

**MDA National** Annual Financial Report  
for the year ended 30 June 2005

**MDA National**



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**MDA**  
**NATIONAL**

THE MEDICAL DEFENCE ASSOCIATION OF WESTERN AUSTRALIA  
(INCORPORATED) TRADING AS MDA NATIONAL

## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

### Office Bearers and Executive

#### MEMBERS OF THE MDA NATIONAL COUNCIL

**Dr Andrew J Miller**  
*President*

**Dr Rodney M Moore**  
*Vice-President*

**Dr Max Baumwol**  
*Chair of Finance*

**Dr Fiona A Bettenay**

**Dr John B Blackwell**

**Dr Thomas B Hugh**

**Dr J Timothy Jeffery**  
*(resigned 12 October 05)*

**Dr Philip Melling**  
*(resigned 15 February 05)*

**Dr Robyn Napier**  
*(commenced 24 February 05)*

**Dr Julian Rait**

**Dr Guy A van Hazel**

**Dr Beres C A Wenck**

**Dr David O Watson**

#### MEMBERS OF THE MDANI BOARD

**Mr Graham N Reynolds**  
*Chair*

**Dr John B Blackwell**  
*Deputy Chair*

**Mr James M Freemantle**

**Mr Peter M Forbes**  
*CEO/Director*

**Dr Dennis R Hayward**

**Dr Thomas B Hugh**

**Mr James M Lutz**

**Ms Eva D Skira**

**Dr Fiona A Bettenay**  
*Alternate Director to Dr Blackwell*  
*(appointed 09 February 05)*

**Dr Rodney M Moore**  
*Alternate Director to Dr Hugh*

**Dr Andrew J Miller**  
*Alternate Director to Dr Blackwell*  
*(resigned 23 February 05)*

#### REGISTERED OFFICE

CSC Building  
Level 3, 516 Hay Street  
Subiaco WA 6008  
Phone: 08 6461 3400  
Freecall: 1800 034 466  
Fax: 08 9415 1492

#### OTHER OFFICE LOCATIONS

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101-105 Dundas Place  
Albert Park VIC 3206  
Phone: (03) 9915 1700  
Freecall: 1800 011 255  
Fax: (03) 9690 6272

##### Sydney:

Level 5, AMA House  
69 Christie Street  
St Leonards NSW 2065  
Phone: (02) 9023 3300  
Fax: (02) 9460 8344

##### Brisbane:

Level 8, 87 Wickham Terrace  
Spring Hill QLD 4000  
Phone: (07) 3120 1800  
Fax: (07) 3839 7822

#### EXECUTIVE

**Mr Peter M Forbes**  
*Chief Executive Officer*

**Mr Michael Halliday**  
*Head of Group Development  
and Operations*

**Mr Allan Tattersall**  
*Head of Claims*

**Mr Andrew Fraser-Gillard**  
*Head of Finance*

**Ms Dianne Browning**  
*Company Secretary and  
General Counsel*

#### SERVICE PROVIDERS

##### Auditors:

Ernst & Young (Perth)

##### Actuaries:

Finity Consulting Pty Ltd (Sydney)

##### Reinsurance Brokers:

Marsh Limited (London)

##### Principal External Legal Advisors:

Clayton Utz (Perth)

TressCox (Sydney)

##### Internal Auditors:

KPMG (Perth)

MDA National is a registered business name of the Medical Defence Association of Western Australia (Incorporated) (MDA WA) ARBN 055 801 771. MDA WA is incorporated in Western Australia under the Associations Incorporations Act 1987 and is referred to in this Report as MDA National.

MDA National Insurance Pty Ltd ABN 56 058 271 417 (MDANI) is a wholly owned subsidiary of MDA National.

MDA National and MDANI are together referred to in this Report as the MDA National Group or the Group. This expression is used for convenience as both are separate legal entities.

STATEMENT BY COUNCIL.....	1
STATEMENT BY CHIEF EXECUTIVE OFFICER .....	1
INDEPENDENT AUDIT REPORT .....	2
STATEMENTS OF FINANCIAL PERFORMANCE .....	3
STATEMENTS OF FINANCIAL POSITION .....	4
STATEMENTS OF CASH FLOWS .....	5
NOTES TO THE FINANCIAL STATEMENTS .....	6

On behalf of the Council of The Medical Defence Association of Western Australia (Incorporated), we hereby state that to the best of our knowledge and belief, the accompanying financial report of the Association and the consolidated financial report of the consolidated entity comprising the Association and the entities it controlled during the financial year and at the year's end is a true and fair representation of the financial position of the Association as at 30 June 2005 and the results for the year then ended.

**DR ANDREW J MILLER**  
President

**DR MAX BAUMWOL**  
Chairman of Finance

25 October 2005

I hereby state that to the best of my knowledge and belief the accompanying financial report of The Medical Defence Association of Western Australia (Incorporated) is a true and fair representation of the state of affairs of the Association and the consolidated entity as at 30 June 2005 and the results of their operations and cash flows for the year then ended in accordance with applicable Accounting Standards.

**P M FORBES, FCA**  
Chief Executive Officer

25 October 2005

# 3 | Independent Audit Report



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Perth WA 6000  
Australia

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## INDEPENDENT AUDIT REPORT TO MEMBERS OF MEDICAL DEFENCE ASSOCIATION OF WESTERN AUSTRALIA INC.

