting standards (continued)

The revised AASB 119 clarifies the concept of termination benefits, including distinguishing them from post-employment and other benefits. The recognition criteria for liabilities for termination benefits are different under the revised standard. If termination benefits meet the timeframe criterion for short-term employee benefits, they are to be measured according to the requirements for short-term employee benefits. Otherwise, if the short-term employee benefits criterion is not met, the termination benefits are to be measured according to the requirements for other long-term employee benefits.

The requirements for measurement of employer liabilities/assets arising from defined benefit plans, and the measurement and presentation of changes in such liabilities/assets, are substantially different under the revised AASB 119. There are also a number of new concepts and definitions.

AASB 1053 Application of Tiers of Australian Accounting Standards applies as from reporting periods beginning on or after 1 July 2013. AASB 1053 establishes a differential reporting framework for those entities that prepare general purpose financial statements, consisting of two tiers of reporting requirements – Australian Accounting Standards (commonly referred to as Tier 1), and Australian Accounting Standards – Reduced Disclosure Requirements (commonly referred to as Tier 2). Tier 1 requirements comprise the full range of AASB recognition, measurement, presentation and disclosure requirements that are currently applicable to reporting entities in Australia. The only difference between the Tier 1 and Tier 2 requirements is that Tier 2 requires fewer disclosures than Tier 1.

Details of which disclosures in standards and interpretations are not required under Tier 2 reporting are set out in amending standards AASB 2010-2, AASB 2011-2, AASB 2011-6, AASB 2011-11, AASB 2012-1, AASB 2012-7 and AASB 2012-11 (which also apply from reporting periods beginning on or after 1 July 2013). However, Queensland Treasury and Trade's Financial Reporting Requirements effectively do not allow application of AASB 2011-6 in respect of controlled entities, associates or interests in jointly controlled entities.

Pursuant to AASB 1053, public sector entities like the Group may adopt Tier 2 requirements for their general purpose financial statements. However, AASB 1053 acknowledges the power of a regulator to require application of the Tier 1 requirements. In the case of the Group, Queensland Treasury and Trade is the regulator. Queensland Treasury and Trade has advised that its policy decision is to require adoption of Tier 1 reporting by all Queensland Government departments and statutory bodies that are consolidated into the whole-of-government financial statements. Therefore, the release of AASB 1053 and associated amending standards will have no impact on the Fund.

The following new and revised standards apply as from reporting periods beginning on or after 1 January 2014:

- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 127 (revised) Separate Financial Statements
- AASB 128 (revised) Investments in Associates and Joint Ventures
- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 and 1038 and Interpretations 5, 9, 16 and 17].

The AASB is planning to amend AASB 10. Such amendments are expected to clarify how the IASB's principles about control of entities should be applied by not-for-profit entities in an Australian context. Hence, the Group is not yet in a position to reliably determine the future implications of these new and revised standards for its financial statements.

AASB 10 redefines and clarifies the concept of control of another entity, and is the basis for determining which entities should be consolidated into an entity's financial statements. Therefore, once the AASB finalises its not-for-profit amendments to AASB 10, the Group will need to reassess the nature of its relationships with other entities.

Notes to and forming part of the financial statements for the year ended 30 June 2013

1. Summary of significant accounting policies (continued)

r. New and revised accounting standards (continued)

AASB 11 deals with the concept of joint control and sets out new principles for determining the type of joint arrangement that exists, which in turn dictates the accounting treatment. The new categories of joint arrangements under AASB 11 are more aligned to the actual rights and obligations of the parties to the arrangement. Subject to any not-for-profit amendments to be made to AASB 11, the Group will need to assess the nature of any arrangements with other entities to determine whether a joint arrangement exists in terms of AASB 11. If a joint arrangement does exist, the Group will need to follow the relevant accounting treatment specified in either AASB 11 or the revised AASB 128, depending on the nature of the joint arrangement.

AASB 1055 Budgetary Reporting applies from reporting periods beginning on or after 1 July 2014. From that date, based on what is currently published in the Queensland Government's Budgetary Service Delivery Statements, this means the Group will need to include in these financial statements the original budgeted statements for the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and Statement of Cash Flows. These budgeted statements will need to be presented consistently with the corresponding (actuals) financial statements, and will be accompanied by explanations of major variances between the actual amounts and the corresponding budgeted financial statement.

In addition, based on what is currently published in the Queensland Government's Service Delivery Statements, the Group will need to include in these financial statements the original budgeted information for major classes of administered income and expenses, and major classes of administered assets and liabilities. This budgeted information will need to be presented consistently with the corresponding (actuals) administered information, and will be accompanied by explanations of major variances between the actual amounts and the corresponding budgeted financial information.

AASB 9 Financial Instruments (December 2010) and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 and 1038 and Interpretations 2, 5, 10, 12, 19 and 127] become effective from reporting periods beginning on or after 1 January 2015. The main impacts of these standards on the Group are that they will change the requirements for the classification, measurement and disclosures associated with the Group's financial assets. Under the new requirements, financial assets will be more simply classified according to whether they are measured at amortised cost or fair value. Pursuant to AASB 9, financial assets can only be measured at amortised cost if two conditions are met. One of these conditions is that the asset must be held within a business model whose objective is to hold assets in order to collect contractual cash flows. The other condition is that the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group has commenced reviewing the measurement of its financial assets against the new AASB 9 classification and measurement requirements. However, as the classification of financial assets at the date of initial application of AASB 9 will depend on the facts and circumstances existing at that date, the Group's conclusions will not be confirmed until closer to that time. At this stage, and assuming no change in the types of transactions the Group enters into, it is not expected that any of the Group's financial assets will meet the criteria in AASB 9 to be measured at amortised cost. Therefore, as from the 2015-16 financial statements, all of the Group's financial assets are expected to be required to be measured at fair value, and classified accordingly. The same classification will be used for net gains/losses recognised in the Statement of Profit or Loss and Other Comprehensive Income in respect of those financial assets. In the case of the Group's current receivables, as they are short-term in nature, the carrying amount is expected to be a reasonable approximation of fair value.

All other Australian accounting standards and interpretations with future commencement dates are either not applicable to the Group's activities, or have no material impact on the Group.

Notes to and forming part of the financial statements for the year ended 30 June 2013

2. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Management discussed with the directors of Lexon the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. Certain critical accounting judgements in applying the Group's accounting policies are related to the policyholder claims.

a. Actuarial methodology for estimate for policyholder claims

The Group's estimates for reported and unreported losses, establishing resulting provisions and related reinsurance recoverables are continually reviewed and updated, and adjustments resulting from this review are reflected in profit or loss. The process relies upon the use of external advisors (lawyers, actuaries and loss adjustors) and the assumption that past experience is an appropriate basis for predicting future events.

In estimating the outstanding claims liability, projected future claims payments are discounted to the calculation date for each claim year.

The projected future claims payments for each claim year are based on the claim estimates and an allowance for the development of claims (Incurred But Not Enough Reported – IBNER) especially for the recent claim years in respect of which limited claims information is available and estimates are therefore the most subjective; and an allowance for additional claims, which had incurred but have not yet been reported (Incurred But Not Reported – IBNR).

