FINANCES

CONTENTS

*All amounts are denoted in Australian currency.

QUEENSLAND LAW SOCIETY INCORPORATED

Statement of Comprehensive Income for the year ended 30 June 2018

		Consolidated		Parent Entity	
		2018	2017	2018	2017
	NOTE	$'000	$'000	$'000	$'000
Revenue					
Fees and membership services	B1-1	16,448	16,056	16,463	16,069
Rent and administration revenue	B1-2	927	1,136	1,160	1,428
Grants and funding	B1-3	229	126	680	614
Insurance levies	B1-4	22,026	24,722	-	-
Investment income	B1-5	7,192	7,401	635	612
Realised gains/(losses) on investments	C4	3,394	1,088	-	-
Fair value gains/(losses) on investments	C4	(3,123)	2,742	-	-
Other income		203	219	183	209
Total revenue		**47,296**	**53,490**	**19,121**	**18,932**
Expenses					
Membership services and events	B2-1	2,861	3,135	2,861	3,135
Administration expenses	B2-2	6,358	7,222	3,758	4,442
Employee expenses	B2-3	13,986	13,496	11,144	10,880
Depreciation and amortisation	C5	1,001	1,026	960	964
Insurance claims	B1-4	18,404	19,593	-	-
Movement in unearned premium reserves	C8-2(b)	(1,152)	1,646	-	-
Reinsurance costs	B1-4	1,156	949	-	-
Stamp duty	B1-4	1,666	1,985	-	-
Brokerage fees		130	130	-	-
Total expenses		**44,410**	**49,182**	**18,723**	**19,421**
Operating surplus before income tax		**2,886**	**4,308**	**398**	**(489)**
Income tax expense	F1-1	(471)	376	-	-
Operating surplus after income tax		**3,357**	**3,932**	**398**	**(489)**
Other comprehensive income, net of tax					
Items that will not be reclassified subsequently to operating result					
Increase in asset revaluation surplus	C5-1	10,492	819	10,492	819
Total comprehensive income		**13,849**	**4,751**	**10,890**	**330**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statement of Financial Position as at 30 June 2018

		Consolidated		Parent Entity	
		2018	2017	2018	2017
	NOTE	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	C1	61,404	58,840	32,674	49,879
Receivables	C2	1,951	1,424	679	904
Income tax receivable	F1-2	1,039	1,603	-	-
Reinsurers' share of unearned premiums	C8-2(b)	1,200	1,176	-	-
Insurance contract liabilities ceded	C8-2(a)	325	921	-	-
Total current assets		**65,919**	**63,964**	**33,353**	**50,783**
Non-current assets					
Investment in controlled entities	C3	-	-	19,000	19,000
Investments	C4	174,612	172,394	-	-
Property, plant and equipment	C5	30,739	21,104	30,627	20,967
Deferred tax assets	F1-3	4,183	3,048	-	-
Insurance contract liabilities ceded	C8-2(a)	652	1,427	-	-
Total non-current assets		**210,186**	**197,973**	**49,627**	**39,967**
TOTAL ASSETS		**276,105**	**261,937**	**82,980**	**90,750**
Current liabilities					
Payables	C6	39,498	37,874	17,136	35,936
Accrued employee benefits	C7	1,486	1,361	1,060	966
Unearned premium reserves	C8-2(b)	5,360	6,512	-	-
Provision for outstanding claims	C8-2(a)	15,604	15,681	-	-
Total current liabilities		**61,948**	**61,428**	**18,196**	**36,902**
Non-current liabilities					
Accrued employee benefits	C7	230	176	202	156
Provision for outstanding claims	C8-2(a)	56,945	57,200	-	-
Total non-current liabilities		**57,175**	**57,376**	**202**	**156**
TOTAL LIABILITIES		**119,123**	**118,804**	**18,398**	**37,058**
NET ASSETS		**156,982**	**143,133**	**64,582**	**53,692**
EQUITY					
Accumulated surplus		131,605	128,248	39,205	38,807
Asset revaluation surplus		25,377	14,885	25,377	14,885
TOTAL EQUITY		**156,982**	**143,133**	**64,582**	**53,692**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statement of Changes in Equity for the year ended 30 June 2018

Consolidated	NOTE	Asset Revaluation Surplus $'000	Accumulated Surplus $'000	Total $'000
Balance as at 1 July 2016		**14,066**	**124,316**	**138,382**
Operating result				
Operating surplus after income tax		-	3,932	3,932
Other comprehensive income				
Increase/(decrease) in asset revaluation surplus	C5-1	819	-	819
Balance at 30 June 2017		**14,885**	**128,248**	**143,133**
Operating result				
Operating surplus after income tax		-	3,357	3,357
Other comprehensive income				
Increase/(decrease) in asset revaluation surplus	C5-1	10,492	-	10,492
Balance at 30 June 2018		**25,377**	**131,605**	**156,982**

Parent Entity	NOTE	Asset Revaluation Surplus $'000	Accumulated Surplus $'000	Total $'000
Balance as at 1 July 2016		**14,066**	**39,296**	**53,362**
Operating result				
Operating surplus after income tax		-	(489)	(489)
Other comprehensive income				
Increase/(decrease) in asset revaluation surplus	C5-2	819	-	819
Balance at 30 June 2017		**14,885**	**38,807**	**53,692**
Operating result				
Operating surplus after income tax		-	398	398
Other comprehensive income				
Increase/(decrease) in asset revaluation surplus	C5-2	10,492	-	10,492
Balance at 30 June 2018		**25,377**	**39,205**	**64,582**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statement of Cash Flows for the year ended 30 June 2018

		Consolidated		Parent Entity	
	NOTE	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Cash flows from operating activities					
Receipts from the profession		39,407	42,535	17,414	18,413
Receipts from commissions and funding		451	52	902	540
Payments to suppliers and employees		(23,496)	(27,327)	(15,081)	(17,206)
Receipts collected for Society entities		-	-	22,026	22,199
Payments to Society entities		-	-	(42,013)	(9,125)
Receipts collected for Legal Practitioners' Fidelity Guarantee Fund		480	892	480	892
Payments to Legal Practitioners' Fidelity Guarantee Fund		(1,235)	(424)	(1,235)	(424)
Reinsurance payments		(1,156)	(949)	-	-
Claims and claims related payments		(18,784)	(10,288)	-	-
Interest received		896	848	635	545
GST receipts		3,220	1,357	966	697
GST paid to ATO		(1,331)	(2,290)	(1,179)	(2,290)
Income tax paid	F1-2	(100)	(6,130)	-	-
Net cash (used in)/generated from operating activities	**C1**	**(1,648)**	**(1,724)**	**(17,085)**	**14,241**
Cash flows from investing activities					
Purchase of investments	C4	(77,168)	(26,305)	-	-
Proceeds from investment redemptions	C4	81,516	26,295	-	-
Cash distributions received		1	196	-	-
Proceeds from disposal of property, plant and equipment		38	-	40	-
Payments for property, plant and equipment	C5	(175)	(343)	(160)	(195)
Net cash generated from/(used in) investing activities		**4,212**	**(157)**	**(120)**	**(195)**
Net increase/(decrease) in cash and cash equivalents held		**2,564**	**(1,881)**	**(17,205)**	**14,046**
Cash and cash equivalents at the beginning of the year		**58,840**	**60,721**	**49,879**	**35,833**
Cash and cash equivalents at the end of the year	**C1**	**61,404**	**58,840**	**32,674**	**49,879**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

A1 BASIS OF FINANCIAL STATEMENT PREPARATION

A1-1 GENERAL INFORMATION

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

A1-2 COMPLIANCE WITH PRESCRIBED REQUIREMENTS

The Group has prepared these financial statements in compliance with section 43 of the *Financial and Performance Management Standard 2009*. The financial statements comply with the Queensland Treasury's minimum Financial Reporting Requirements for reporting periods beginning on or after 1 July 2017.

The Society is a not-for-profit entity and these general purpose financial statements are prepared on an accrual basis (except for the Statement of Cash Flows which is prepared on a cash basis) in accordance with Australian Accounting Standards and interpretations applicable to not-for-profit entities.

New accounting standards early adopted and/or applied for the first time in these financial statements are outlined in Note E3.

A1-3 PRESENTATION

Currency and rounding

Amounts included in the financial statements are in Australian dollars and rounded to the nearest $1,000 or, where that amount is $500 or less, to zero, unless disclosure of the full amount is specifically required.

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 Comprehensive Income.

Comparatives

Comparative information reflects the audited 2016-17 financial statements and has been restated where necessary to be consistent with disclosures in the current reporting period.

Current/non-current classification

Assets and liabilities are classified as either 'current' or 'non-current' in the Statement of Financial Position and associated notes.

Assets are classified as 'current' where their carrying amount is expected to be realised within twelve (12) months after the reporting date. Liabilities are classified as 'current' when they are due to be settled within twelve (12) months after the reporting date, or the Group does not have an unconditional right to defer settlement to beyond twelve (12) months after the reporting date.

All other assets and liabilities are classified as 'non-current'.

A1-4 AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements are authorised for issue by the President and Chief Executive Officer of the Society at the date of signing the management certificate.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

A1-5 BASIS OF MEASUREMENT

Historical cost is used as the measurement basis in this financial report except for the following:

- strata title building which is measured at fair value;
- investments which are measured at fair value; and
- accrued employee benefits expected to be settled 12 or more months after reporting date, which are measured at their present value.

Historical cost

Under historical cost, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire assets at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly derived from observable inputs or estimated using another valuation technique.

Fair value is determined using one of the following three approaches:

- The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.
- The *cost approach* reflects the amount that would be required currently to replace the service capacity of an asset. This method includes the current replacement costs methodology.
- The *income approach* converts multiple future cash flows amounts to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

Where fair value is used, the fair value approach is disclosed.