### Scope

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows and accompanying notes to the financial statements and the Statement by Council for the Medical Defence Association of Western Australia Inc ("the Association") and the consolidated entity for the year ended 30 June 2005. The consolidated entity comprises both the Association and the entities it controlled during the year.

The Association's councillors are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Association and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Associations Incorporation Act 1987 (WA) and the Association's constitution. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit Approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Association. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Associations Incorporation Act 1987 (WA), including compliance with Accounting Standards in Australia, other mandatory financial reporting requirements in Australia and the Association's Constitution, a view which is consistent with our understanding of the Association's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the councillors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the councillors and management of the Association.

### Independence

We are independent of the Association, and have met the independence requirements of Australian professional ethical pronouncements. In addition to our audit of the financial report, we were engaged to undertake services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Audit Opinion

In our opinion, the financial report of the Medical Defence Association of Western Australia is in accordance with:

- (a) the Associations Incorporation Act 1987 (WA) including:
  - (i) giving a true and fair view of the financial position of the Medical Defence Association of Western Australia Inc. and the consolidated entity as at 30 June 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia; and
- (b) other mandatory financial reporting requirements in Australia.

### Ernst & Young

#### J P Dowling

Partner

Perth

Date: 27 October 2005

YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>REVENUES FROM ORDINARY ACTIVITIES</b>					
Premium revenue (including subscription revenue)	3	<b>50,368,629</b>	53,103,041	<b>736,996</b>	5,254,809
Outward reinsurance expense		<b>(7,710,515)</b>	(9,593,790)	<b>(3,600,698)</b>	(4,585,749)
		<b>42,658,114</b>	43,509,251	<b>(2,863,702)</b>	669,060
Claims expense		<b>(23,898,216)</b>	(30,583,097)	<b>13,435,687</b>	2,813,235
Reinsurance and other recoveries revenue		<b>880,649</b>	18,101,044	<b>(11,521,526)</b>	8,729,654
Net claims expense	24	<b>(23,017,567)</b>	(12,482,053)	<b>1,914,161</b>	11,542,889
Other underwriting expenses		<b>(1,693,764)</b>	(1,714,325)	-	-
<b>UNDERWRITING RESULT</b>		<b>17,946,783</b>	29,312,873	<b>(949,541)</b>	12,211,949
Investment revenue	3	<b>10,830,891</b>	10,796,776	<b>4,813,692</b>	5,793,358
Other revenue	3	<b>407,579</b>	392,347	<b>15,431</b>	25,809
General operating and administration costs		<b>(1,836,310)</b>	(1,643,936)	<b>(126,616)</b>	(230,940)
Depreciation expense	4	<b>(733,122)</b>	(298,379)	<b>(137,778)</b>	(54,413)
Management fee expense		-	-	<b>(14,738)</b>	(456,488)
Financial costs and fees		<b>(677,389)</b>	(851,273)	<b>(101,608)</b>	(84,230)
Legal expense		<b>(584,064)</b>	(353,846)	<b>(307,600)</b>	(176,923)
Restructure expense		-	(520,899)	-	-
Consulting fee expense		<b>(867,736)</b>	(862,746)	<b>(108,135)</b>	(260,661)
Salaries, fees and employee benefits expense		<b>(6,503,839)</b>	(4,020,212)	<b>(1,970,048)</b>	(1,235,916)
General insurance expense		<b>(719,108)</b>	(568,547)	<b>(107,866)</b>	(272,739)
Reversal for diminution in value of investment		-	-	-	1,780,440
Other expenses from ordinary activities		<b>(3,083,121)</b>	(2,018,715)	<b>(429,715)</b>	(552,683)
<b>SURPLUS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>	23	<b>14,180,564</b>	29,363,443	<b>575,478</b>	16,486,563
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>	5	<b>5,423,535</b>	6,290,562	<b>1,300,953</b>	2,010,421
<b>SURPLUS / (DEFICIT) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE RECOGNISED IN MEMBERS' FUNDS</b>	15	<b>8,757,029</b>	23,072,881	<b>(725,475)</b>	14,476,142

These statements of financial performance should be read in conjunction with the accompanying notes