The IBNER and IBNR estimate has been calculated using a combination of the Incurred Claims Development (ICD) and Bornhuetter-Ferguson (BF) methods.

b. Key assumptions

The following key valuation assumptions have been used to estimate future projected payments and outstanding claims liabilities.

- The ICD basis allows for the following development:

Development year	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8
Development factor	26%	15%	11%	9.0%	7.2%	5.0%	1.6%

- The average cost per solicitor (used in the BF method) adopted is $4100.
- The Group has assumed reinsurance recoveries will be fully recoverable on a prompt basis.
- The Group has applied the zero-coupon yield for Commonwealth Government bonds to the expected future cashflows. This has resulted in a uniform discount rate of 2.99% (2011/12 2.61%) per annum.
- The Group has assumed future inflation will be the same as past inflation, to the extent that it has been captured by the claims development data.
- The Group has included an allowance for claims handling expenses (CHE) based on historical experience and projected expenses.

Notes to and forming part of the financial statements for the year ended 30 June 2013

2. Critical accounting estimates and judgments (continued)

Critical accounting estimates and assumptions (continued)

- While the Group has calculated a central estimate, we have applied a risk margin at a 90% level of sufficiency and adopted reserves at this level to maintain a higher level of adequacy.
- While claim numbers are not directly used in determining our estimates, they are a good lead indicator. Given the policy is based on claims made, we have assumed minimal development post the end of the year.

There have been no significant changes in the business underwritten by the Group or the way the insurance liabilities are estimated. Hence, no significant amendments have been made to the assumptions.

The assumptions have been determined by management and the actuarial team by taking into account claim development experience, statistical analysis and market trends.

c. Sensitivity analysis of key estimates

While the gross ultimate costs are sensitive to valuation assumptions, the net results are much less sensitive due to the aggregate limits that apply which reduce the net exposure.

The impacts on our estimated total provision due to changes in assumptions are:

- Reserve underestimation: The gross undiscounted unused exposure for all years totals $26.7m. 10% reserve under estimation results in an additional gross undiscounted reserve of $6.1m and net discounted reserve (after risk margins) of $3.1m or 5.1% of the discounted net central estimate plus risk margins.
- Reserve overestimation: If our estimated reserves on all years improved by 10% then it would result in a decrease in gross undiscounted reserve of $6.1m and the total net provision (after risk margins) would decrease by $3.5m or 5.7% of the discounted net central estimate plus risk margins.
- Discount rate: A half a percentage point increase in discount rate (from 2.99% to 3.49%) would reduce our provision by $0.4m or 0.6%.of the discounted net central estimate plus risk margins.
- Claims handing provision: A one percentage point increase in the claims handling rate applied would increase our provision by $0.7m or 1.1% of the discounted net central estimate plus risk margins.

Notes to and forming part of the financial statements for the year ended 30 June 2013

3. Management of insurance and financial risk

Lexon is a captive insurer and issues a single insurance contract to its holding corporation that transfers insurance risks of its holding corporation to itself. This section summarises these risks and the way the Group manages them.

3.1 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The primary insurance activity carried out by the Group assumes the risk of loss from persons that are directly subject to the risk – professional indemnity liability. Such risk may relate to liability that may arise from an insurable event. As such, the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Group manages its insurance risk through underwriting guidelines, centralised management of reinsurance and monitoring of emerging issues.

a. Underwriting strategy

The Group is unable to provide a diversified portfolio of similar risks due to its licensing arrangement. The Group currently only underwrites the risk of its holding corporation. Such a focus on one insured group does create a wider variability of outcome than a balanced portfolio.

b. Reinsurance strategy

In considering the purchase of reinsurance protection, the Group's philosophy is twofold, namely to reduce risk, and to stabilise solvency.

To achieve such objectives, the Group will consider the placing of reinsurance protection at appropriate levels with reinsurance carriers of a proven financial record. Specific reinsurance placements should reflect the appropriate balance between retention and reinsurance commensurate with the nature and complexity of the risk, all within acceptable exposure limits to the Group.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after known deductions for insolvencies and uncollectible items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Board of Directors is responsible for setting the minimum security criteria for acceptable reinsurance.

c. Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

The following gives an assessment of Lexon's main product – professional indemnity liability and the ways in which it manages the associated risks.

i. Product features

Lexon writes professional indemnity liability and under these contracts, monetary compensation awards are paid for any description of civil liability whatsoever incurred in connection with the law practice.

Professional indemnity liability is generally considered a long-tail line, as it takes a relatively long period of time to finalise and settle claims for a given claim year. The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction and specific policy provisions.

Major contributors to this provision estimate uncertainty include the reporting lag, the number of parties involved in the underlying action, the potential amounts involved and whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written. Claims with longer reporting lag will result in greater inherent risk.

Notes to and forming part of the financial statements for the year ended 30 June 2013

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

c. Terms and conditions of insurance contracts (continued)

ii. Management of risks

The key risks associated with this product are underwriting risk and claims experience risk.

Underwriting risk includes the risk of higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting reinsurance pricing and conditions of reinsurance cover. This may result in the Group having either too little premium for the risks it has agreed to underwrite and hence, has not enough funds to invest and pay claims, or that claims are in excess of those expected.

Claims development history

	$'000	$'000	$'000	$'000	$'000	$'000	**$'000**
Underwriting year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	**Total**
Gross							
Estimate of ultimate claims							
Costs:							
– at end of reporting year	21,278	27,820	21,695	25,310	18,688	18,706	
– one year later	16,045	32,056	15,572	24,476	15,609		
– two years later	13,811	31,274	16,675	26,504			
– three years later	15,722	28,895	16,212				
– four years later	16,012	30,579					
– five years later	15,943						
Cumulative payments to date	(12,431)	(25,384)	(9,172)	(12,687)	(5,092)	(688)	
Estimate of claims reserve	3,512	5,195	7,040	13,817	10,517	18,018	**58,099**
Effect of discounting	(205)	(321)	(444)	(902)	(818)	(1,576)	**(4,266)**
Best estimate of claims liability	3,307	4,874	6,596	12,915	9,699	16,442	**53,833**
Liability in respect of years prior to 2007/08							**2,922**
Risk margin							**9,837**
Provision for claims handling							**4,946**
Total gross outstanding claims included in the Statement of Financial Position							**71,538**

Notes to and forming part of the financial statements for the year ended 30 June 2013

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

c. Terms and conditions of insurance contracts (continued)

ii. Management of risks (continued)

	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Underwriting year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Total
Net							
Estimate of ultimate claims							
Costs:							
– at end of reporting year	18,000	18,000	21,695	22,500	18,688	18,706	
– one year later	16,045	18,000	15,572	22,500	15,609		
– two years later	13,811	18,000	16,675	22,500			
– three years later	15,722	18,000	16,212				
– four years later	16,012	18,000					
– five years later	15,943						
Cumulative payments to date	(12,431)	(18,000)	(9,172)	(12,687)	(5,092)	(688)	
Estimate of claims reserve	3,512	–	7,040	9,813	10,517	18,018	48,900
Effect of discounting	(205)	–	(444)	(298)	(818)	(1,576)	(3,341)
Best estimate of claims liability	3,307	–	6,596	9,515	9,699	16,442	45,559
Liability in respect of years prior to 2007-08							1,425
Risk margin							9,837
Provisions for claims handling							4,946
Total net outstanding claims included in the Statement of Financial Position							61,767

Insurance risk is managed primarily through sensible pricing, product design, appropriate investment strategy and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. The Group also assesses the need to minimise its underwriting risks by retaining part of the risks underwritten for its own account and reinsuring the remainder.