Observable inputs are publicly available data that are relevant to the characteristics of the assets/liabilities being valued. Observable inputs used by the Society include, but are not limited to, published sales data for land and general office buildings.

Unobservable inputs are data, assumptions and judgements that are not available publicly, but are relevant to the characteristics of the assets/liabilities being valued. Significant unobservable inputs used by the Society include, but are not limited to, subjective adjustments made to observable data to take account of the characteristics of the Society's assets/liabilities and assessments of physical condition and remaining useful life. Unobservable inputs are used to the extent that sufficient relevant and reliable observable inputs are not available for similar assets/liabilities.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

A1-5 BASIS OF MEASUREMENT (continued)

All assets and liabilities of the Society for which fair value is measured or disclosed in the financial statements are categorised within the following fair value hierarchy, based on the data and assumptions used in the most recent specific appraisals:

- level 1 – represents fair market value measurements that reflect unadjusted quoted market prices in active markets for identical assets and liabilities;
- level 2 – represents fair value measurements that are substantially derived from inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly; and
- level 3 – represents fair value measurements that are substantially derived from unobservable inputs.

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.

The carrying value less impairment provision of current trade receivables and payables approximates to their fair value. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

There were no transfers of assets between fair value hierarchy levels during the period.

More specific fair value information about the Society's investments, and property, plant and equipment, is outlined in Notes C4 and C5, respectively.

Present value

Present value represents the present discounted value of the future net cash inflows that the item is expected to generate (in respect of assets) or the present discounted value of the future cash outflows expected to settle (in respect of liabilities) in the normal course of business.

A1-6 THE REPORTING ENTITY

The consolidated financial statements include all income, expenses, assets, liabilities and equity of the Society ("Parent Entity") and the entities it controls where these entities are material (refer to Note A3). The controlled entities are the Law Claims Levy Fund (LCLF) and Lexon Insurance Pte Ltd (Lexon). The Parent Entity and the controlled entities are referred to as "the Group". All transactions and balances internal to the Group have been eliminated in full.

The Parent Entity financial statements include all income, expenses, assets, liabilities and equity of the Society only.

A2 THE SOCIETY'S OBJECTIVES

The Society is responsible for specific statutory obligations under the *Legal Profession Act 2007* (Qld) which includes the issuance of practising certificates, maintenance of solicitors' records, and regulating the operation of solicitors' trust account records. The Society also provides membership services and events, continuing professional education, advisory support to members and the general public, and administers funds under the control of the Group, which extends to providing general insurance and services as licensed under the *Singapore Insurance Act*.

Major sources of income for the Group include annual fees for practising certificates and membership, continuing professional education to the legal profession, investment income, and insurance levies.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

A3 CONTROLLED ENTITIES

The Society wholly controlled the following entities at the reporting date:

- Law Claims Levy Fund (LCLF): LCLF is responsible for the management of professional indemnity claims of practitioners for the years 1987 to 1995, and the administration of insurance matters (jointly with Lexon Insurance Pte Ltd) in accordance with the Queensland Law Society Indemnity Rule 2005. LCLF was wholly controlled for the whole year.
- Lexon Insurance Pte Ltd (Lexon): This Company was established on 23 June 2001 in Singapore and is 100% owned by the Society. The principal activity of Lexon is that of a captive insurer providing professional indemnity insurance to members of the Queensland legal profession via a Master Policy with the Society. Lexon was wholly controlled for the whole year.

Details of controlled entities are outlined below.

2017-18

Name of Entity	Controlling Interest %	Total Assets $m	Total Liabilities $m	Total Revenue $m	Operating Result $m
Law Claims Levy Fund	100	79.6	21.8	24.4	3.5
Lexon Insurance Pte Ltd	100	154.3	100.7	22.8	(0.5)

2016-17

Name of Entity	Controlling Interest %	Total Assets $m	Total Liabilities $m	Total Revenue $m	Operating Result $m
Law Claims Levy Fund	100	75.5	21.1	28.0	3.1
Lexon Insurance Pte Ltd	100	154.5	100.4	26.9	1.3

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 Group 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.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

B1 REVENUE

B1-1 FEES AND MEMBERSHIP SERVICES

Memberships and practitioner fees are recognised as revenue within the period. Prepayment of fees is recognised as income in advance.

Membership services and events income is recognised as revenue when the service or event occurs. Prepayment of membership services and events is recognised as income in advance.

	Consolidated		Parent	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Membership and practitioner fees				
Practising certificate fees	6,908	6,580	6,908	6,586
Member fees	5,111	4,998	5,121	5,003
Limitation of liability scheme	655	630	655	630
Specialist accreditation fee	246	273	246	273
Certificate of fitness	78	65	78	65
Late application levy	43	76	43	76
	13,041	**12,622**	**13,051**	**12,633**
Membership services and events				
Courses, conferences and events	2,219	2,252	2,224	2,254
Membership services and products*	433	526	433	526
Advertising and subscriptions**	303	340	303	340
Marketing and sponsorship	452	316	452	316
	3,407	3,434	3,412	3,436
Total fees and membership services	**16,448**	**16,056**	**16,463**	**16,069**

* In 2016-17 this category was "Publications, DVDs and membership products"

** In 2016-17 this category was "Proctor advertising and subscription"

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

B1 REVENUE (continued)

B1-2 RENT AND ADMINISTRATION REVENUE

Rental revenue is recognised as income as it is received.

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

		Consolidated		Parent
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Rent	255	273	262	283
Body corporate administration fee	15	15	15	15
Management fee and recovery expenditure				
Lexon Insurance Pte Ltd	-	-	184	253
Law Claims Levy Fund	-	-	42	29
Legal Practitioners' Fidelity Guarantee Fund	145	130	145	130
Legal Practitioners Admissions Board	512	718	512	718
Total rent and administration revenue	**927**	**1,136**	**1,160**	**1,428**

B1-3 GRANTS AND FUNDING

Grants, donations and gifts are non-reciprocal in nature and are recognised as revenue in the year in which the Society obtains control over them.

		Consolidated		Parent
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Queensland Law Foundation (QLF)	229	126	229	126
Law Claims Levy Fund (LCLF)	-	-	451	488
Total grants and funding	**229**	**126**	**680**	**614**

Queensland Law Foundation (QLF) provided grants for a number of projects and initiatives to benefit members, including LawCare services, the annual Symposium, webinars, and regional workshops.

The Law Claims Levy Fund (LCLF) is reimbursing costs incurred by the Society for execution of discrete projects relating to risk management in the profession. This includes the development of resources and educational units designed to reduce the exposure of solicitors with respect to compensation and/or damages claims. These resources include legal project management, the QLS Legal Ethics Course and Solicitor Advocates Course and publications for practice support and risk management.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

B1 REVENUE (continued)

B1-4 INSURANCE LEVIES

Insurance levies are recognised as revenue at the commencement of the risk period covered by the policy and accrued proportionally over the period of coverage.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Insurance levies	22,026	24,722	-	-
Unearned premium reserves (Note C8-2(b))	1,152	(1,646)	-	-
Reinsurance costs	(1,156)	(949)	-	-
Net premium revenue	22,022	22,127	-	-
Claims expense	(19,335)	(21,601)	-	-
Reinsurance and other recoveries	931	2,008	-	-
Net claims incurred (Note C8-2(a))	(18,404)	(19,593)	-	-
Stamp duty	(1,666)	(1,985)	-	-
Underwriting expenses (Lexon administrative and operating expenses)	(5,460)	(5,647)	-	-
Underwriting result	**(3,508)**	**(5,098)**	**-**	**-**

B1-5 INVESTMENT INCOME

Distribution from investments income is recognised when declared by fund managers.

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.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Distributions from investments	6,296	6,488	-	-
Interest income	896	913	635	612
Total investment income	**7,192**	**7,401**	**635**	**612**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

B2 EXPENSES

B2-1 MEMBERSHIP SERVICES AND EVENTS

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Courses, conferences and events	755	1,287	755	1,287
Membership services and products*	749	515	749	515
Printing and publications**	271	296	271	296
Law Council of Australia capitation fees	1,086	1,037	1,086	1,037
Total membership services and events expenses	**2,861**	**3,135**	**2,861**	**3,135**

* In 2016-17 this category was "Publications, DVDs and membership products"
** In 2016-17 this category was "Proctor advertising and subscription"

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

B2 EXPENSES (continued)

B2-2 ADMINISTRATION EXPENSES

	Consolidated		Parent	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Administration Expenses				
Office administration and insurance	819	1,020	541	775
Actuarial fees	111	146	-	-
Audit fees*#	202	189	88	89
Bad debts	(45)	11	-	(10)
Body corporate, electricity, rates and taxes	593	490	584	474
Captive managers fee	96	93	-	-
Catering, functions and entertainment	184	81	165	74
Regulatory audits and investigations	28	34	28	34
Directors' fees (Note E2)	407	360	-	-
Bank fees and finance costs	142	174	145	148
Information technology and related costs	683	1,163	367	886
Investment management fees	397	319	-	-
Office rent	160	150	-	-
Presentations, donations and gifts	126	52	125	50
Professional and consulting fees	976	1,428	492	704
Repairs and maintenance	256	277	255	274
Travel and vehicle costs	468	451	214	160
Liability capping scheme	263	267	263	267
	5,866	6,705	3,267	3,925
Council and committee costs				
Honoraria	415	382	414	382
Travel and accommodation	58	103	58	103
Catering and functions	19	32	19	32
	492	517	491	517
Total administration expenses**	**6,358**	**7,222**	**3,758**	**4,442**

*Total audit fees paid to Queensland Audit Office for both the Society and its controlled entity relating to the 2017-18 financial year are estimated to be $97,400 (2017: $95,300). There are no non-audit services included in this amount.