# 5 | Statements of Financial Position

AS AT 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>CURRENT ASSETS</b>					
Cash assets	6	<b>109,821,417</b>	77,830,468	<b>12,510,034</b>	10,619,668
Receivables	7	<b>10,263,969</b>	6,729,429	<b>7,122,182</b>	7,160,491
Income tax refundable	5	–	71,388	–	71,388
Other	8	<b>474,823</b>	499,688	–	198,919
<b>TOTAL CURRENT ASSETS</b>		<b>120,560,209</b>	85,130,973	<b>19,632,216</b>	18,050,466
<b>NON-CURRENT ASSETS</b>					
Receivables	9	<b>38,667,000</b>	42,034,000	<b>31,843,000</b>	46,609,000
Other financial assets	10	<b>35,498,044</b>	47,642,488	<b>37,845,026</b>	44,044,849
Plant & equipment	11	<b>1,625,223</b>	1,148,774	<b>151,216</b>	290,925
Deferred tax asset	5	–	44,882	–	–
<b>TOTAL NON-CURRENT ASSETS</b>		<b>75,790,267</b>	90,870,144	<b>69,839,242</b>	90,944,774
<b>TOTAL ASSETS</b>		<b>196,350,476</b>	176,001,117	<b>89,471,458</b>	108,995,240
<b>CURRENT LIABILITIES</b>					
Payables	12	<b>27,410,576</b>	24,554,864	<b>3,129,190</b>	1,374,758
Provisions	13	<b>24,661,196</b>	22,543,511	<b>13,298,671</b>	15,711,334
<b>TOTAL CURRENT LIABILITIES</b>		<b>52,071,772</b>	47,098,375	<b>16,427,861</b>	17,086,092
<b>NON-CURRENT LIABILITIES</b>					
Provisions	14	<b>90,482,132</b>	84,116,000	<b>37,522,000</b>	55,753,000
Deferred tax liabilities	5	<b>539,009</b>	286,208	<b>377,132</b>	286,208
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>91,021,141</b>	84,402,208	<b>37,899,132</b>	56,039,208
<b>TOTAL LIABILITIES</b>		<b>143,092,913</b>	131,500,583	<b>54,326,993</b>	73,125,300
<b>NET ASSETS</b>		<b>53,257,563</b>	44,500,534	<b>35,144,465</b>	35,869,940
<b>MEMBERS' FUNDS</b>					
Accumulated surplus	15	<b>53,257,563</b>	44,500,534	<b>35,144,465</b>	35,869,940
<b>TOTAL MEMBERS' FUNDS</b>		<b>53,257,563</b>	44,500,534	<b>35,144,465</b>	35,869,940

These statements of financial position should be read in conjunction with the accompanying notes

YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from members & insureds		<b>56,694,659</b>	67,137,824	<b>3,707,990</b>	4,743,338
Interest received		<b>4,323,404</b>	3,032,819	<b>1,060,136</b>	1,316,740
Distributions/dividends received		<b>840,976</b>	1,260,649	<b>554,969</b>	879,028
Payments to suppliers (including claims)		<b>(39,998,905)</b>	(45,287,351)	<b>(12,380,691)</b>	(20,211,386)
Income tax paid		<b>(6,347,484)</b>	(203,631)	<b>(352,692)</b>	(203,631)
Income tax received		-	172,898	-	124,238
<b>Net cash inflows / (outflows) from operating activities</b>	16	<b>15,512,650</b>	26,113,208	<b>(7,410,288)</b>	(13,351,673)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Funds deposited into managed portfolio		<b>(8,748,983)</b>	-	<b>(6,324,421)</b>	-
Proceeds from the redemption of investments		<b>26,432,467</b>	4,863,802	<b>15,618,315</b>	-
Proceeds from the sale of plant and property		<b>6,760</b>	-	<b>6,760</b>	-
Purchase of shares in controlled entity		-	-	-	(4,000,000)
Loan to controlled entity		-	-	-	(8,000,000)
Acquisition of plant and equipment		<b>(1,211,945)</b>	(1,134,745)	-	(186,236)
<b>Net cash inflows/(outflows) from investing activities</b>		<b>16,478,299</b>	3,729,057	<b>9,300,654</b>	(12,186,236)
<b>Net increase/(decrease) in cash held</b>		<b>31,990,949</b>	29,842,265	<b>1,890,366</b>	(25,537,909)
Cash at beginning of year		<b>77,830,468</b>	47,988,203	<b>10,619,668</b>	36,157,577
<b>CASH AT END OF YEAR</b>	6	<b>109,821,417</b>	77,830,468	<b>12,510,034</b>	10,619,668

These statements of cash flows should be read in conjunction with the accompanying notes

# 7 | Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of accounting

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, in particular AAS 26, "Financial Reporting of General Insurance Activities" and other mandatory professional reporting requirements and the requirements of the Associations Incorporations Act (Western Australia).

The financial report has been prepared on an accruals basis and is based on historical costs, except for certain assets, which are at valuation. The accounting policies have been consistently applied unless otherwise stated.

The financial report covers the Medical Defence Association of Western Australia (Inc) ("Association") as an individual parent entity and the Association and its controlled entities as a consolidated entity. The Association is an association incorporated in Western Australia and domiciled in Australia.

### (b) Changes in accounting policies

The accounting policies have been consistently applied and are consistent with those of the previous year unless otherwise stated.

### (c) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

### (d) Receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

### (e) Investments

(i) Investments, other than investments in controlled entities, are measured at net market value after providing for the estimated costs of disposal.

Realised gains and losses on the sale of investments, together with unrealised gains and losses arising on changes in the net market value of investments are recognised as revenue or expense in the Statement of Financial Performance.

(ii) Investments in controlled entities are stated at cost.

### (f) Recoverable amount of Non-Current Assets

Where the carrying amount of an individual non-current asset is greater than the net amount expected to be recovered through the net cash inflows arising from the asset's continued use and subsequent disposal ("recoverable amount"), the asset is revalued to its recoverable amount. The revaluation decrement is recognised as an expense in the Statement of Financial Performance.

The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present values.

### (g) Property, plant and equipment

#### *Cost and valuation*

All classes of property, plant and equipment are measured at cost.

#### *Depreciation*

Depreciation is provided on a straight line basis on all property, plant and equipment.