3.2 Reinsurance risk

The Group cedes insurance risk to limit exposure to underwriting losses under agreements that cover risks or group risks on yearly renewable terms. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of risk retained depends on the Group's evaluation of the risk. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is agreed and paid. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

When selecting a reinsurer, the Group considers their relative security. The security of the reinsurer is assessed from public rating information.

Notes to and forming part of the financial statements for the year ended 30 June 2013

3. Management of insurance and financial risk (continued)

3.3 Concentration of risk

The concentration of insurance risk before and after reinsurance is solely in Australia and from a single line of business, Professional Indemnity insurance.

3.4 Financial risk

The Group's activities expose it to a variety of financial risks: market risk (currency risk, price risk and interest rate risk), credit risk, liquidity risk and capital risk.

a. Currency risk

The Group is not exposed to significant foreign currency risk in relation to its functional currency as the majority of the Group's transactions, assets and liabilities are denominated in Australian Dollars.

The Group holds minor cash balances in Singapore Dollars, and units in unit trusts which hold some unhedged positions.

The Group outsources its investment activities to respected fund managers who use defined risk management techniques as part of the funds mandates.

Investments in income securities are predominately hedged where a currency exposure exists.

As part of the Group's investment mandate it holds units in two funds which hold unhedged international securities. Any unhedged position is in accordance with the strategic asset allocation, and is monitored regularly by management and the Board of Lexon.

b. Price and interest rate risk

The Group is exposed to equity securities price risk arising from the investments classified as fair value through profit or loss. These securities are held with Australian fund managers.

The Group seeks to reduce risk by diversifying across a range of securities, maturities and counterparties. Investment of the funds is subject to risk control limits and constraints.

Duration and tracking error limits (interest rate management)

- The Modified Duration of the funds are constrained within a specified period either side of the Modified Duration of the Benchmark.
- Rolling year ex post tracking error will be limited to a specified number of basis points. The ex-ante tracking error of the funds is not expected to exceed a specified number of basis points.

Sector exposure bands

- The weighting of each sector (eg domestic, international – government, non government) within the funds will be maintained in specified limits.

Credit limits

- The funds will be invested in a broad and diversified range of securities across the credit spectrum.

Credit risk limits for individual security investments

- Individual security limits apply for direct physical holdings based on their credit rating and inclusion in the benchmark.

Management and the Board regularly review the performance and ensure all investments held are within the approved mandate.

Notes to and forming part of the financial statements for the year ended 30 June 2013

3. Management of insurance and financial risk (continued)

3.4 Financial risk (continued)

b. Price and interest rate risk (continued)

Interest rate sensitivity

The following interest rate sensitivity depicts the outcome to the profit or loss if the interest rates were to increase by 1% linearly from the year end yield curve applicable to the Group's financial assets and liabilities which are subject to interest movements. With all other variables held constant, the profit after tax for the year would have been lower by $1,010,203 (2012: $1,033,124). A linear decrease of interest rates by 1% would result in an increase of $1,010,203 (2012: $1,033,124).

Price sensitivity

The following price sensitivity depicts the outcome to the profit or loss if all investments moved an average of 5% from the year end values. With all other variables held constant, the Group would record an increase in profit after tax of $1,410,804 (2012: $1,148,164) for a 5% increase in market values and a decrease in profit after tax of $1,410,804 (2012: $1,148,164) for a 5% decrease in market values.

c. Credit risk

There is no significant credit risk with respect to the collectability of premiums as the Group only underwrites risks from its holding corporation. All premiums are paid up front at the commencement of the period covered under the insurance policy.

Credit risk arising on funds placed with external fund managers and on reinsurance activities is managed by established policies to ensure that the counter-parties have adequate financial ratings and appropriate credit history.

i. Financial assets that are neither past due or impaired

At the balance sheet date no financial assets are past due or impaired other than trade receivables noted below.

Cash and cash equivalents that are neither past due nor impaired are placed with reputable financial institutions with high credit ratings and no history of default.

Financial assets, fair value through profit or loss are redeemable on demand. These are placed with reputable fund managers. The Group holds units in one fund which is currently unable to pay redemptions as a result of the Global Financial Crisis (this is detailed below).

No insurance recoveries are past due. All reinsurance contracts are placed in accordance with the Group's reinsurance policy which ensure appropriate credit rating of individual reinsurers and concentration risk is reduced to acceptable levels.

ii. Financial assets that are past due and/or impaired

Trade debtors relate to excesses which are due in relation to claims.

Trade debtors include a balance of $531,317 (2012: $538,705) which are more than one month past due. There is a provision of $485,317 (2012: $361,441) on these outstanding balances.

While provisions have been raised for insurance excesses, the Queensland Law Society Indemnity Rules gives power to Queensland Law Society to take action against insured law practices where any balances are outstanding.

Notes to and forming part of the financial statements for the year ended 30 June 2013

3. Management of insurance and financial risk (continued)

3.4 Financial risk (continued)

c. Credit risk (continued)

iii. Credit ratings

The following table shows the investment grades of balances due:

	Investment grade (AAA to BBB)	Not rated	Total
	$	$	$
At 30 June 2013			
Cash and cash equivalents	64,136,051	1,834	64,137,885
Insurance contract liabilities ceded	9,771,000	–	9,771,000
Trade and other receivables	419,602	1,950,350	2,369,952
Financial assets	–	123,272,345	123,272,345
	74,326,653	**125,224,529**	**199,551,182**
At 30 June 2012			
Cash and cash equivalents	59,653,377	1,834	59,655,211
Insurance contract liabilities ceded	8,919,000	–	8,919,000
Trade and other receivables	3,200,298	1,953,871	5,154,169
Financial assets	–	110,749,948	110,749,948
	71,772,675	**112,705,653**	**184,478,328**

Financial asset investments are placed with the following fund managers:

- Queensland Investment Corporation
- UBS Global Asset Management
- AMP Capital Investors
- MFS Investment Management
- Tasman Asset Management (Tyndall)
- Zurich Investment Management
- Denning Pryce
- Schroder Investment Management.

Notes to and forming part of the financial statements for the year ended 30 June 2013

3. Management of insurance and financial risk (continued)

3.4 Financial risk (continued)

d. Liquidity risk

In the management of liquidity risks, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group also constantly reviews its investments to ensure that there are sufficient cash and liquid deposits to meet its estimated outflows from its insurance contract.