#PricewaterhouseCoopers (PWC) Singapore performs audit and taxation services for Lexon while PricewaterhouseCoopers Brisbane provides taxation services to the Group. Audit fees payable to PWC Singapore are estimated to be $94,538 (2017: $81,167). Taxation fees paid to PWC Brisbane are disclosed in the professional and consulting fee line above and amount to $43,126 (2017: $53,758).

** In 2016-17 Administration Expenses included staff costs of $803k (consolidated) and $651k (parent entity) (comprising other employee benefits, staff training and development, workers' compensation premiums and payroll tax). From 2017-18 these costs are disclosed along with other employee expenses in Note B2-3. The comparatives for Employee Expenses in the Statement of Comprehensive Income have been restated.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

B2 EXPENSES (continued)

B2-3 EMPLOYEE EXPENSES

	Consolidated		Parent	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Employee benefits				
Wages and salaries	11,911	11,359	9,501	9,119
Employer superannuation contributions	1,081	1,131	875	938
Movement in annual leave provision	213	201	214	172
Movement in long service leave provision	(50)	2	(89)	-
Staff training and development*	101	108	70	100
Employee related expenses				
Workers' compensation premiums*	47	30	42	24
Payroll taxes*	637	626	492	494
Other employee benefits*	46	39	39	33
Total employee expenses	**13,986**	**13,496**	**11,144**	**10,880**

* Previously disclosed as Administration Expenses.

Employee numbers

	Consolidated		Parent	
	2018	2017	2018	2017
Employees at year end	135	138	120	123
Full-time equivalent employees at year end	120	123	105	108

Accounting policy – wages and salaries

Wages and salaries due but unpaid at reporting date are recognised in the Statement of Financial Position at the current salary rates. As the Society expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Accounting policy – superannuation

Superannuation contributions are made to eligible complying superannuation funds based on the rates specified in the relevant conditions of employment. Contributions are expensed when they are paid or become payable following completion of the employee's service each pay period. Any contributions due but unpaid at reporting date are recognised in the Statement of Financial Position at current rates. As the Society expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Accounting policy – workers' compensation premiums

The Society pays premiums to WorkCover Queensland in respect of its obligations for employee compensation. Workers' compensation insurance is a consequence of employing staff, but is not counted in an employee's total remuneration package. It is not an employee benefit and is recognised separately as employee related expenses.

Key management personnel and remuneration disclosures are detailed in Note E1.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C1 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 accounts are interest bearing accounts which are readily convertible to cash at the Group's option.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash at bank	6,649	3,113	2,569	2,656
Cash deposit accounts	54,755	52,727	30,105	47,223
Term deposits	-	3,000	-	-
Total cash and cash equivalents	**61,404**	**58,840**	**32,674**	**49,879**

Reconciliation of operating result to net cash (used in)/generated from operating activities

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	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Operating surplus after income tax	**3,357**	**3,932**	**398**	**(489)**
Adjustments for:				
Investment income	(6,567)	(10,318)	-	-
Add/(less) non-cash items:				
Depreciation and amortisation	1,001	1,026	959	964
Profit on sale of property, plant and equipment	(7)	-	(7)	-
Change in assets and liabilities:				
(Increase)/decrease in assets				
Receivables	(413)	304	294	165
Movement in provision for bad debts	(114)	-	(69)	-
Increase/(decrease) in liabilities:				
Payables	1,624	(1,694)	(18,800)	13,492
Accrued employee benefits	179	141	140	109
Provision for outstanding claims	(137)	10,639	-	-
Tax related balances	(571)	(5,754)	-	-
Net cash (used in)/generated from operating activities	**(1,648)**	**(1,724)**	**(17,085)**	**14,241**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C2 RECEIVABLES

Receivables are recognised at the amounts due at the time of sale or service delivery i.e. the agreed purchase/contract price. Settlement of these amounts is generally required within 30 days from invoice date. The collectability of receivables is assessed periodically with allowance being made for impairment. All known bad debts were written-off as at year end. Increases in the allowance for impairment are based on loss events.

Other receivables generally arise from transactions outside the usual operating activities of the Group and are recognised at their assessed values. Terms are a maximum of three months, no interest is charged and no security is obtained.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Accounts receivable	509	535	357	354
Reinsurance recoverable	835	228	-	-
Less: provision for bad debts	(35)	(149)	-	(69)
	1,309	614	357	285
Prepaid expenses and other receivables	642	810	322	619
Total receivables	**1,951**	**1,424**	**679**	**904**

C3 INVESTMENT IN CONTROLLED ENTITIES

In June 2001, Lexon was incorporated in Singapore as the captive insurer of the Society. The company was capitalised with $9,000,000 via surplus funds from the Society controlled Law Claims Levy Fund. A further $10,000,000 was issued in May 2009. The $19,000,000 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.

C4 INVESTMENTS

Investments held 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 documented investment strategies. Assets in this category are presented as current assets if they either held for trading or are expected to be realised within 12 months after the reporting date. At 30 June 2018, investments are classified as non-current assets as they are kept long term and the full value will not be realised within the accounting year.

Realised gains/losses represent the net gains/losses on the sale of investments and are recognised when investments are sold during the course of the year. Fair value gains/losses are recognised monthly based on fluctuations in market prices of investments.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Investments				
Opening balance	172,394	162,262	-	-
Additions	77,168	26,305	-	-
Additions via reinvestment	6,295	6,292	-	-
Disposal proceeds	(81,516)	(26,295)	-	-
Gain/(loss) on disposal	3,394	1,088	-	-
Fair value movements	(3,123)	2,742	-	-
Closing balance	**174,612**	**172,394**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C4 INVESTMENTS (continued)

Fair value measurements

Categorisation of fair values recognised as at 30 June 2018 are as follows:

			Consolidated		Parent
		2018	2017	2018	2017
		$'000	$'000	$'000	$'000
Fair Value Input	**Type**				
Level 1	None	-	-	-	-
Level 2	Investments	174,612	172,394	-	-
Level 3	None	-	-	-	-
	174,612	**172,394**	**-**	**-**	**-**

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

Financial asset investments are placed with the following fund managers:

Lexon Insurance Pte Ltd

- Queensland Investment Corporation
- UBS Global Asset Management (exited December 2017)
- AMP Capital Investors (exited December 2017)
- MFS Investment Management (exited December 2017)
- Nikko Asset Management (exited December 2017)
- Denning Pryce (exited December 2017)
- Schroder Investment Management (exited December 2017)

Law Claims Levy Fund

- Queensland Investment Corporation
- UBS Global Asset Management
- AMP Capital Investors
- MFS Investment Management
- Nikko Asset Management
- Ironbark Asset Management
- Schroder Investment Management
- State Street Global Advisors

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C5 PROPERTY, PLANT AND EQUIPMENT

C5-1 CONSOLIDATED

	Strata Title Building $'000	Leasehold Improvements $'000	Plant and Equipment $'000	Computer Equipment $'000	Software $'000	Total $'000
2018						
Cost or valuation						
At the beginning of the year	17,640	1,452	4,496	854	1,721	26,163
Additions	-	-	163	12	-	175
Reclassification	-	-	2	(1)	(1)	-
Disposals	-	-	(19)	(140)	-	(159)
Revaluations	9,610	-	-	-	-	9,610
At the end of the year	**27,250**	**1,452**	**4,642**	**725**	**1,720**	**35,789**
Depreciation						
At the beginning of the year	(441)	(256)	(2,776)	(505)	(1,081)	(5,059)
Reclassification	-	-	-	-	-	-
Charge for the year	(441)	(40)	(288)	(102)	(130)	(1,001)
Disposals	-	-	19	109	-	128
Revaluations	882	-	-	-	-	882
At the end of the year	**-**	**(296)**	**(3,045)**	**(498)**	**(1,211)**	**(5,050)**
Net book value at 30 June 2018	**27,250**	**1,156**	**1,597**	**227**	**509**	**30,739**
2017						
Cost or valuation						
At the beginning of the year	16,800	1,452	4,496	594	1,638	24,980
Additions	-	-	-	260	83	343
Revaluations	840	-	-	-	-	840
At the end of the year	**17,640**	**1,452**	**4,496**	**854**	**1,721**	**26,163**
Depreciation						
At the beginning of the year	-	(212)	(2,484)	(406)	(910)	(4,012)
Charge for the year	(420)	(44)	(292)	(99)	(171)	(1,026)
Revaluations	(21)	-	-	-	-	(21)
At the end of the year	**(441)**	**(256)**	**(2,776)**	**(505)**	**(1,081)**	**(5,059)**
Net book value at 30 June 2017	**17,199**	**1,196**	**1,720**	**349**	**640**	**21,104**
Property, plant and equipment is stated as follows:						
30 June 2018						
At valuation	27,250	-	-	-	-	27,250
At cost	-	1,452	4,642	725	1,720	8,539
	27,250	1,452	4,642	725	1,720	35,789
Depreciation	-	(296)	(3,045)	(498)	(1,211)	(5,050)
	27,250	**1,156**	**1,597**	**227**	**509**	**30,739**
30 June 2017						
At valuation	17,640	-	-	-	-	17,640
At cost	-	1,452	4,496	854	1,721	8,523
	17,640	**1,452**	**4,496**	**854**	**1,721**	**26,163**
Depreciation	(441)	(256)	(2,776)	(505)	(1,081)	(5,059)
	17,199	**1,196**	**1,720**	**349**	**640**	**21,104**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C5 PROPERTY, PLANT AND EQUIPMENT (continued)