Major depreciation periods are:

	2005	2004
– Leasehold Improvement	3 years	3 years
– Plant and equipment	3 years	3 years

FOR THE YEAR ENDED 30 JUNE 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and the benefits incidental to ownership.

#### *Operating Leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised on a straight line basis over three years.

### (i) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services rendered, whether or not billed to the entity.

Payables to related parties are carried at the principal amount.

### (j) Interest bearing liabilities

All loans are measured at the principle amount. Interest is recognised as an expense as it accrues.

### (k) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

### (l) Revenue

Subscription revenue is recognised upon the delivery of the service to the members.

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

Dividend and distribution revenue is recognised when the controlled entity has established that it has a right to receive a dividend or distribution.

Realised and unrealised gains/(losses) are recognised in the periods in which they occur.

### (m) Premium

Direct and inwards reinsurance premium comprises amounts charged to the policyholder or other insurer, excluding amounts collected on behalf of third parties, principally stamp duties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk.

The pattern of recognition over the policy or indemnity periods is based on time, which is considered to closely approximate the pattern of risks underwritten. Unearned premium is determined for direct business and inward reinsurance using the pro-rata method.

### (n) Outstanding Claims

The liability for outstanding claims is measured at the present value of the expected future payments, reflecting the fact that not all the claims have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement, such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example, increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the balance date using discount rates based on Australian Commonwealth bonds. The details of rates applied are included in Note 21.

A liability for outstanding claims is recognised in respect of all claims notified to the consolidated entity as identified in Notes 13 and 14. Corresponding receivables are disclosed as reinsurance recoveries and other recoveries – Government schemes as identified in Notes 7 and 9.

FOR THE YEAR ENDED 30 JUNE 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Incidents Incurred But Not Reported (IBNRs)

This relates to the Association's potential liability for incidents that may have occurred up until the balance date but have not been reported to the Association and in all probability are unknown to the member.

It is an actuarial assessment based on historical claims data.

It is important to note that the benefits of membership are discretionary and therefore the recognition of the IBNR as a liability does not override nor pre-empt the discretionary powers vested on the Association's Council under the Association's Rules.

IBNR includes –

- provision for accrued benefits of members who have applied for extended reporting benefits (ERB);
- the 2000 Medical Protection Society (MPS) transaction; and
- the actuarial assessment of the Association's IBNR for incidents that have occurred prior to 1 July 1997 but have not yet been reported (1 July 1997 was the date the Association converted to claims made benefits membership).

The estimate of the IBNR liability allows for future inflation of 8% (2004: 8%) per annum (wage inflation of 4% per annum plus superimposed inflation of 4% per annum) and interest of 5.2% (2004: 5.5%) per annum. The inclusion of the superimposed inflation in the estimate is intended to allow for the deterioration in the claims environment for personal injury claims, which may occur between a claim occurring and being settled. The very long delays between occurrence and settlement, which can occur in this type of business, means that the estimate of IBNR liability is subject to considerable uncertainty.

### (p) Other Recoveries – Government Schemes

Estimates of the amounts recoverable from the Commonwealth Government under the High Cost Claims Scheme and the Run-off Cover Scheme are recognised as revenue in respect of claims liabilities recognised at balance date.

Other government recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

### (q) Reinsurance and Other Recoveries

#### *Outwards Reinsurance*

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Reinsurance recoveries are recognised as revenue for claims incurred. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

### (r) Taxes

#### *Income Taxes*

Tax effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting result after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. A net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

The Association operates for the mutual benefit of members. Accordingly, the Association's Council is of the opinion that the Association is not liable for income tax on subscriptions received from members, nor are the related outgoings allowable as an income tax deduction.

The Association is, however, liable for income tax on dividend, interest, rental and other income from investment and on capital (post capital gains tax) profits.

FOR THE YEAR ENDED 30 JUNE 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except:

- i) where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- ii) receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### **(s) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash flow to be made in respect of services provided by employees up to the reporting date. In determining present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employees benefit expenses and revenues arising in respect of the following categories:

- i) wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- ii) other types of employee benefits are recognised against profits on a net basis in their respective categories.

The consolidated entity employed 54 equivalent employees as at 30 June 2005 (2004: 48 employees)

### **(t) Comparative figures**

Where necessary, comparative figures for prior years have been amended where applicable to reflect any change in classification in the current year.

## 2. PROFESSIONAL INDEMNITY FOR MEMBERS

Up to 30 June 2003, the Association's Council investigated all cases in which assistance was sought by a member. The Council, in its sole and absolute discretion, determined whether the Association would assist a member and grant indemnity, and continuing indemnity, against any action arising in the course of the practice of its member. All medical indemnity mutual funds operating in Australia and the United Kingdom have this discretionary power to assist members.

Due to legislative reform in Australia, from 1 July 2003 the Association ceased accepting subscriptions from members for the purpose of providing indemnity. The Association continues to assist members with incidents reported up to 30 June 2003 and incidents which occurred prior to 1 July 1997 as referred to in Note 1(o).

From 1 July 2003, MDA National Insurance Pty Ltd (a wholly owned and controlled entity of the Association) commenced the activity of issuing policies of medical indemnity insurance.