The Group manages its expected cash flow requirements using the latest actuarial valuations detailing projected cash flows. These are monitored in conjunction with available cash and investments readily convertible to cash.

As at balance sheet date, the Group's financial assets and financial liabilities are all current.

The Group holds units in one fund which has frozen redemptions as a result of the Global Financial Crisis. The fair value of the fund as at balance sheet date is $628,741 (2012: $3,613,881(two funds)). This is a property fund and redemptions would require disposal of real property which may be to the detriment of remaining unit holders. This fund is accounted for at fair value. This fund is not required for liquidity purposes.

A maturity analysis of insurance liabilities is provided in Note 11.

e. Capital risk

The Group's objectives when managing capital are to ensure that the Group is adequately capitalised, and assessing shortfalls between reported and required capital levels on a regular basis. The Group will issue or redeem additional equity and debt instruments when necessary.

Lexon is required under the *Singapore Insurance Act*, Cap. 142 and the relevant Regulations made thereunder to meet and maintain at all times during the course of each financial year that it carries on insurance business, minimum fund solvency and capital solvency requirements. As at balance date, Lexon has met the funds solvency requirement for its Offshore Insurance Fund and the minimum capital adequacy requirement of SGD400,000.

Management monitor the capital position using a risk based capital model.

f. Fair value measurements

Assets measured at fair value are classified by level using the following fair value measurement hierarchy as at balance date.

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)

b. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (list prices) or indirectly (ie derived from prices) (Level 2)

c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

All financial assets at fair value through profit or loss are categorised as Level 2.

4. Investment in Lexon

In June 2001, Lexon was incorporated in Singapore as the captive insurer of the Society. The company was capitalised with $9m via surplus funds from the Society controlled Law Claims Levy Fund. A further $10m was issued in May 2009. The $19m share capital of the company is fully owned by the Society and the company is a controlled entity of the Society. Share capital is eliminated on consolidation.

Notes to and forming part of the financial statements for the year ended 30 June 2013

5. Investments

a. Investment income

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Distributions from financial assets, fair value through profit or loss (net of fees)	5,939,086	5,061,450	–	–
Interest income	1,763,784	2,032,107	737,260	807,451
	7,702,870	**7,093,557**	**737,260**	**807,451**

b. Financial assets, at fair value through profit or loss

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Collective investment schemes				
Opening balance	110,749,948	107,369,886	–	–
Additions	9,598,700	5,680,000	–	–
Additions via reinvestment	5,538,763	4,641,610	–	–
Disposals proceeds	(7,576,164)	(5,790,577)	–	–
Gain/loss on disposal	(1,515,359)	(1,156,024)	–	–
Fair value movements	6,476,457	5,053	–	–
Closing balance	**123,272,345**	**110,749,948**	**–**	**–**

The portfolio of financial instruments held consists of collective investment schemes. The fair value of the financial instruments is determined using net asset value of the collective investment schemes.

Notes to and forming part of the financial statements for the year ended 30 June 2013

6. Membership and practitioner fees

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Practising certificate fees	4,853,331	4,480,373	4,853,331	4,480,373
Member fees	3,895,544	3,486,940	3,895,544	3,486,940
PSC capping fee	492,771	410,830	492,771	410,830
Certificate of fitness	16,700	17,700	16,700	17,700
Late application levy	7,950	23,850	7,950	23,850
Corporate marketing levy	336,360	327,240	336,360	327,240
	9,602,656	**8,746,933**	**9,602,656**	**8,746,933**

7. Rent and administration revenue

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Management fees	–	–	388,099	359,860
Law Claims Levy Fund	–	–	20,000	20,000
Legal Practitioners' Fidelity Guarantee Fund	48,000	48,000	48,000	48,000
Legal Practitioners Admissions Board	354,820	313,821	354,820	313,821
Body corporate admin fee	15,450	15,000	15,450	15,000
Rent	386,505	275,583	386,505	275,583
Car parking	92,593	63,907	92,593	63,907
	897,368	**716,311**	**1,305,467**	**1,096,171**

Notes to and forming part of the financial statements for the year ended 30 June 2013

8. Membership services and events

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Income				
Practice management course	443,215	455,090	443,215	455,090
Publications	27,868	29,196	27,868	29,196
QLS diary	142,758	138,742	142,758	138,742
Seminars	1,920,723	1,956,135	1,920,723	1,956,135
Specialist accreditation	172,704	229,172	172,704	229,172
Resources, texts and course material	385,215	484,356	385,215	484,356
Events and functions	97,845	42,295	97,845	42,295
Proctor advertising and subscription	351,128	363,912	351,128	363,912
Marketing and sponsorship	278,277	321,308	278,277	321,308
	3,819,733	**4,020,206**	**3,819,733**	**4,020,206**
Direct expenditure (exclude staff costs)				
Practice management course	8,350	25,974	8,350	25,974
QLS diary	47,572	81,563	47,572	81,563
Seminars	1,040,932	1,097,110	1,040,932	1,097,110
Specialist accreditation	10,161	28,726	10,161	28,726
Resources, texts and course material	142,863	181,517	142,863	181,517
School and student services	–	14,816	–	14,816
Events and functions	210,681	154,067	210,681	154,067
Membership product and services	346,056	351,540	346,056	351,540
Proctor expenses	274,206	311,140	274,206	311,140
Marketing and sponsorship	3,858	55,404	3,858	55,404
	2,084,679	**2,301,857**	**2,084,679**	**2,301,857**

Notes to and forming part of the financial statements for the year ended 30 June 2013

9. Administration expenses

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Advertising	40,610	24,423	40,610	24,423
Actuarial fees	69,771	166,509	–	–
Audit fees				
– Queensland Audit Office	94,688	110,350	77,250	91,350
– PricewaterhouseCoopers	51,274	55,956	–	–
Body corporate levies	219,543	178,497	219,543	178,497
Captive managers fee	85,000	85,000	–	–
Catering, functions and entertainment	79,595	84,469	58,574	68,366
Complaint investigations	2,292	3,262	2,292	3,262
Directors fees	334,861	334,727	–	–
Electricity	90,231	61,166	85,435	59,325
Fringe benefits tax	69,992	90,395	53,625	61,354
Fees and charges	119,013	151,154	114,212	138,853
Foreign exchange	(25,505)	(3,002)	–	–
Insurance	299,363	301,507	176,570	176,194
Information technology and related costs	588,148	384,532	424,624	195,098
Interest expense	–	64,159	–	–
Investment managers fees	123,981	107,772	–	–
LAWASIA	100,000	100,000	100,000	100,000
Lease payments	191,563	176,284	–	–
Liability Capping Scheme	223,950	183,530	223,950	183,530
Motor vehicle expense	8,274	8,459	8,274	8,459
Offsite storage	59,676	45,928	54,897	42,953
Payroll tax	487,663	484,727	388,694	382,542
Postage and couriers	102,513	121,385	95,733	113,410
Presentations, donations and gifts	57,451	56,243	52,273	54,139
Provision for doubtful debts	123,876	(122,198)	–	–
Printing and stationery	131,382	129,562	104,329	86,047
Professional and consulting fees	766,048	768,087	325,049	368,431
Rates and taxes	157,089	217,686	157,089	217,686
Registrations and subscriptions	85,193	85,286	50,908	49,654
Regulatory audits	32,200	45,693	32,200	45,693
Repairs and maintenance	272,929	255,266	268,806	248,571
Secretarial fees	1,902	31,241	–	–
Staff – other costs	46,995	29,071	40,552	23,293
Staff amenities	32,743	34,414	25,921	27,029
Staff training	118,033	135,517	99,392	100,363
Sundry expenses	78,092	58,633	77,629	54,066
Tax consulting	59,677	114,356	24,250	4,550
Telephone	89,760	89,025	68,378	62,050
Travelling expenses	243,181	268,356	102,245	79,233
Write off on disposal of assets	18,930	–	18,930	–
	5,731,977	**5,517,427**	**3,572,234**	**3,248,421**