C5-2 PARENT ENTITY

	Strata Title Building $'000	Leasehold Improvements $'000	Plant and Equipment $'000	Computer Equipment $'000	Software $'000	Total $'000
2018						
Cost or valuation						
At the beginning of the year	17,640	1,452	4,319	658	1,240	25,309
Additions	-	-	151	9	-	160
Disposals	-	-	-	(35)	-	(35)
Revaluations	9,610	-	-	-	-	9,610
At the end of the year	**27,250**	**1,452**	**4,470**	**632**	**1,240**	**35,044**
Depreciation						
At the beginning of the year	(441)	(255)	(2,596)	(349)	(701)	(4,342)
Charge for the year	(441)	(41)	(287)	(84)	(107)	(960)
Disposals	-	-	-	3	-	3
Revaluations	882	-	-	-	-	882
At the end of the year	**-**	**(296)**	**(2,883)**	**(430)**	**(808)**	**(4,417)**
Net book value at 30 June 2018	**27,250**	**1,156**	**1,587**	**202**	**432**	**30,627**
2017						
Cost or valuation						
At the beginning of the year	16,800	1,452	4,319	465	1,238	24,274
Additions	-	-	-	193	2	195
Revaluations	840	-	-	-	-	840
At the end of the year	**17,640**	**1,452**	**4,319**	**658**	**1,240**	**25,309**
Depreciation						
At the beginning of the year	-	(211)	(2,310)	(260)	(576)	(3,357)
Charge for the year	(420)	(44)	(286)	(89)	(125)	(964)
Revaluations	(21)	-	-	-	-	(21)
At the end of the year	**(441)**	**(255)**	**(2,596)**	**(349)**	**(701)**	**(4,342)**
Net book value at 30 June 2017	**17,199**	**1,197**	**1,723**	**309**	**539**	**20,967**
Property plant and equipment is stated as follows:						
30 June 2018						
At valuation	27,250	-	-	-	-	27,250
At cost	-	1,452	4,470	632	1,240	7,794
	27,250	**1,452**	**4,470**	**632**	**1,240**	**35,044**
Depreciation	-	(296)	(2,883)	(430)	(808)	(4,417)
	27,250	**1,156**	**1,587**	**202**	**432**	**30,627**
30 June 2017						
At valuation	17,640	-	-	-	-	17,640
At cost	-	1,452	4,319	658	1,240	7,669
	17,640	**1,452**	**4,319**	**658**	**1,240**	**25,309**
Depreciation	(441)	(255)	(2,596)	(349)	(701)	(4,342)
	17,199	**1,197**	**1,723**	**309**	**539**	**20,967**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C5 PROPERTY, PLANT AND EQUIPMENT (continued)

C5-3 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 $5,000. Buildings and leasehold improvements are recognised upon acquisition if the initial cost exceeds $10,000 excluding GST.

C5-4 DEPRECIATION AND AMORTISATION

All assets including strata title building have limited useful lives and are depreciated or amortised using the straight line method over their estimated useful lives.

Assets are depreciated or amortised 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 or adjusted useful life of the asset. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods.

The depreciable amount of leasehold improvements is allocated progressively over the estimated useful lives of the improvements. The unexpired period of a lease includes any option period where exercise of the option is probable.

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

	2018	2017
Asset Class		
Strata Title Building	2.5%	2.5%
Leasehold Improvements	2.5%	2.5%
Plant and Equipment	10% - 33%	10% - 33%
Computer Equipment	25% - 33%	25% - 33%
Software	20% - 33%	20% - 30%

C5-5 IMPAIRMENT OF PLANT AND EQUIPMENT

All plant and equipment assets are assessed for indicators of impairment on an annual basis, or when the asset is measured at fair value, for indicators of a change in fair value or service potential since the last valuation was completed.

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 the Statement of Comprehensive Income.

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 asset in prior years. A reversal of impairment loss for an asset is recognised in the Statement of Comprehensive Income.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C5 PROPERTY, PLANT AND EQUIPMENT (continued)

C5-6 MEASUREMENT USING FAIR VALUE

The strata title building is measured at fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*. The building is reported at its revalued amount, being the fair value at the date of valuation using the market approach, less any subsequent accumulated depreciation. The building is independently revalued at least every three years to ensure the carrying amount does not materially differ from the fair value at reporting date.

An independent valuation of the strata title building was carried out as at 30 June 2018 by Peter Zischke, a member of the Institute of Valuers of Australia, and was on the basis of the open market value of Law Society House in vacant possession with all units combined. The resulting increase in the open market value was $10.5 million, which has been recognised as Other Comprehensive Income in the Statement of Comprehensive Income.

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 change in the index. Revaluation increments are recognised in the asset revaluation surplus except where amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments for the same class of assets and any excess is recognised as an expense.

A revaluation increment of $819k was recognised in 2016-17 using this method and this increment was recognised as Other Comprehensive Income in the Statement of Comprehensive Income. The Implicit Price deflator was not used in 2017-18 as an independent valuation was carried out.

Categorisation of fair values recognised as at 30 June 2018 are as follows:

		Consolidated		Parent	
		2018	2017	2018	2017
		$'000	$'000	$'000	$'000
Fair Value Input	**Type**				
Level 1	None	-	-	-	-
Level 2	Strata Title Building	27,250	17,199	27,250	17,199
Level 3	None	-	-	-	-
		27,250	**17,199**	**27,250**	**17,199**

Accounting for Changes in Fair Value

Any revaluation increment arising on the revaluation of an asset is credited to the asset revaluation surplus of the appropriate class, except to the extent it reverses a revaluation decrement for the class previously recognised as an expense. A decrease in the carrying amount on revaluation is charged as an expense, to the extent it exceeds the balance, if any, in the revaluation surplus relating to that assets class.

For assets revalued using indices, accumulated depreciation is adjusted to equal the difference between the gross amount and carrying amount, after taking into account accumulated impairment losses. This is generally referred to as the “gross method”.

For assets revalued using a market or income-based valuation approach, accumulated depreciation and accumulated impairment losses are eliminated against the gross amount of the asset prior to restating for the revaluation. This is generally referred to as the “net method”.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C6 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.

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

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Income in advance	13,329	12,306	13,329	12,306
Unearned insurance levies/premiums	21,736	21,131	-	-
Trade creditors	565	357	376	178
Legal Practitioners' Fidelity Guarantee Fund	(3)	752	(3)	752
Law Claims Levy Fund	-	-	1,000	21,151
Reinsurance payable	1,200	1,176	-	-
Other payables and accruals	2,671	2,152	2,434	1,549
Total payables	**39,498**	**37,874**	**17,136**	**35,936**

C7 ACCRUED EMPLOYEE BENEFITS

Annual leave and long service leave

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in accrued employee benefits and measured as the present value of expected future cash outflows to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels and experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments are recognised in profit or loss.

The obligations are presented as current liabilities in the Statement of Financial Position if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Current				
Annual leave	760	637	620	498
Long service leave	726	724	440	468
Total current accrued employee benefits	**1,486**	**1,361**	**1,060**	**966**
Non-current				
Long service leave	230	176	202	156
Total non-current accrued employee benefits	230	176	202	156
Current long service leave	726	724	440	468
Non-current long service leave	230	176	202	156
Total accrued long service leave	**956**	**900**	**642**	**624**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C8 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.

C8-1 INSURANCE CONTRACTS

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.

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.

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 measureable 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.

C8-2 INSURANCE LIABILITIES

Insurance liabilities comprise provision for outstanding claims and unearned premium reserves.

(a) Provision for outstanding claims

Central estimate

Full provision is made for the estimated cost of all claims admitted or intimated but not settled at balance 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 balance date. The central estimates are determined by reference to a variety of estimation techniques, generally based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payments.

Central estimates are calculated gross of reinsurance with separate estimates made in relation to reinsurance recoveries based on the gross central estimate.

The net central estimate is discounted at the risk free rate of return to reflect present value.

Risk margin

Risk margins are determined by the Lexon Board and are held to mitigate the potential for uncertainty in the central estimate. The risk margin is determined by reference to industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The probability of sufficiency is a statistical measure of the relative adequacy of the outstanding claims provision and is derived from a comparison of the risk margin with the net discounted central estimate. A 90% probability of sufficiency indicates that the outstanding claims provision is expected to be adequate 9 times out of 10. The Board aims to include risk margins such that the probability of sufficiency is in the range of 90%.

Discount rates

The outstanding claims provision is discounted for the time value of money using risk free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations.

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate, including related reinsurance recoveries, determined by reference to a combination of historical analysis and current expectations of when claims and recoveries will be settled.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Outstanding claims

Outstanding claims reserves comprise outstanding claims, including provisions for claims incurred but not reported and reserves for case claims.

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Opening provision for outstanding claims	72,881	64,708	-	-
Claims incurred	19,444	20,640	-	-
Claims paid during the year	(19,666)	(13,428)	-	-
Movement in claims handling provision	(110)	961	-	-
Closing provision for outstanding claims	72,549	72,881	-	-
			-	-
Opening insurance contract liabilities ceded	(2,348)	(3,607)	-	-
Movement in reinsurance recoveries	374	(18)	-	-
Reinsurance receivables invoiced	997	1,277	-	-
Closing insurance contract liabilities ceded	(977)	(2,348)	-	-
Net outstanding claims	**71,572**	**70,533**	**-**	**-**
Law Claims Levy Fund	-	-	-	-
Lexon Insurance Pte Ltd	71,572	70,533	-	-
Net outstanding claims	**71,572**	**70,533**		

Disclosed in the Statement of Financial Position as:	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Current insurance contract liabilities ceded	(325)	(921)	-	-
Non-current contract liabilities ceded	(652)	(1,427)	-	-
Insurance contract liabilities ceded	(977)	(2,348)	-	-
Current provision for outstanding claims	15,604	15,681	-	-
Non-current provision for outstanding claims	56,945	57,200	-	-
Provision for outstanding claims	72,549	72,881	-	-
Net outstanding claims	**71,572**	**70,533**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Outstanding claims (continued)

Maturity analysis

2018	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
Gross central estimate	15,604	30,507	2,875	48,986
Reinsurance recoveries	(325)	(668)	(5)	(998)
Net central estimate	15,279	29,839	2,870	47,988
Discount				(2,006)
Risk margins				20,133
Claims handling				5,457
Net claims outstanding				**71,572**

2017	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
Gross central estimate	15,681	30,742	3,470	49,893
Reinsurance recoveries	(921)	(1,470)	(2)	(2,393)
Net central estimate	14,760	29,272	3,468	47,500
Discount				(1,945)
Risk margins				19,412
Claims handling				5,566
Net claims outstanding				**70,533**

Risk margin

The risk margin included in the net outstanding claims is 41.2% (2017: 42.6%) of the central estimate, with a probability of sufficiency of approximately 90% (2017: 90%).