# 7 | Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$

## 3. REVENUE

### *Operating activities*

Premium and subscription income

<b>50,368,629</b>	53,103,041	<b>736,996</b>	5,254,809
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### *Non-operating activities*

Investment income

Interest received

<b>4,323,404</b>	3,078,636	<b>1,060,136</b>	1,316,740
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Trust distributions received

<b>2,163,866</b>	2,314,026	<b>1,296,750</b>	1,505,807
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Foreign source income

–	–	–	–
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Sundry income

<b>940,541</b>	951,098	<b>486,263</b>	598,718
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Unrealised net movement in market values

<b>2,479,188</b>	5,198,253	<b>1,460,247</b>	2,935,541
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Realised gains on sale of investments

<b>1,736,962</b>	133,854	<b>892,045</b>	–
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Direct investment expenses

<b>(813,070)</b>	(879,091)	<b>(381,749)</b>	(563,448)
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<b>10,830,891</b>	10,796,776	<b>4,813,692</b>	5,793,358
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Other revenue

Commissions received

<b>17,015</b>	16,316	<b>15,431</b>	16,316
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Sundry

<b>22,464</b>	9,493	–	9,493
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Government subsidy

<b>368,100</b>	366,538	–	–
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<b>407,579</b>	392,347	<b>15,431</b>	25,809
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## 4. EXPENSES AND LOSSES

Depreciation

Plant and equipment (note 11)

<b>530,180</b>	290,610	<b>127,275</b>	47,500
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Leasehold improvements (note 11)

<b>202,942</b>	7,769	<b>10,503</b>	6,913
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<b>733,122</b>	298,379	<b>137,778</b>	54,413
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FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$

## 5. INCOME TAX

The prima facie tax payable on the operating surplus differs from the income tax provided in the financial statements and is calculated as follows:

Prima facie tax payable at 30% on operating surplus

Tax effect of permanent differences:

Rebateable dividends

Foreign tax paid

Mutual income

Tax free element of revaluation and disposals

Non-deductible expenses

Non-assessable income

Imputation credit gross up

Foreign tax gross up

Reversal of diminution in value of subsidiary

Intercompany loss transfer

(Over)/under-provision from prior years

Income tax expense for the year

<b>4,254,169</b>	8,809,033	<b>172,644</b>	4,945,969
<b>(285,983)</b>	(270,803)	<b>(166,141)</b>	(148,659)
<b>(25,249)</b>	(42,430)	<b>(15,932)</b>	(26,673)
<b>1,247,640</b>	(2,820,279)	<b>1,247,640</b>	(2,820,279)
<b>79,609</b>	(70,903)	–	24,097
<b>21,360</b>	96,378	–	2,169
<b>(4,310)</b>	(35,606)	<b>(4,228)</b>	(24,112)
<b>85,795</b>	81,241	<b>49,842</b>	44,598
<b>7,575</b>	12,729	<b>4,780</b>	8,002
–	534,133	–	–
–	–	–	–
<b>42,929</b>	(2,931)	<b>12,348</b>	5,309
<b>5,423,535</b>	6,290,562	<b>1,300,953</b>	2,010,421

### Tax assets and liabilities

Income tax refundable – current

Future income tax benefit

Provision for income tax (Note 13)

Provision for deferred income tax

–	71,388	–	71,388
–	44,882	–	–
<b>2,736,187</b>	3,957,819	<b>1,184,671</b>	327,334
<b>539,009</b>	286,208	<b>377,132</b>	286,208

For the purposes of income tax, the Association decided in 2005 not to form a tax consolidated group with its wholly owned subsidiaries.

# 7 | Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$

## 6. CURRENT ASSETS – CASH ASSETS

Cash at bank	<b>50,714,155</b>	54,553,907	<b>12,510,034</b>	10,619,668
Cash held in trust (a)	<b>9,912,136</b>	3,546,326	–	–
Discounted bank bills	<b>49,195,126</b>	19,730,235	–	–
	<b>109,821,417</b>	77,830,468	<b>12,510,034</b>	10,619,668

(a) The balance consists of \$2,358,724 relating to cash received for insurance policies not finalised at balance date, which is required to be held in trust in accordance with the Financial Services Reform Act 2001, and the remaining balance of \$7,553,412 represents the company's funds, which at balance date are yet to be transferred to the company's operating cash at bank account.

## 7. CURRENT ASSETS – RECEIVABLES

Reinsurance recoveries receivable	<b>4,290,000</b>	5,150,350	<b>6,030,000</b>	7,030,000
Other recoveries – Government schemes	<b>214,000</b>	–	–	–
Amounts receivable from controlled entities	–	–	<b>1,053,000</b>	84,835
Sundry debtors	<b>5,759,969</b>	1,579,079	<b>39,182</b>	45,656
	<b>10,263,969</b>	6,729,429	<b>7,122,182</b>	7,160,491

## 8. CURRENT ASSETS – OTHER

Prepayments	<b>473,903</b>	423,705	–	198,919
Other	<b>920</b>	75,983	–	–
	<b>474,823</b>	499,688	–	198,919

## 9. NON-CURRENT ASSETS – RECEIVABLES

Subordinated loan receivable from a controlled entity (a)	–	–	<b>8,000,000</b>	8,000,000
Reinsurance recoveries receivable	<b>17,993,000</b>	27,407,000	<b>16,218,000</b>	33,981,000
Other recoveries – Government schemes	<b>20,674,000</b>	14,627,000	<b>7,625,000</b>	4,628,000
	<b>38,667,000</b>	42,034,000	<b>31,843,000</b>	46,609,000

(a) The subordinated loan carries interest at the bank bill rate plus a margin of 1.9%, is unsecured and is repayable in 2014 or at an earlier time at the discretion of the borrower. The Association has agreed to subordinate the repayment of the loan, during the term of the loan, to all un-subordinated liabilities of the borrower.