The Queensland Audit Office only performs audit services and is remunerated as shown above. PricewaterhouseCoopers Singapore performs audit and taxation services to Lexon while PricewaterhouseCoopers Brisbane provides taxation services to the group. Taxation fees are disclosed in the tax consulting line above.

Notes to and forming part of the financial statements for the year ended 30 June 2013

10. Council and committee costs

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Travel and accommodation	65,783	62,543	65,783	62,543
Honorarium	327,000	290,667	327,000	290,667
Catering and functions	29,141	14,461	29,141	14,461
	421,924	**367,671**	**421,924**	**367,671**

11. Provision for outstanding claims

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Opening gross outstanding claims	75,242,727	74,638,000	–	–
Claims incurred	21,296,290	21,977,023	–	–
Claims paid during the year	(26,324,016)	(21,233,296)	–	–
Movement in claims handling provision	1,323,000	(139,000)	–	–
Closing gross outstanding claims	**71,538,001**	**75,242,727**	**–**	**–**
Opening reinsurance recoveries	(8,919,000)	(17,713,000)	–	–
Movement in reinsurance recoveries	(3,982,039)	2,697,835	–	–
Reinsurance receivable	3,130,039	6,096,165	–	
Closing reinsurance recoveries	**(9,771,000)**	**(8,919,000)**	**–**	**–**
Net outstanding claims	**61,767,001**	**66,323,727**	**–**	**–**
Law Claims Levy Fund	–	50,000		–
Lexon	61,767,001	66,273,727		–
	61,767,001	**66,323,727**	**–**	**–**

The Law Claims Levy Fund has stop loss insurance that capped the fund's liability at $5m for payments made after 1 July 2002.

Lexon and the Law Claims Levy Fund has assessed the provisions for outstanding claims based upon an independent actuarial assessment as at 30 June 2013 by Mr Andrew Cohen (FIAA) and Ms Susie Amos (FIAA), of Finity Consulting Pty Ltd. The key assumptions are detailed in Note 2.

Notes to and forming part of the financial statements for the year ended 30 June 2013

11. Provision for outstanding claims (continued)

Net discounted maturity analysis

2013	Less than 1 year	1 to 5 years	Over 5 years	Total
Gross central estimate	16,718,000	33,451,000	6,586,001	56,755,001
Reinsurance recoveries	(2,002,000)	(5,817,000)	(1,952,000)	(9,771,000)
Net central estimate	**14,716,000**	**27,634,000**	**4,634,001**	**46,984,001**
Risk margins				9,837,000
Claims handling				4,946,000
Net claims outstanding				**61,767,001**

2012	Less than 1 year	1 to 5 years	Over 5 years	Total
Gross central estimate	17,548,000	37,304,000	7,504,727	62,356,727
Reinsurance recoveries	(2,988,000)	(3,760,000)	(2,171,000)	(8,919,000)
Net central estimate	**14,560,000**	**33,544,000**	**5,333,727**	**53,437,727**
Risk margins				9,263,000
Claims handling				3,623,000
Net claims outstanding				**66,323,727**

12. Receivables

	Consolidated		Parent	
	2013 $	2012 $	2013 $	2012 $
Accounts receivables	1,074,549	1,063,246	335,732	297,282
Reinsurance recoverable	419,602	3,200,298	–	–
Less: provision for impairment	(485,317)	(361,441)	–	–
	1,008,834	**3,902,103**	**335,732**	**297,282**
Prepaid expenses and other receivables	1,361,118	1,252,066	1,068,653	958,892
	2,369,952	**5,154,169**	**1,404,385**	**1,256,174**

13. Payables

	Consolidated		Parent	
	2013 $	2012 $	2013 $	2012 $
Creditors	535,994	229,417	535,994	229,417
Income in advance	39,047,210	36,425,387	10,038,130	9,222,078
Other payments and accruals	4,218,686	5,984,317	3,602,892	5,571,223
	43,801,890	**42,639,121**	**14,177,016**	**15,022,718**

Income in advance relates primarily to receipts for insurance, membership fees and practicing certificates received prior to year end during the renewal period for the upcoming year.

Notes to and forming part of the financial statements for the year ended 30 June 2013

14. Property plant and equipment

Parent entity	Strata title building $	Leasehold improvements $	Plant and equipment $	Computer equipment $	Software $	Total $
2011-12						
Cost or valuation						
At the beginning of the year	23,782,707	–	4,238,620	541,968	370,038	**28,933,333**
Additions	16,138	–	13,350	–	858,340	**887,828**
Revaluations	420,907	–	–	–	–	**420,907**
At the end of the year	**24,219,752**	**–**	**4,251,970**	**541,968**	**1,228,378**	**30,242,068**
Depreciation						
At the beginning of the year	(1,146,945)	–	(1,331,951)	(418,626)	–	**(2,897,522)**
Charge for the year	(588,150)	–	(299,138)	(35,441)	(16,666)	**(939,395)**
Revaluations	(21,043)	–	–	–	–	**(21,043)**
At the end of the year	**(1,756,138)**	**–**	**(1,631,089)**	**(454,067)**	**(16,666)**	**(3,857,960)**
Net book value at 30 June 2012	**22,463,614**	**–**	**2,620,881**	**87,901**	**1,211,712**	**26,384,108**
2012-13						
Cost or valuation						
At the beginning of the year	24,219,752	–	4,251,970	541,968	1,228,378	**30,242,068**
Additions	–	–	18,235	78,163	9,745	**106,143**
Disposals	–	–	(490,295)	(365,188)	–	**(855,483)**
Reclassification	(1,645,814)	1,369,232	276,582	–	–	**–**
Revaluations	(3,263,938)	–	–	–	–	**(3,263,938)**
At the end of the year	**19,310,000**	**1,369,232**	**4,056,492**	**254,943**	**1,238,123**	**26,228,790**
Depreciation						
At the beginning of the year	(1,756,138)	–	(1,631,089)	(454,067)	(16,666)	**(3,857,960)**
Reclassification	73,738	(73,738)	–	–	–	**–**
Charge for the year	(564,350)	(34,231)	(297,660)	(48,938)	(136,226)	**(1,081,405)**
Disposals	–	–	471,365	365,188	–	**836,553**
Revaluations	2,246,750	–	–	–	–	**2,246,750**
At the end of the year	**–**	**(107,969)**	**(1,457,384)**	**(137,817)**	**(152,892)**	**(1,856,062)**
Net book value at 30 June 2013	**19,310,000**	**1,261,263**	**2,599,108**	**117,126**	**1,085,231**	**24,372,728**