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Claims incurred development

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years and include releases of risk margins as claims are paid.

	For the year ended 30 June 2018			For the year ended 30 June 2017		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims incurred						
Undiscounted	19,799	(2,278)	17,521	18,120	(2,487)	15,633
Discount	(948)	845	(103)	(898)	566	(332)
	18,851	(1,433)	17,418	17,222	(1,921)	15,301
Reinsurance recoveries						
Undiscounted	(45)	443	398	(24)	90	66
Discount	3	(27)	(24)	1	(87)	(86)
	(42)	416	374	(23)	3	(20)
Net claims						
Undiscounted	19,754	(1,835)	17,919	18,096	(2,397)	15,699
Discount	(945)	818	(127)	(897)	479	(418)
	18,809	(1,017)	17,792	17,199	(1,918)	15,281
Risk margins	6,033	(5,311)	722	6,473	(3,122)	3,351
Claims handling expenses	1,814	(1,924)	(110)	1,940	(979)	961
Net claims incurred (Note B1-4)	**26,656**	**(8,252)**	**18,404**	**25,612**	**(6,019)**	**19,593**

The Law Claims Levy Fund has stop loss insurance that capped the fund's liability at $5,000,000 for payments made after 1 July 2001.

Lexon and the Law Claims Levy Fund have assessed the provisions for outstanding claims based upon an independent actuarial assessment as at 30 June 2018 by Mr Andrew Cohen (FIAA) and Mr Collin Wang (FIAA) of Finity Consulting Pty Ltd. The key assumptions are detailed in Note D1.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(b) Unearned Premium Reserves

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.

Where necessary, premium deficiency reserves calculated using actuarial methods on loss statistics are included in unearned premium reserves.

Unearned premium and premium reserves	**2018**	**2017**
	$'000	**$'000**
Opening unearned premiums	21,131	23,654
Movement in unearned premiums during the year	605	(2,523)
Closing unearned premiums	**21,736**	**21,131**
Opening unearned premium reserves	6,512	4,866
Movement in unearned premium reserves	(1,152)	1,646
Closing unearned premium reserves	**5,360**	**6,512**
To be earned within 12 months	27,096	27,643
To be earned in greater than 12 months	-	-
Total unearned premiums	**27,096**	**27,643**

Premiums have been recognised in accordance with the attachment of risk. As such, the premiums relating to the next financial year are recorded as unearned.

Net premium liabilities	**2018**	**2017**
	$'000	**$'000**
Unearned premiums	21,736	21,131
Unearned premium reserves	5,360	6,512
Total unearned premiums	27,096	27,643
Reinsurers' share of unearned premium reserves	(1,200)	(1,176)
Net unearned premiums	**25,896**	**26,467**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(b) Unearned Premium Reserves (continued)

Expected present value of future cash flows for future claims including risk margin

	2018 $'000	2017 $'000
Undiscounted central estimate	20,142	19,412
Discount to present value	(1,439)	(1,349)
Discounted central estimate	**18,703**	**18,063**
Reinsurance and other costs	2,242	3,652
Claims handling costs	1,889	1,824
Risk margin	4,262	4,104
Expected present value of future cash flows for future claims including risk margin	**27,096**	**27,643**
Unearned premiums	**21,736**	**21,131**
Deficiency	**5,360**	**6,512**

Liability adequacy test

At reporting date, a liability adequacy test was 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 the Statement of Comprehensive Income by establishing a provision for losses arising from the liability adequacy test.

The probability of adequacy of the unearned premium reserves differs from the probability on the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of the net unearned premium liability whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried.

Accounting standards require the inclusion of a risk margin in insurance liabilities, but do not prescribe a minimum level of margin. Whilst there are established practices in the calculation of the probability of adequacy of the outstanding claims provision, no such guidance exists in relation to the level of risk margin to be used in determining the adequacy of net premium liabilities. The Group has adopted a risk margin of 20% to produce a 75% level of sufficiency on a net basis. This is the minimum level recognised in Australia as an industry benchmark for liability adequacy tests, in accordance with the Australian Prudential Regulatory Authority (APRA).

The application of the liability adequacy test in respect of the net unearned premium liabilities identified a deficiency at 30 June 2018 (deficiency at 30 June 2017).

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(b) Unearned Premium Reserves (continued)

Maturity analysis

2018	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
Unearned premium reserves				
Unexpired risk reserve				
Gross central estimate	3,163	14,773	3,612	21,548
Unexpired risk reserves - reinsurance	(20)	(150)	(36)	(206)
Reinsurance recoveries	(1,200)	-	-	(1,200)
Net central estimate	**1,943**	**14,623**	**3,576**	**20,142**
Discount				(1,444)
Risk margins				4,262
Duty and other costs				1,047
Claims handling				1,889
Net unearned premium reserves				**25,896**

2017	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
Unearned premium reserves				
Unexpired risk reserve				
Gross central estimate	2,313	15,147	3,324	20,784
Unexpired risk reserves - reinsurance	(11)	(151)	(33)	(195)
Reinsurance recoveries	(1,176)	-	-	(1,176)
Net central estimate	**1,126**	**14,996**	**3,291**	**19,413**
Discount				(1,354)
Risk margins				4,104
Duty and other costs				2,480
Claims handling				1,824
Net unearned premium reserves				**26,467**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

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.

Certain critical accounting judgements in applying the Group's accounting policies are related to policyholder claims.

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 claim payments are discounted to the calculation date for each claim year.

The projected future claims payments for each 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 losses, which were 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.

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						
Development Factor	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8
Current Year	21.3%	18.9%	13.2%	7.0%	5.1%	3.5%	2.3%
Prior Year	20.5%	18.1%	10.6%	7.0%	5.1%	3.5%	2.3%

- The average cost per solicitor (used in the BF method) adopted is $3,000 (2017: $3,400).
- The Group has assumed reinsurance recoveries will be fully recoverable on a prompt basis.
- The Group has applied the zero-coupon yield for Government issued bonds to the expected future cash flows. This has resulted in a uniform discount rate of 2.13% (2017: 1.99%) per annum.
- The Group has assumed future inflation will be the same as average rate of 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.
- While the Group has calculated a central estimate, a risk margin at a 90th percent probability of sufficiency has been applied and the Group has adopted reserves at this level to maintain a higher level of adequacy.
- While claim numbers are not directly used in determining estimates, they are a good lead indicator. Given the policy is based on claims made, there is an assumption of minimal development post the end of the year.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key assumptions (continued)

The following key valuation assumptions have been used to estimate the unexpired risk reserve:

- The average cost per solicitor adopted is $3,000 (2017: $3,000)
- The estimated growth in solicitor numbers is 3.5% (2017: 3.5%)

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 valuation methodology.

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

Sensitivity analysis of key estimates

While the gross ultimate costs are sensitive to valuation assumptions, the net results are less sensitive due to the aggregate limits that apply which reduce the net exposure. The gross undiscounted unused exposure for all years totals $91.1 million (2017: $81.0 million) before risk margins; and $70.2 million (2017: $60.8 million) after allowing risk margins to the 90th probability of sufficiency.

The Group's results and Statement of Financial Position have been determined with a probability of sufficiency of 90%. As such, the sensitivity analysis shows the impact using this same measure before tax.

In relation to outstanding claim liabilities:

- Reserve under estimation: A 10% (2017: 10%) reserve under estimation results in an additional gross undiscounted reserve of $4.9 million (2017: $5.0 million) and net discounted reserve (after risk margins) of $6.5 million (2017: $7.0 million) or 9.1% (2017: 9.9%) of the discounted net central estimate plus risk margins.
- Reserve over estimation: If estimated reserves on all years improved by 10% (2017: 10%) then it would result in a decrease in gross undiscounted reserve of $4.9 million (2017: $5.0 million) and the total net provision (after risk margins) would decrease by $7.1 million (2017: $7.0 million) or 10.0% (2017: 9.9%) of the discounted net central estimate plus risk margins.
- Discount rate: A half a percentage point decrease in discount rate (from 2.13% (2017: 1.99%) to 1.63% (2017: 1.49%)) would increase the provision by $0.7 million (2017: $0.7 million) or 1.0% (2017: 1.0%) 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 the provision by $0.5 million (2017: $0.6 million) or 0.8% (2017: 0.8%) of the discounted net central estimate plus risk margins.
- Cost per solicitor under estimation: An increase in the cost per solicitor from $3,000 to $3,500 (2017: $3,400 to $3,900) increases our provision by $2.2 million (2017: $2.0 million) or 3.0% (2017: 2.8%) of the discounted net central estimate plus risk margins.
- Cost per solicitor over estimation: A reduction in the cost per solicitor from $3,000 to $2,500 (2017: $3,400 to $2,900) reduces our provision by $2.2 million (2017: $2.0 million) or 3.0% (2017: 2.8%) of the discounted net central estimate plus risk margins.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Sensitivity analysis of key estimates (continued)