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$

## 10. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

Investment in managed portfolios				
– at net market value	<b>35,498,044</b>	47,642,488	<b>22,845,024</b>	29,044,847
Investment in wholly owned Controlled entities – at cost (a)	<b>-</b>	-	<b>15,000,002</b>	15,000,002
	<b>35,498,044</b>	47,642,488	<b>37,845,026</b>	44,044,849

(a) The wholly-owned controlled entities are MDA National Insurance Pty Ltd, of which the Association holds 15,000,000 (2004: 15,000,000) ordinary shares of \$1 each, Medical Indemnity Services Pty Ltd of which the Association holds 1 ordinary share of \$1 and MDA National Pty Ltd of which the Association holds 1 ordinary share of \$1. The controlled entities are incorporated in Australia and conduct business in that country.

## 11. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

<b>Leasehold improvements</b>				
Cost	<b>785,814</b>	107,377	<b>31,238</b>	31,535
Less: accumulated depreciation	<b>(221,545)</b>	(19,603)	<b>(17,260)</b>	(6,913)
Total leasehold improvements	<b>564,269</b>	87,774	<b>13,978</b>	24,622
<b>Plant and equipment</b>				
Cost	<b>2,027,712</b>	1,547,090	<b>490,970</b>	539,558
Less: accumulated depreciation	<b>(966,758)</b>	(486,090)	<b>(353,732)</b>	(273,255)
Total plant and equipment	<b>1,060,954</b>	1,061,000	<b>137,238</b>	266,303
<b>Total property, plant and equipment</b>				
Cost	<b>2,813,526</b>	1,654,467	<b>522,208</b>	571,093
Less: accumulated depreciation	<b>(1,188,303)</b>	(505,693)	<b>(370,992)</b>	(280,168)
Total property, plant and equipment	<b>1,625,223</b>	1,148,774	<b>151,216</b>	290,925
<b>(a) Reconciliations</b>				
<b>Leasehold improvements</b>				
Carrying amount at beginning of year	<b>87,774</b>	50,112	<b>24,622</b>	-
Additions	<b>679,734</b>	45,431	-	31,535
Disposals	<b>(297)</b>	-	<b>(141)</b>	-
Depreciation expense	<b>(202,942)</b>	(7,769)	<b>(10,503)</b>	(6,913)
	<b>564,269</b>	87,774	<b>13,978</b>	24,622

# 7 | Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$

## 11. NON-CURRENT ASSETS – PLANT AND EQUIPMENT (continued)

### Plant and equipment

Carrying amount at beginning of year	<b>1,061,000</b>	262,296	<b>266,303</b>	159,102
Additions	<b>532,211</b>	1,089,314	–	154,701
Disposals	<b>(2,077)</b>	–	<b>(1,790)</b>	–
Depreciation expense	<b>(530,180)</b>	(290,610)	<b>(127,275)</b>	(47,500)
	<b>1,060,954</b>	1,061,000	<b>137,238</b>	266,303

## 12. CURRENT LIABILITIES – PAYABLES

Monies held in trust (Note 6)	<b>2,358,724</b>	3,546,326	–	–
Amount due to controlled entity	–	–	<b>2,585,712</b>	602,121
Income in advance and unearned premium revenue	<b>17,813,984</b>	14,446,109	<b>318,835</b>	253,778
Sundry creditors and accruals	<b>7,237,868</b>	6,562,429	<b>224,643</b>	518,859
	<b>27,410,576</b>	24,554,864	<b>3,129,190</b>	1,374,758

## 13. CURRENT LIABILITIES – PROVISIONS

Provision for employee entitlements	<b>253,009</b>	104,692	–	–
Provision for income tax	<b>2,736,187</b>	3,957,819	<b>1,184,671</b>	327,334
Outstanding claims (Note 21)	<b>21,672,000</b>	18,481,000	<b>12,114,000</b>	15,384,000
	<b>24,661,196</b>	22,543,511	<b>13,298,671</b>	15,711,334

## 14. NON-CURRENT LIABILITIES – PROVISIONS

Outstanding claims (Note 21)	<b>70,793,000</b>	64,900,000	<b>30,202,000</b>	46,251,000
Provision for long service leave	<b>27,132</b>	–	–	–
Provision for adjustment premium	<b>468,000</b>	334,000	<b>468,000</b>	334,000
Provision for ERB and contingent DDR (Note 21)	<b>14,608,000</b>	13,330,000	<b>2,266,000</b>	3,616,000
IBNR provision for ex-MPS members (Note 1(o) and Note 21)	<b>863,000</b>	1,102,000	<b>863,000</b>	1,102,000
IBNR provision for MDA WA members (Note 1(o) and Note 21)	<b>3,723,000</b>	4,450,000	<b>3,723,000</b>	4,450,000
	<b>90,482,132</b>	84,116,000	<b>37,522,000</b>	55,753,000