Property, plant and equipment is stated as follows:

	Strata title building $	Leasehold improvements $	Plant and equipment $	Computer equipment $	Software $	Total $
30 June 2012						
At valuation	22,829,550	–	–	–	–	**22,829,550**
At cost	1,390,202	–	4,251,970	541,968	1,228,378	**7,412,518**
	24,219,752	**–**	**4,251,970**	**541,968**	**1,228,378**	**30,242,068**
Depreciation	(1,756,138)	–	(1,631,089)	(454,067)	(16,666)	**(3,857,960)**
	22,463,614	**–**	**2,620,881**	**87,901**	**1,211,712**	**26,384,108**
30 June 2013						
At valuation	19,310,000	–	–	–	–	**19,310,000**
At cost	–	1,369,232	4,056,492	254,943	1,238,123	**6,918,790**
	19,310,000	**1,369,232**	**4,056,492**	**254,943**	**1,238,123**	**26,228,790**
Depreciation	–	(107,969)	(1,457,384)	(137,817)	(152,892)	**(1,856,062)**
	19,310,000	**1,261,263**	**2,599,108**	**117,126**	**1,085,231**	**24,372,728**

Notes to and forming part of the financial statements for the year ended 30 June 2013

14. Property plant and equipment (continued)

Consolidated	Strata title building $	Leasehold improvements $	Plant and equipment $	Computer equipment $	Software $	Total $
2011-12						
Cost or valuation						
At the beginning of the year	23,782,707	–	4,370,775	647,747	401,485	**29,202,714**
Additions	16,138	–	32,022	5,276	1,226,624	**1,280,060**
Revaluations	420,907	–	–	–	–	**420,907**
At the end of the year	**24,219,752**	**–**	**4,402,797**	**653,023**	**1,628,109**	**30,903,681**
Depreciation						
At the beginning of the year	(1,146,945)	–	(1,456,674)	(505,249)	–	**(3,108,868)**
Charge for the year	(588,150)	–	(313,860)	(50,189)	(59,632)	**(1,011,831)**
Revaluations	(21,043)	–	–	–	–	**(21,043)**
At the end of the year	**(1,756,138)**	**–**	**(1,770,534)**	**(555,438)**	**(59,632)**	**(4,141,742)**
Net book value at 30 June 2012	**22,463,614**	**–**	**2,632,263**	**97,585**	**1,568,477**	**26,761,939**
2012-13						
Cost or valuation						
At the beginning of the year	24,219,752	–	4,402,797	653,023	1,628,109	**30,903,681**
Additions	–	–	18,235	79,415	9,744	**107,394**
Disposals	–	–	(490,295)	(365,188)	–	**(855,483)**
Reclassification	(1,645,814)	1,369,232	276,582	–	–	**–**
Revaluations	(3,263,938)	–	–	–	–	**(3,263,938)**
At the end of the year	**19,310,000**	**1,369,232**	**4,207,319**	**367,250**	**1,637,853**	**26,891,654**
Depreciation						
At the beginning of the year	(1,756,138)	–	(1,770,534)	(555,438)	(59,632)	**(4,141,742)**
Reclassification	73,738	(73,738)	–	–	–	**–**
Charge for the year	(564,350)	(34,231)	(304,375)	(66,761)	(209,883)	**(1,179,600)**
Disposals	–	–	471,365	365,188	–	**836,553**
Revaluations	2,246,750	–	–	–	–	**2,246,750**
At the end of the year	**–**	**(107,969)**	**(1,603,544)**	**(257,011)**	**(269,515)**	**(2,238,039)**
Net book value at 30 June 2013	**19,310,000**	**1,261,263**	**2,603,775**	**110,239**	**1,368,338**	**24,653,615**

Property, plant and equipment is stated as follows:

30 June 2012						
At valuation	22,829,550	–	–	–	–	**22,829,550**
At cost	1,390,202	–	4,402,797	653,023	1,628,109	**8,074,131**
	24,219,752	**–**	**4,402,797**	**653,023**	**1,628,109**	**30,903,681**
Depreciation	(1,756,138)	–	(1,770,534)	(555,438)	(59,632)	**(4,141,742)**
	22,463,614	–	2,632,263	97,585	1,568,477	**26,761,939**
30 June 2013						
At valuation	19,310,000	–	–	–	–	**19,310,000**
At cost	–	1,369,232	4,207,319	367,250	1,637,853	**7,581,654**
	19,310,000	**1,369,232**	**4,207,319**	**367,250**	**1,637,853**	**26,891,654**
Depreciation	–	(107,969)	(1,603,544)	(257,011)	(269,515)	**(2,238,039)**
	19,310,000	**1,261,263**	**2,603,775**	**110,239**	**1,368,338**	**24,653,615**

An independent valuation of the strata title building was carried out as at 30 June 2013 by Mr S Fox AAPI and was on the basis of the open market value of Law Society House in vacant possession with all units combined. The Council is of the opinion that this basis provides a reasonable estimate of recoverable amount. The Society has plant and equipment with an original cost of $518,127 with a written down value of zero still being used in the provision of services.

Notes to and forming part of the financial statements for the year ended 30 June 2013

15. Reserves

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Revaluation surplus	14,862,335	15,879,523	14,862,335	15,879,523
Retained surplus	94,363,803	81,156,966	36,486,749	34,893,257
Closing balance at end of year	**109,226,138**	**97,036,489**	**51,349,084**	**50,772,780**

During the year the strata title building was revalued as detailed in Note 14. The revaluation decrease of $1,017,188 (2012: increase of $399,864) is reflected as other comprehensive income in the Statement of Profit or Loss and Other Comprehensive Income. It is shown as the net movement in Note 14 under Revaluation under Cost and Depreciation.

16. Accrued employee benefits

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Current				
Annual leave – opening balance	670,938	704,055	559,499	581,686
Leave taken	(762,054)	(708,203)	(619,549)	(558,689)
Leave accrued	661,342	675,086	535,946	536,502
Annual leave – closing balance	**570,226**	**670,938**	**475,896**	**559,499**
Non-current				
Provision for long service leave	813,382	708,826	728,123	663,796
Leave taken	(12,388)	(51,668)	(12,388)	(51,668)
Leave accrued	78,809	156,224	60,562	115,995
Long service leave – closing balance	**879,803**	**813,382**	**776,297**	**728,123**
Number of employees at year end	115	121	105	106
Number of full time equivalent employees at year end	97	105	88	91

Notes to and forming part of the financial statements for the year ended 30 June 2013

17. Commitments

a. Operating leases

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Within one year	347,490	331,643	6,361	7,909
Retained surplus	762,772	1,103,959	1,260	1,318
	1,110,262	**1,435,602**	**7,621**	**9,227**

The Society maintains a motor vehicle under an operating lease. The Group commitments include motor vehicles, a tenancy agreement and provision of computer systems.

b. Capital expenditure commitments

Capital expenditure contracted for at 30 June 2013 but not provided for was nil (2012 – nil).