The Group identified a premium deficiency. Sensitivity analysis in relation to the unearned premium reserves and premium deficiency is as follows:

- Solicitor number under estimation: A 10% (2017: 10%) under estimation results in an additional gross undiscounted reserve of $2.5 million (2017: $2.4 million) and net discounted reserve (after risk margins) of $2.5 million (2017: $2.4 million) or 9.5% (2017: 9.5%) of the discounted net unearned premium reserve estimate including risk margins.
- Solicitor number over estimation: A 10% (2017: 10%) over estimation results in a decrease in gross undiscounted reserve of $2.5 million (2017: $2.4 million) and net discounted reserve (after risk margins) of $2.5 million (2017: $2.4 million) or 9.5% (2017: 9.5%) of the discounted net unearned premium reserve estimate including risk margins.
- Cost per solicitor under estimation: An increase in the cost per solicitor from A$3,000 to $3,500 (2017: $3,000 to $3,500) increases our provision by $4.1 million (2017: $2.7 million) or 15.9% (2017: 15.9%) of the discounted net unearned premium reserve estimate including risk margins.
- Cost per solicitor over estimation: A reduction in the cost per solicitor from $3,000 to $2,500 (2017: $3,000 to $2,500) reduces our provision by $4.1 million (2017: $4.0 million) or 15.9% (2017: 15.9%) of the discounted net unearned premium reserve estimate including risk margins.

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

D2-1 INSURANCE RISK

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

The risk in 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 a 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 strategy, reinsurance strategy and amendment to the terms and conditions of insurance contracts.

(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 the Society's members. Such a focus on one "insured" group does create a wider variability of outcomes than a balanced portfolio.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-1 INSURANCE RISK (continued)

(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 uncollectable items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Board of Directors of Lexon 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 the Group's main product – professional indemnity liability and the ways in which it manages the associated risks.

Product features

The Group 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 provision of legal services by the insured 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.

This line is typically the largest source of uncertainty regarding claims reserves. 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.

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 cost 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.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-1 INSURANCE RISK (continued)

(c) Terms and conditions of insurance contracts (continued)

Claims development history

	2011/12 & prior $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	Total $'000
Gross								
Estimate of ultimate claims								
Costs:								
• at end of reporting year		18,706	20,254	16,447	15,869	18,184	19,879	
• one year later		19,670	14,455	15,340	15,247	16,476		
• two years later		18,684	13,259	13,196	13,390			
• three years later		18,370	15,116	15,878				
• four years later		17,427	14,551					
• five years later		16,837						
Cumulative payments to date		(15,810)	(10,398)	(10,433)	(4,989)	(5,311)	(3,546)	
Estimate of claims reserve		1,027	4,153	5,445	8,401	11,165	16,333	
Effect of discounting		(31)	(114)	(163)	(278)	(517)	(949)	
Best estimate of claims liability	2,487	996	4,039	5,282	8,123	10,648	15,384	46,959
Risk margin								20,133
Provision for claims handling								5,457
Total gross outstanding claims included in the Statement of Financial Position								**72,549**
Annual incurred before discounting and margins	(286)	(590)	(565)	2,682	(1,857)	(1,709)	19,879	17,554
Movement in excess receivable								(33)
Gross claims incurred								17,521

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-1 INSURANCE RISK (continued)

(c) Terms and conditions of insurance contracts (continued)

Claims development history (continued)

	2011/12 & prior $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	Total $'000
Net								
Estimate of ultimate claims								
Costs:								
• at end of reporting year		18,706	20,254	16,447	15,869	18,161	19,834	
• one year later		19,670	14,455	15,340	15,247	16,454		
• two years later		18,684	13,259	13,196	13,390			
• three years later		18,370	15,116	15,878				
• four years later		17,427	14,551					
• five years later		16,837						
Cumulative payments to date		(15,810)	(10,398)	(10,433)	(4,989)	(5,311)	(3,546)	
Estimate of claims reserve		1,027	4,153	5,445	8,401	11,143	16,288	
Effect of discounting		(31)	(114)	(163)	(278)	(516)	(946)	
Best estimate of claims liability	1,573	996	4,039	5,282	8,123	10,627	15,342	45,982
Risk margin								20,133
Provision for claims handling								5,457
Total net outstanding claims included in the Statement of Financial Position								**71,572**
Annual incurred before discounting and margins	156	(590)	(565)	2,682	(1,857)	(1,707)	19,834	17,953
Movement in excess receivable								(33)
Gross claims incurred								17,920

The Group 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.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-2 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 insurer is assessed from public rating information.

D2-3 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 (for the provision of legal services).

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Recognition of financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes party to the contractual provisions of the financial instrument.

Classification of financial instruments

Financial instruments are classified and measured as follows:

- Cash and cash equivalents – held at amortised cost
- Investments – held at fair value through profit or loss
- Investment in controlled entities – held at cost
- Receivables – held at amortised cost
- Payables– held at amortised cost

The Group does not enter into transactions for speculative purposes, nor for hedging.

Financial risk management

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

Management and the Council regularly review the Group's performance and ensure all investments held are within the approved mandate.

(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.

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 predominantly hedged where a currency exposure exists.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Currency risk (continued)

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

(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 an Australian fund manager.

The Group manages its exposure to interest rate risk through the setting of investment durations by the fund managers.

The Group seeks to reduce risk by diversifying across a range of securities, maturities and counter-parties. Investment of the funds is subject to risk control limits and constraints as follows:

Duration and Tracking Error Limits (interest rate management)

The Modified Duration of the funds is constrained within a specified period either side of the Modified Duration of the Benchmark as contained in the relevant funds product disclosure statements.

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 (e.g. 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.

(c) Credit risk

There is no significant credit risk with respect to the collectability of premiums as the Group only underwrites risks from members. 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 nor impaired

At balance date no financial assets are past due nor 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.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

(i) Financial assets that are neither past due nor impaired (continued)

Investments at fair value through profit or loss are redeemable on demand. These are placed with reputable fund managers.

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

(ii) Financial assets that are past due and/or impaired

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

Trade and other receivables include excess balances of $111,724 (2017: $95,500) which are more than one month past due. There is a provision of $35,064 (2017: $80,000) on these outstanding balances.

There were no reinsurance recoveries (2017: nil) outstanding more than one month.

While provisions have been raised against outstanding excesses, the *Queensland Law Society Indemnity Rule 2005* gives power to the Society to take action against insured parties where any balances are outstanding.

(iii) Credit ratings

The following table shows the investment grades of balances due:

	Investment Grade (AAA to BBB) $'000	Not rated $'000	Total $'000
At 30 June 2018			
Cash and cash equivalents	61,403	1	61,404
Reinsurers' share of outstanding claims reserves	977	-	977
Trade and other receivables	835	1,116	1,951
Financial assets at fair value through profit or loss	-	174,612	174,612
	63,215	**175,729**	**238,944**
At 30 June 2017			
Cash and cash equivalents	11,616	47,224	58,840
Reinsurers' share of outstanding claims reserves	2,348	-	2,348
Trade and other receivables	229	1,195	1,424
Financial assets at fair value through profit or loss	-	172,394	172,394
	14,193	**220,813**	**235,006**

(d) Liquidity risk

In the management of liquidity risk, 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. A maturity analysis of unearned risk and premium reserves and outstanding claims reserves is provided in Note C8-2.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(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. Capital is calculated in accordance with Australian Prudential Regulatory Authority's guidelines.

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 fund solvency requirement for its Offshore Insurance Fund and the minimum capital adequacy requirement.

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

(f) Sensitivity Analysis

Investments at fair value through profit or loss have had the following sensitivity analyses applied, which are based on the Australian Prudential Regulatory Authority's (APRA) General Insurance Prudential Standard GPS 114.

Interest rate sensitivity

Interest rate sensitivity measures the changes on the capital base from changes in real interest rates. The sensitivity has been determined by multiplying the nominal risk-free interest rate by -0.20 (downward stress) and 0.25 (upward stress), with a maximum stress adjustment of 200 basis points in either direction.

Inflation risk sensitivity

Expected inflation sensitivity measures the changes on the capital base from changes to expensed consumer price index inflation rates. The sensitivity has been determined by adjusting the expected inflation rates by adding 125 basis points (upward movement) and subtracting 100 basis points (downward movement).

Currency sensitivity

Currency sensitivity measures the changes in the capital base due to changes in foreign currency exchange rates. The sensitivity has been determined by applying a 25% increase and 25% decrease in exchange rates. An increase in the Australian Dollar is divided by 1.25 (or multiplied by 0.8) while a decrease is divided by 0.75 (or multiplied by 1.333). Only negative results are included in the calculation.

Equity sensitivity

Equity sensitivity measures the change on the capital base of a fall in equity and other asset values. For listed equities, the fall is determined by increasing the dividend yield on the ASX 200 index by 2.5%. For unlisted equities, the fall is determined by increasing the dividend yield on the ASX 200 index by 3.0%.

Property stress

Property sensitivity measures the change on the capital base of a fall in property and infrastructure asset values. The fall is determined by increasing the rental yield (for property assets) or earnings yield (for infrastructure assets) by 2.75%.

Credit spread stress

Credit spread sensitivity measures the change on the capital base of an increase in credit spreads and the risk of default. The sensitivity has been determined by adding a spread (based on APRA credit spread and default factors) to the current yield on the asset and multiplying the reduced value of the asset by (1 – default factor).