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$

## 15. ACCUMULATED SURPLUS

Balance at beginning of year	<b>44,500,534</b>	21,427,653	<b>35,869,940</b>	21,393,798
Net surplus/(deficit) attributable to members	<b>8,757,029</b>	23,072,881	<b>(725,475)</b>	14,476,142
Balance at end of year	<b>53,257,563</b>	44,500,534	<b>35,144,465</b>	35,869,940

## 16. STATEMENT OF CASH FLOWS

### Reconciliation of the operating surplus after tax to the net cash flows from operations

#### Surplus/ (deficit) from ordinary activities after tax

<b>8,757,029</b>	23,072,881	<b>(725,475)</b>	14,476,142
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#### Non-cash items

Depreciation of plant & equipment	<b>733,122</b>	298,379	<b>137,778</b>	54,413
Loss on disposal of property, plant & equipment	<b>(4,385)</b>	–	<b>(4,829)</b>	–
Income reinvested in managed funds including adjustment to market value	<b>(3,802,080)</b>	(6,385,484)	<b>(2,202,026)</b>	(3,562,320)
Reversal for diminution in value of investment	–	–	–	(1,780,440)
Profit on sale of investments	<b>(1,736,962)</b>	–	<b>(892,045)</b>	–
Provision for employee entitlements	<b>175,449</b>	68,097	–	(23,614)

#### Changes in assets and liabilities

(Increase)/decrease in current assets – other	<b>(2,095,171)</b>	(499,688)	<b>88,989</b>	(198,919)
(Increase)/decrease in current receivables	<b>(1,298,233)</b>	(3,106,932)	<b>2,203,217</b>	(686,381)
(Increase)/decrease in non – current receivables	<b>3,367,000</b>	(16,338,643)	<b>14,766,000</b>	(5,126,000)
Increase/(decrease) in current accounts payable	<b>2,810,830</b>	4,640,769	<b>(229,158)</b>	(5,079,582)
(Increase)/decrease in current provisions	<b>3,163,868</b>	2,228,000	<b>(3,270,000)</b>	(869,000)
(Increase)/decrease in non-current provisions	<b>6,366,132</b>	15,876,000	<b>(18,231,000)</b>	(12,487,000)
Increase/(decrease) in income tax balances	<b>(923,949)</b>	6,259,829	<b>948,261</b>	1,931,028
<b>Net cash inflows from operating activities</b>	<b>15,512,650</b>	26,113,208	<b>(7,410,288)</b>	(13,351,673)

# 7 | Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$

## 17. COUNCILLORS' EMOLUMENTS

Remuneration received or receivable, directly or indirectly, in respect of the financial year, whether as a Councillor or otherwise from the parent entity or any related party in connection with the management of the parent entity or any related party.

			<b>775,107</b>	648,479
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## 18. COUNCILLORS' AND DIRECTORS' EMOLUMENTS

Remuneration received or receivable, directly or indirectly, in respect of the financial year, whether as a Councillor, director or otherwise from each entity in the consolidated entity, or any related party in connection with the management of the consolidated entity or any related party.

<b>1,976,104</b>	1,472,946		
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## 19. AUDITORS' REMUNERATION

Amounts received or due and receivable by Ernst & Young Australia for:

- an audit of the financial report of the Association and any other entity in the consolidated entity
- other assurance services for regulatory reporting purposes

<b>97,000</b>	91,000	<b>25,000</b>	25,000
<b>48,500</b>	38,000	<b>9,500</b>	–
<b>145,500</b>	129,000	<b>34,500</b>	25,000

No other benefits were received by the auditors.

## 20. SEGMENT REPORTING

The consolidated entity operates in the medical indemnity and insurance business in one geographical area, Australia.

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$

## 21. OUTSTANDING CLAIMS

(a) Expected future claims				
Payments and expenses (undiscounted)	<b>137,379,000</b>	124,931,000	<b>57,438,000</b>	83,183,000
Discount to present value	<b>(25,720,000)</b>	(22,668,000)	<b>(8,270,000)</b>	(12,380,000)
Liability for outstanding claims	<b>111,659,000</b>	102,263,000	<b>49,168,000</b>	70,803,000
Current (Note 13)	<b>21,672,000</b>	18,481,000	<b>12,114,000</b>	15,384,000
Non-current (Note 14)	<b>70,793,000</b>	64,900,000	<b>30,202,000</b>	46,251,000
Provision for ERB and contingent DDR (Note 14)	<b>14,608,000</b>	13,330,000	<b>2,266,000</b>	3,616,000
Non-current IBNR provision for ex-MPS members (Note 14)	<b>863,000</b>	1,102,000	<b>863,000</b>	1,102,000
Non-current IBNR provision for MDA WA members (Note 14)	<b>3,723,000</b>	4,450,000	<b>3,723,000</b>	4,450,000
	<b>111,659,000</b>	102,263,000	<b>49,168,000</b>	70,803,000

(b) The following normal and superimposed inflation rates and discount rates were used in measuring the liability for outstanding claims for the parent entity and the consolidated entity:

	Consolidated		Parent Entity	
	2005 %	2004 %	2005 %	2004 %
Claims expected to be paid				
Not later than one year:				
Normal inflation rate	*	*	*	*
Superimposed inflation rate	*	*	*	*
Discount rate	<b>5.2</b>	5.5	<b>3.65</b>	3.85
Later than one year:				
Normal inflation rate	*	*	*	*
Superimposed inflation rate	*	*	*	*
Discount rate	<b>5.2</b>	5.5	<b>3.65</b>	3.85

\* The method used to measure the liability for reported outstanding claims did not involve explicit assumptions for inflation rates. However the rates shown in the table above were adopted in valuing the IBNR, ERB and DDR liabilities.