Notes to and forming part of the financial statements for the year ended 30 June 2013

18. Related party transactions

a. **The following significant transactions took place between the Consolidated Group and related parties during the financial period on commercial terms agreed by the parties concerned.**

	2013 $	2012 $
Management fees paid by Lexon to parent entity	338,239	310,000
Management fees paid by Law Claims Levy Fund to parent entity	20,000	20,000
Gross premiums received by Lexon from Law Claims Levy Fund	27,600,000	26,250,000
Professional fees paid to a firm of which a director is a member		
Legal fees in the provision of claim defence costs:		
– Coyne & Associates	455,507	864,184
– McInnes Wilson [(1)]	485,449	126,665
– Ferguson Cannon	–	3,870
Other non-claim professional advice provided:		
– Coyne & Associates	40,388	24,421
– McInnes Wilson [(1)]	61,250	33,375
Consulting fees		
– Russell Neville	25,000	–
Commissions derived from renewal of insurance policies		
– Marsh (Qld) Pty Ltd	14,125	13,914
Management fees paid to a firm of which a director is a member		
– AON Insurance Managers (Singapore) Pte Ltd	85,000	85,000
Brokerage fees paid to a firm of which a director is a member		
– AON Re Australia Limited	160,000	160,000
Commission on reinsurance placement earned by a firm which a director is a member		
– Various AON Group entities	158,256	261,564
License and implementation costs paid in relation to insurance IT systems to a firm of which a director is a member		
– AON Risk Services Australia Limited	164,981	407,027
Lexon directors' fees		
– Glenn Ferguson (Chairman)	85,427	61,716
– Christopher Coyne	49,860	73,571
– Peter Dowling	49,860	49,860
– Peter Eardley	42,488	49,860
– Michael Meadows	49,860	49,860
– Russell Neville	49,860	49,860
– Paul Tully	7,506	–
– Payments to parent entity for directors services by Noela L'Estrange	49,860	49,860

[(1)] The figures included for McInnes Wilson are for the 6 months to 30 June 2012 and 12 months to 30 June 2013.

Notes to and forming part of the financial statements for the year ended 30 June 2013

18. Related party transactions (continued)

b. Key executive management personnel

The following details for key executive management personnel include those positions that had authority and responsibility for planning, directing and controlling the activities of the Society during 2012-13. Further information on these positions can be found in the body of the annual report.

Responsibility	The role of the president is to lead the Council in setting the corporate direction and goals and monitoring the performance of the Society.

Position	Person	Appointment date	Resignation date
	Bruce Doyle	1/1/2011	31/12/2011
	Dr John de Groot	1/1/2012	31/12/2012
	Annette Bradfield	1/1/2013	
Vice President	**Raoul Guides**	1/1/2010	31/12/2011
	Ian Brown	1/1/2012	
Deputy President	**Annette Bradfield**	1/1/2012	31/12/2012

Responsibility	The Chief Executive Officer is responsible for the day-to-day operations of the Society and is charged with implementing and managing best practice standards and processes in risk management, compliance and governance of the Society. The Chief Executive Officer is accountable to the governing body of elected Council members.

Position	Person	Appointment date	Resignation date
Chief Executive Officer	**Noela L'Estrange**	11/5/2009	

The roles of president, vice president and deputy president are supported by the elected Council members.

Remuneration policy for the agency's key executive management personnel is set by the Council.

Remuneration packages for key executive management personnel comprise the following components:

- Short term employee benefits which include:
  - Base – consisting of base salary, allowances and leave entitlements paid and provided for in the entire year or for that part of the year during which the employee occupied the specific position. Amounts disclosed equal the amount expensed in the Statement of Comprehensive Income.
  - Non-monetary benefits – consisting of provision of car parking with fringe benefits tax applicable to the benefit.
- Long-term employee benefits include long service leave accrued during the period.
- Post-employment benefits include superannuation contributions.
- No redundancy payments were made during the year requiring disclosure.
- Other than disclosed below, Council members do not receive any remuneration.

Notes to and forming part of the financial statements for the year ended 30 June 2013

18. Related party transactions (continued)

b. Key executive management personnel

1 July 2012 – 30 June 2013

Position (dates if applicable)	Short-term employee benefits: Base	Short-term employee benefits: Non-monetary benefits	Long-term employee benefits	Post employment benefits	Bonuses	Total remuneration
President (1 July 2012 – 31 December 2012)	109,000	–	–	–	–	**109,000**
President (1 January 2013 – 30 June 2013)	125,000	–	–	11,250	–	**136,250**
Deputy President (1 July 2012 – 31 December 2012)	33,333	–	–	3,000	–	**36,333**
Vice President (1 January 2012 – 30 June 2013)	45,417	–	–	–	–	**45,417**
Chief Executive Officer	332,086	8,083	1,372	25,082	–	**366,623**

1 July 2011 – 30 June 2012

Position (dates if applicable)	Short-term employee benefits: Base	Short-term employee benefits: Non-monetary benefits	Long-term employee benefits	Post employment benefits	Bonuses	Total remuneration
President (1 July 2011 – 31 December 2011)	109,000	–	–	–	–	**109,000**
President (1 January 2012 – 30 June 2012)	109,000	–	–	–	–	**109,000**
Vice President (1 July 2011 – 31 December 2011)	36,333	–	–	–	–	**36,333**
Deputy President (1 January 2012 – 30 June 2012)	33,333	–	–	3,000	–	**36,333**
Chief Executive Officer	325,994	10,840	5,123	29,413	10,000	**381,370**

19. Contingent liabilities

All known insurance claims have been actuarially assessed and expected liabilities have been brought to account as Provision for Outstanding Claims.

There are no other known contingent liabilities of a significant nature at balance date.

Notes to and forming part of the financial statements for the year ended 30 June 2013

20. Notes to the statement of cash flows

a. Reconciliation of cash

For the purposes of the Statement of Cash Flow, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Cash at bank	2,482,357	3,042,348	826,865	269,880
Cash deposit accounts	44,105,528	32,562,863	11,624,315	10,622,958
Term deposit	17,550,000	24,050,000	9,550,000	9,550,000
Total cash and cash equivalents	**64,137,885**	**59,655,211**	**22,001,180**	**20,442,838**

b. Financing facilities

The Society has no credit facility with any financial institution to meet any financing requirements.

c. Reconciliation of operating surplus to net cash provided by operating activities.