In relation to currency stress test, APRA requires each fund to calculate the upward and downward impact for each foreign currency. For each foreign currency, if the stress test results in a profit, the impact is adjusted to zero. Only stress test resulting in losses are included in the calculations.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(f) Sensitivity Analysis (continued)

The below details the impact to investments at fair value through profit or loss before tax and before any aggregation benefits.

	2018 $'000	2017 $'000
Stress Test		**Upward impact**
Interest rate	(352)	(19)
Inflation	(1,120)	792
Currency	(4,738)	(1,776)
		Downward impact
Interest rate	285	95
Inflation	946	(773)
Currency	(4,348)	852
Stress Test		**Impact**
Equity	(22,644)	(4,570)
Property	(1,577)	-
Credit spread	(4,608)	(2,213)

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D3 COMMITMENTS

D3-1 OPERATING LEASES

Payments made under operating leases (net of any incentives received from the lessor) are taken to the Statement of 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 the termination takes place.

D3-2 NON-CANCELLABLE OPERATING LEASES

The future minimum lease payables under non-cancellable operating leases contracted for at 30 June 2018 but not recognised as liabilities, are as follows:

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Within one year	188	182	-	-
One to five years	350	538	-	-
Total non-cancellable operating leases	538	720	-	-

The Group's commitments include a lease for office premises. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Lexon has a bank guarantee for $108,031 (2017: $108,031) in favour of the lessor of 307 Queen Street, Brisbane QLD 4000 which can be drawn upon in the event of a default in accordance with the rental agreement.

Note that accounting for non-cancellable operating leases will be affected by the implementation of AASB 16 with effect from 1 July 2019 (see Note D5).

D3-3 CAPITAL EXPENDITURE COMMITMENTS

There was no capital expenditure contracted for 30 June 2018 but not provided for (2017: Nil).

D4 CONTINGENT LIABILITIES AND EVENTS AFTER BALANCE DATE

There are no known contingent liabilities as at 30 June 2018. There are no events subsequent to reporting date requiring disclosure in the financial report.

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE

At the date of authorisation of the financial report, the expected impacts of new or amended Australian accounting standards issued with future commencement dates are:

AASB 1058 Income of Not-for-Profit Entities

This standard will become effective from reporting periods beginning on or after 1 January 2019. As noted in the *Financial Reporting Requirements of Queensland Government Agencies for Reporting Periods beginning on or after 1 July 2017* (FRR) (Queensland Treasury, April 2018), AASB 1058 will apply to either of the following types of transactions:

- transactions where the consideration to acquire an asset, including cash, is significantly less than the fair value of the asset, and the difference is principally to enable the entity to further its objectives; or
- volunteer services.

The Group has carefully considered whether current and potential future transactions of the Group fall into either of these categories. After this consideration the Group has determined that AASB 1058 will not have a material impact on the Group. This determination will be reviewed on an annual basis.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

AASB 15 Revenue from Contracts with Customers

This standard will become effective from reporting periods beginning on or after 1 January 2019 and contains much more detailed requirements for accounting for certain types of revenue from customers.

Depending on the specific contractual terms, the new requirements may potentially result in a change to the timing of revenue from practitioner levies and sales of the Group's services, such that some revenue may need to be deferred to a later reporting period to the extent that the Group has received cash but has not met its associated obligations (such amounts would be reported as a liability (unearned revenue)). The impact of this is likely to relate to insurance levies and revenue from practitioner fees and memberships for the year after the receipt of cash. As this revenue is already recorded on the Statement of Financial Position as a liability (income in advance and unearned insurance levies), the impacts are not expected to be material but potential impacts will be assessed in greater detail prior to the commencement of the 2019-20 financial year using the decision process flowcharts provided in the FRR.

All impacts will be disclosed in the Statement of Comprehensive Income and the Statement of Financial Position from 1 July 2019, noting that in accordance with the FRR there will be no requirement to restate comparatives in the 2019-20 financial statements.

AASB 16 Leases

This Standard will become effective for reporting periods beginning on or after 1 January 2019. When applied, the standard supersedes AASB 117 Leases, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases – Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard also introduces expanded disclosure requirements and changes in presentation.

AASB 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The Group is undertaking a review of operating leases to determine any applicable impact of AASB 16. The principal impacts on the Group of the application of the new standard are expected to relate to:

- the lease for office premises for Lexon Insurance Pte Ltd at 307 Queen St, Brisbane;
- motor vehicles for Lexon Insurance Pte Ltd;
- leases of plant and equipment (such as photocopiers and other office equipment) above the $10,000 threshold set in the FRR.

Some of the Group's commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The Group currently has four motor vehicles and a rental agreement which will be impacted by the revised standard. The impacts of the new standard are as follows:

	$'000
Increase in right to use assets	455
Increase in lease liabilities	(500)
Increase in income tax assets	14
Increase in expenses	31

The Society also acts as a lessor for parts of Law Society House. As noted in the FRR, lessor accounting under AASB 16 is largely unchanged from AASB 117 but the review of leases will encompass any impacts of the Society's activities as a lessor as well as the Group's activities as a lessee.

All impacts will be disclosed in the Statement of Comprehensive Income and the Statement of Financial Position from 1 July 2019, noting that in accordance with the FRR there will be no requirement to restate comparatives in the 2019-20 financial statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

AASB 17 Insurance Contracts

AASB 17 will come into effect for financial periods beginning on or after 1 January 2021.

AASB 17 measures insurance contracts either under the general model or a simplified version of this called the 'premium allocation approach'. The general model is defined such that at initial recognition an entity measures a group of contracts at the total of (a) the amount of fulfilment cash flows, which comprise probability-weighted estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks associated with those future cash flows and a risk adjustment for non-financial risk; and (b) the contractual service margin.

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the fulfilment cash flows related to future services and the contractual service margin of the group at that date. The liability for incurred claims is measured as the fulfilment cash flows related to past services allocated to the group at that date.

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the premium allocation approach on the condition that, at initial recognition, the entity reasonably expects that doing so would produce a reasonable approximation of the general model, or the coverage period of each contract in the group is one year or less.

The Group has yet to determine to what extent the changes will have on the measurement of outstanding claim liabilities and how this will affect the Group's profit and classification of cash flows. Based on our preliminary assessment, given the Group only has short term insurance contracts we are not expecting a material impact to the figures reported in these financial statements.

AASB 9 Financial Instruments and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)

AASB 9 will come into effect for financial periods beginning on or after 1 January 2018. AASB 9 replaces AASB 139 Financial instruments: Recognition and Measurement and its relevant interpretations. The main impacts of these standards on the Group are that they will change the requirements for the classification, measurement, impairment and disclosures associated with the department's financial assets.

AASB 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through Profit or Loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (FVOCI). Gains and losses realised on the sale of such financial assets at FVOCI are not transferred to profit or loss on sale but reclassified from the FVOCI reserve to retained earnings.

Under AASB 9, there are no changes to the classification and measurement requirements for financial liabilities except for the recognition of fair value changes arising from changes in own credit risk. For liabilities designated at fair value through profit or loss, such changes are recognised in OCI.

AASB 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management uses for risk management purposes.

There is also now a new expected credit losses impairment model that replaces the incurred loss impairment model used in AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through OCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

AASB 9 Financial Instruments and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) (continued)

(i) Impact

The Group has reviewed the impact of AASB 9 on the classification and measurement of its financial assets. The following summarises the estimated impact (or ranges of estimates) of AASB 9 as it concerns the categorisation and valuation of the amounts reported in Notes D2-4:

- There will be no change to either the classification or valuation of the cash and cash equivalent item.
- Trade receivables will continue to be classified and measured at amortised cost, similar to the current classification of receivables. However, new impairment requirements will result that if a provision is required, it will result in a provision being applied to all receivables rather than only on those receivables that are credit impaired. The Group will be adopting the simplified approach under AASB 9 and measure lifetime expected credit losses on all trade receivables using a provision matrix approach as a practical expedient to measure the impairment provision.

Applying this approach, the Group has estimated that there is no requirement for provision for impairment for trade receivables on 1 July 2018.

- The investments are currently measured at fair value through profit and loss. However as these investments are held for strategic rather than financial purposes, the Group intends to make an irrevocable election on adoption of AASB 9 in 2018-19 that each individual investment will be categorised as Fair Value through Other Comprehensive Income (FVOCI). As such, while their fair value will be represented in the Statement of Comprehensive Income, changes in value will be recognised in OCI rather than operating surpluses. The amount will not be recycled through operating surpluses when the investments are disposed of.
- All financial liabilities will continue to be measured at amortised cost. The Group does not expect a material change in the reported value of financial liabilities.

(ii) Transition

The Group plans to adopt the new standard from 1 July 2018, in line with the transition provisions permitted under the standard. Comparatives for 2017-18 will not be restated.

Given the Group currently records financial assets at fair value through profit or loss, there should be no change to the current reported amounts as a result of the new standard.

(iii) Impairment of financial assets

We do not expect any financial assets will be subject to the expected credit losses impairment model under AASB 9.

We do not expect any change in the provision for impairment for the above financial assets and no change in opening retained profits is expected to arise from the application of the expected credit losses impairment model.

Other accounting standards

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

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

E1 KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel (KMP) and remuneration disclosures are made in accordance with the FRR, consistent with additional guidance included in AASB 124 *Related Party Disclosures*.

The following details for KMP include those positions that had authority and responsibility for planning, directing and controlling the activities of the Society during 2017-18 and 2016-17. This is supported through the Council Charter which is available on the Society's website. Further information on these positions can be found in the body of the Annual Report.

The positions of President, Deputy President, and Vice President are supported by the elected Council members.

Position	Position Responsibility
President	Lead the Council in settling the corporate direction and goals and monitoring the performance of the Society. Each President is elected for a term of one calendar year. Supported by elected Council Members.
Deputy President	To provide direct support to President. The Deputy President succeeds to the office of President at the beginning of the second term.
Vice President	Supporting the President and Deputy President in the discharge of their duties. The Vice President holds office for a two year term.
Chief Executive Officer	To lead 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	Start of Term	End of Term
President	Ken Taylor	01/01/2018	31/12/2018
President	Christine Smyth	01/01/2017	31/12/2017
Deputy President	William Potts	01/01/2018	31/12/2018
Vice President	Christopher Coyne	01/09/2017	31/12/2017
Vice President	Kara Cook	01/01/2016	31/08/2017
Chief Executive Officer	Rolf Moses	05/03/2018	Ongoing
Chief Executive Officer (Acting)	Matthew Dunn	31/01/2017	04/03/2018

KMP Remuneration Policy

Remuneration entitlements are set by the Council. The Society does not bear any cost of remuneration for its Councillors. Remuneration packages for key management personnel comprise the following components:

Short term employee expenses which include:

- base salary, allowances and leave entitlements paid and provided for the entire year or for that part of the year during which the employee occupied the specific position;
- performance payments recognised as an expense during the year; and
- non-monetary benefits – consisting of provision of car parking, kilometerage travel reimbursement and accommodation (including fringe benefits tax where applicable).

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

E1 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

KMP Remuneration Policy (continued)

Long term employee benefits include long service leave entitlements accrued during the period. There were no longer term employee benefits paid in the reporting period.

Post-employment benefits include amounts in respect of employer superannuation contributions.

Termination benefits include payments in lieu of notice on termination and other lump sum separation entitlements (excluding annual and long service leave entitlements) payable on termination of employment or acceptance of an offer of termination of employment.

KMP remuneration

1 July 2017 – 30 June 2018

	Short Term Employee Expenses				
Position	Monetary Expenses $'000	Non-Monetary Benefits $'000	Post Employment Benefits $'000	Termination Benefits $'000	Total Expenses $'000
President 1 January 2018 – 30 June 2018	161	6	15	-	182
President 1 July 2017 – 31 December 2017	131	22	12	-	165
Deputy President 1 January 2018 – 30 June 2018	43	3	4	-	50
Vice President 1 September 2017 – 31 December 2017	29	-	3	-	32
Vice President 1 July 2017 – 31 August 2017	15	-	1	-	16
Chief Executive Officer 5 March 2018 – 30 June 2018	98	2	9	-	109
Chief Executive Officer (Acting) 1 July 2017 – 4 March 2018	193	5	18	-	216

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

E1 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

KMP Remuneration Policy (continued)

KMP remuneration (continued)

1 July 2016 – 30 June 2017

	Short Term Employee Expenses				
Position	Monetary Expenses $'000	Non-Monetary Benefits $'000	Post Employment Benefits $'000	Termination Benefits $'000	Total Expenses $'000
President 1 July 2016 – 31 December 2016	131	25	12	-	168
President 1 January 2017 – 30 June 2017	131	27	12	-	170
Deputy President 1 July 2016 – 31 December 2016	43	4	4	-	51
Vice President 1 September 2017 – 31 December 2017	43	-	4	-	47
Chief Executive Officer 1 July 2016 – 10 February 2017	193	6	19	53	271
Chief Executive Officer (Acting) 31 January 2017 – 30 June 2017	113	1	11	-	125

Performance payments

The remuneration package for the Chief Executive Officer provides for performance payments to be made conditional on the achievement of key performance indicators (KPIs) specified in the CEO's employment contract and subject to discretionary approval by the Council.

Achievement of each KPI is measured on an annual basis. The Council retains discretion as to whether performance payments are made.

No amount was expensed in 2017-18 (2016-17: $12,500) for bonus payments for the Chief Executive Officer. Previous year comparative relates to the previous CEO.

As at the date of management certification of these financial statements, no provision has been made for a performance bonus for the incoming Chief Executive Officer as he commenced late in the performance assessment period.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

E2 RELATED PARTY TRANSACTIONS

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

	2018 $	2017 $
Management fees and recovery expenditure paid to the parent entity by:		
Lexon Insurance Pte Ltd	184,408	222,090
Law Claims Levy Fund	41,872	28,734
Legal Practitioners' Fidelity Guarantee Fund	145,116	129,576
Legal Practitioners Admissions Board	512,301	717,038
Gross premiums paid by Law Claims Levy Fund to Lexon	18,697,416	22,185,256
Grant paid by LCLF to parent entity	451,081	488,048
Professional fees paid to a firm of which a councillor of QLS is a member:		
• McInnes Wilson Lawyers	7,097	5,356
• Potts Lawyers	14,940	27,210
Professional fees paid to a firm of which a director of Lexon is a member:		
• McInnes Wilson Lawyers	565,426	501,368
• Potts Lawyers	42,664	75,751
Other non claim professional advice provided:		
• McInnes Wilson	7,000	18,300
• K&L Gates	-	6,890
Management fees paid to a firm of which a director of Lexon is a member:		
• AON Insurance Managers (Singapore) Pte Ltd	95,668	92,882
Consulting fees paid to Lexon Legal, a firm of which a QLS Councillor is a member:		
• Consulting fee	166,150	335,240
• Consulting fee – contribution to office costs	4,583	21,608
Key management personnel compensation Lexon:		
Directors' fees	416,400	392,155
Other officers		
• Salaries and other short term employee benefits	1,096,632	991,876
• Employer's contribution to defined contribution plans	78,646	70,866

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

E3 FIRST YEAR APPLICATION OF NEW ACCOUNTING STANDARDS OR CHANGE IN ACCOUNTING POLICY

Changes in Accounting Policy

The Group did not voluntarily change any of its accounting policies during 2017-18.

Accounting Standards Early Adopted

No Australian Accounting Standards have been early adopted for 2017-18.

Accounting Standards Applied for the First Time

Accounting Standards applied for the first time in the 2017-18 financial year had no material impact on the Group.

See Note D5 for future impacts of Australian Accounting Standards not yet adopted.

F1 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 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 Taxation 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 ten 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 which affects neither accounting nor taxable profit nor 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 balance date, and are recognised as income or expenses in the Statement of Comprehensive Income, except to the extent that the tax arises from a transaction which is recognised directly in equity.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

F1 TAXATION (continued)

F1-1 INCOME TAX EXPENSE

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Tax expense attributable to profit is made up of:				
Current income tax	693	690	-	-
Deferred income tax	(1,135)	(314)	-	-
	(442)	376	-	-
(Over)/under provision in preceding financial year				
Current income tax	(29)	26	-	-
Deferred income tax (Note F1-3)	-	(26)	-	-
	(471)	**376**	**-**	**-**

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

	Consolidated		Parent	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Operating surplus before income tax	2,889	4,308	398	(489)
Tax calculated at a tax rate of 30% (2017: 30%)	867	1,292	119	(147)
Effects of:				
Income not subject to tax	(1,172)	(735)	(119)	147
Franking and other credits available	(166)	(181)	-	-
	(471)	**376**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2018

F1 TAXATION (continued)

F1-2 CURRENT INCOME TAX LIABILITY

	Consolidated		Parent	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Income tax at the beginning of the financial year	(1,603)	3,810	-	-
Income tax refunded/(paid)	(100)	(6,130)	-	-
Current year income tax	693	691	-	-
Under provision in preceding financial years	(29)	26	-	-
Income tax at the end of the financial year (Refund)	**(1,039)**	**(1,603)**	**-**	**-**

F1-3 DEFERRED INCOME TAX BALANCES

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

	Consolidated		Parent	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Deferred tax assets				
Balance at the beginning of the financial year	3,835	3,034	-	-
Credit to profit or loss:			-	
• Claims handling provision	(33)	288	-	-
• Allowance for impairment of receivables	(13)	6	-	-
• Unearned premium deficiency	(346)	494	-	-
• Unrealised investment movements	787	-	-	-
• Tax-free distributions on investments	(62)	-	-	-
• Other timing differences	15	13	-	-
	4,183	3,835	-	-
Deferred tax liabilities				
Balance at the beginning of the financial year	(787)	(327)	-	-
Charge to Statement of Comprehensive Income:				
• Unrealised investment movements	440	(497)	-	-
• Tax-free distributions on investments	347	37	-	-
	-	(787)	-	-
Net deferred tax asset at the end of the financial year	**4,183**	**3,048**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Management Certificate for the year ended 30 June 2018

These general purpose financial statements have been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* (the Act), section 43 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 prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and

b. the 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 2018 and of the financial position of the Group as at the end of that year; and

c. these assertions are based on an appropriate system of internal controls and risk management processes being effective, in all material respects, with respect to financial reporting throughout the reporting period.

President
Queensland Law Society
Ken Taylor

30/8/18

Chief Executive Officer
Queensland Law Society
Rolf Moses

30/8/18

Queensland Audit Office
Better public services

QUEENSLAND LAW SOCIETY INCORPORATED

Independent Auditor's Report

To the Council of Queensland Law Society Incorporated.

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

I have audited the accompanying financial report of Queensland Law Society Incorporated (the parent) and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the parent's and group's financial position as at 30 June 2018, and their financial performance and cash flows for the year then ended; and
b) complies with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

BASIS FOR OPINION

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the parent and group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

RESPONSIBILITIES OF THE COUNCIL 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 the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards, and for such internal control as the Council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Council is also responsible for assessing the parent's and group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the parent or group or to otherwise cease operations.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

Queensland Audit Office
Better public services

QUEENSLAND LAW SOCIETY INCORPORATED

Independent Auditor's Report

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the parent's and group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the parent's and group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent's or group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the parent or group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

I communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2018:

a) I received all the information and explanations I required.

b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

JWelsh

John Welsh
as delegate of the Auditor-General

31 August 2018

Queensland Audit Office
Brisbane