	Consolidated		Parent	
	2013	2012	2013	2012
	$	$	$	$
Surplus	**13,206,837**	**1,602,856**	**1,593,492**	**721,776**
Adjustments for investment income	(11,057,243)	(4,240,729)	–	–
Add/(less) non-cash items				
Depreciation and amortisation	1,179,600	1,011,831	1,081,405	939,395
Loss on disposal	18,930	–	18,930	–
Change in assets and liabilities				
(Increase)/decrease in assets				
Accounts receivables	2,784,217	(2,997,073)	(148,211)	(93,645)
Increase/(decrease) in liabilities				
Accounts payables and unearned income	1,162,769	8,391,641	(845,702)	3,090,380
Employee benefits	(34,290)	71,439	(35,429)	42,140
Provision for outstanding claims	(4,556,726)	9,398,727	–	–
Tax related balances	3,351,129	(611,587)	–	–
Net cash provided by operating activities	**6,055,223**	**12,627,105**	**1,664,485**	**4,700,046**

Notes to and forming part of the financial statements for the year ended 30 June 2013

21. Income tax expense

	Consolidated		Parent entity	
	2013	2012	2013	2012
	$	$	$	$
Tax expense attributable to profit is made up of:				
Current income tax	–	–	–	–
Deferred income tax (Note 23)	3,330,990	(639,196)	–	–
	3,330,990	(639,196)	–	–
(Over)/Under provision in preceding financial years				
Current income tax	–	(724,006)	–	–
Deferred income tax	(14,040)	724,006	–	–
	3,316,950	**(639,196)**	**–**	**–**

Lexon has dual tax residency in Australia and Singapore. In relation to offshore insurance business, the Company has been granted tax exempt status for a period of 10 years from April 2010 under the tax exemption scheme for captive insurers by the Monetary Authority of Singapore.

The tax expense on results differs from the amount that would arise using the Singapore standard tax rate due to the following:

	Consolidated		Parent entity	
	2013	2012	2013	2012
	$	$	$	$
Profit before tax	16,523,787	963,660	1,593,492	721,776
Tax calculated at a tax rate of 30% (2012: 30%)	4,957,136	289,098	478,048	216,533
Effects of:				
Income not subject to tax	(1,460,023)	(774,867)	(478,048)	(216,533)
Tax free distributions on investments (Note 23)	–	–	–	–
Franking credits available	(180,163)	(153,427)	–	–
	3,316,950	**(639,196)**	**–**	**–**

Notes to and forming part of the financial statements for the year ended 30 June 2013

22. Current income tax liability

	Consolidated		Parent entity	
	2013	2012	2013	2012
	$	$	$	$
Income tax at the beginning of the financial year	(34,179)	662,218	–	–
Income tax refunded/(paid)	34,179	27,609	–	–
Prior year under/(over) provision			–	–
– current year income tax	–	–	–	–
– deferred tax asset	–	(724,006)	–	–
Income tax at the end of the financial year	**–**	**(34,179)**	**–**	**–**

23. Deferred income tax balances

The movement in the deferred income tax accounts are as follows:

	Consolidated		Parent entity	
	2013	2012	2013	2012
	$	$	$	$
Net balance at beginning of the financial year	5,128,211	5,213,021	–	–
Current year tax charge to profit or loss	(3,330,990)	639,196	–	–
Prior year tax (credit)/charge:				
Current income tax	14,040	(724,006)	–	–
Net balance at end of the financial year	**1,811,261**	**5,128,211**	**–**	**–**

Notes to and forming part of the financial statements for the year ended 30 June 2013

23. Deferred income tax balances (continued)

The balance comprises temporary differences attributable to:

	Consolidated		Parent entity	
	2013	2012	2013	2012
	$	$	$	$
Deferred tax assets				
– Balance at beginning of the financial year	5,128,211	5,352,333	–	–
Charge to profit or loss				
– Claims handling provision	396,900	(6,623)	–	–
– Other timing differences	(3,345)	31,833	–	–
– Income losses utilised	(2,334,213)	(118,250)	–	–
– Unrealised investment losses	(783,098)	(94,423)	–	–
– Allowance for impairment of receivables	37,163	(36,659)	–	–
	2,441,618	**5,128,211**	**–**	**–**
Deferred tax liabilities				
– Balance at beginning of the financial year	–	(139,312)	–	–
Charge to income statement				
– Unrealised investment movements	(630,357)	–	–	–
– Tax-free distribution on Investments	–	139,312	–	–
	(630,357)	–	–	–
Net balance at end of the financial year	**1,811,261**	**5,128,211**	**–**	**–**

24. Insurance disclosure – contribution to profit from insurance activities

	Consolidated		Parent entity	
	2013	2012	2013	2012
	$	$	$	$
Premium revenue	27,600,000	26,250,000	–	–
Outwards reinsurance premium expenses	(2,804,859)	(3,520,723)	–	–
Net premium revenue	24,795,141	22,729,277	–	–
Claims expense	(22,671,764)	(22,863,156)	–	–
Reinsurance and other recoveries	5,687,436	(549,760)	–	–
Net claims incurred	(16,984,328)	(23,412,916)	–	–
Underwriting expenses	(4,685,327)	(4,772,592)	–	–
Underwriting result	**3,125,486**	**(5,456,231)**	**–**	**–**

25. Events occurring after balance date

There are no events subsequent to reporting date requiring disclosure in the financial report.

Declaration of Queensland Law Society Incorporated

The general-purpose financial report has been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* (the Act), relevant sections of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with Section 62(1)(b) of the Act we certify that in our opinion:

a. the foregoing financial statements with other information and notes to and forming part thereof are in agreement with the accounts and records of the Queensland Law Society Incorporated and its controlled entities; and

b. in our opinion –

   i. the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and

   ii. the foregoing financial statements have been drawn up so as to present a true and fair view in accordance with prescribed accounting standards of the transactions of the Queensland Law Society Incorporated and its controlled entities for the financial year ended 30 June 2013 and of the financial position as at the close of that year.

President
Annette Bradfield

Chief Executive Officer
Noela L'Estrange

30 August 2013

Independent Auditor's report

To the Council of Queensland Law Society Incorporated

Report on the Financial Report

I have audited the accompanying financial report of Queensland Law Society Incorporated, which comprises the statements of financial position as at 30 June 2013, the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the President and Accountable Officer of the entity and the consolidated entity comprising Queensland Law Society Incorporated and the entities it controlled at the year's end or from time to time during the financial year.

The Council's Responsibility for the Financial Report

The Council is responsible for the preparation of the financial report that gives a true and fair view in accordance with prescribed accounting requirements identified in the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, including compliance with Australian Accounting Standards. The Council's responsibility also includes such internal control as the Council determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the council, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements approved by the Treasurer for application in Queensland.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can be removed only by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which, in the Auditor-General's opinion, are significant.

Independent Auditor's report

Opinion

In accordance with s.40 of the *Auditor-General Act 2009* –

a. I have received all the information and explanations which I have required; and

b. in my opinion –

  i. the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and

  ii. the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the transactions of Queensland Law Society Incorporated and the consolidated entity for the financial year 1 July 2012 to 30 June 2013 and of the financial position as at the end of that year.

Other Matters – Electronic Presentation of the Audited Financial Report

Those viewing an electronic presentation of these financial statements should note that audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial statements are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.

M Hyman CA

Delegate of the Auditor-General of Queensland

Queensland Audit Office

Brisbane