The assumed discount rates are based on the yields available on Australian Commonwealth bonds at 30 June.

(c) The weighted average term to settlement from the balance date of the outstanding claims is assumed to be 4 years and 3 months (2004: 4 years and 3 months).

(d) Attention should be drawn to Note 1(o), Summary of Significant Accounting Policies, regarding the recognition of the IBNR as a liability.

# 7 | Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 22. RELATED PARTY DISCLOSURES

Related parties of the Association fall into the following categories:

### Councillors

(a) The names of the councillors who held office during the financial year were:

Dr Max Baumwol	Dr Fiona A Bettenay
Dr John B Blackwell	Dr Thomas B Hugh
Dr J Timothy Jeffrey (ceased 12 October 2005)	Dr Philip Melling (ceased 15 February 2005)
Dr Andrew J Miller	Dr Rodney M Moore
Dr Robyn S Napier (appointed 24 February 2005)	Dr Julian Rait (appointed 4 August 2004)
Dr David O Watson	Dr Beres C A Wenck (appointed 4 August 2004)
Dr Guy A van Hazel	

(b) Information on the remuneration of councillors is disclosed in Note 17.

(c) Other transactions with councillors and councillor-related entities

Expenses of \$18,087 were incurred during the year for consulting fees for services rendered by the following councillors:

Dr Max Baumwol	\$5,228	Dr Fiona Bettenay	\$ 550
Dr John B Blackwell	\$ 579	Dr Thomas B Hugh	\$1,100
Dr J Timothy Jeffrey	\$1,330	Dr Andrew J Miller	\$ 990
Dr Rodney M Moore	\$4,125	Dr Philip Melling	\$ 330
Dr Robyn S Napier	\$2,075	Dr Guy A van Hazel	\$1,780

### Controlled Entities

(a) The wholly-owned controlled entities are:

- MDA National Insurance Pty Ltd A.C.N. 058 271 417;
- Medical Indemnity Services Pty Ltd A.C.N. 092 452 821; and
- MDA National Pty Ltd A.C.N. 094 596 308.

FOR THE YEAR ENDED 30 JUNE 2005

## 22. RELATED PARTY DISCLOSURES (continued)

Transactions between the parent entity and the controlled entities consist of the following:

- (i) At call loans advanced to, and received from, the parent entity. These loans are unsecured and interest-free, with no fixed term of repayment. Aggregate amounts receivable from, and payable to, the parent entity at balance date were as follows:

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Loans owed from Medical Indemnity Services Pty Ltd	-	-	<b>(5,935)</b>	83,715
Loans owed from MDA National Pty Ltd	-	-	<b>1,120</b>	1,120
Loans owed to MDA National Insurance Pty Ltd	-	-	<b>(2,580,897)</b>	(602,121)

- (ii) Subordinated loan advanced to MDA National Insurance Pty Ltd. The terms and amount outstanding at balance date are disclosed in Note 9.
- (iii) Premium paid by the parent entity to MDA National Insurance Pty Ltd for insurance of professional indemnity risks by the controlled entity.

		<b>3,300,000</b>	4,145,800
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The premium is determined by reference to relevant reinsurance costs and actuarially assessed retention requirements.

- (iv) Reinsurance recoveries from controlled entity.

		<b>3,192,474</b>	2,225,699
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- (v) Management fee paid by the parent entity to Medical Indemnity Services Pty Ltd for management and administration services.

		<b>14,738</b>	456,488
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The fee is determined by reference to the management agreement between the entities, being calculated as 100% of all reasonable costs, expenses, fees and liabilities incurred by Medical Indemnity Services Pty Ltd.

## 23. CONTRIBUTIONS TO CONSOLIDATED OPERATING SURPLUS BEFORE INCOME TAX

	2005 \$	2004 \$
The Medical Defence Association of Western Australia (Incorporated)	<b>575,478</b>	14,706,123
Medical Indemnity Services Pty Ltd	<b>2,351</b>	4,307
MDA National Insurance Pty Ltd	<b>13,602,735</b>	14,653,013
	<b>14,180,564</b>	29,363,443

# 7 | Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 24. NET CLAIMS INCURRED

	2005			2004		
	Current Year \$000	Prior Years \$000	Total \$000	Current Year \$000	Prior Years \$000	Total \$000
Current year claims relate to risks borne in the current financial year. Prior year claims relate to a re-assessment of the risks borne in all previous financial years.						
<b>PARENT ENTITY</b>						
Gross claims incurred and related expenses – undiscounted	2,983	(20,528)	(17,545)	4,249	(6,345)	(2,096)
Reinsurance and other recoveries – undiscounted	(2,983)	15,557	12,574	(4,249)	(1,578)	(5,827)
HCCS recoveries – undiscounted	–	583	583	–	(2,248)	(2,248)
ROCS recoveries – undiscounted	–	1,151	1,151	–	(3,185)	(3,185)
Net claims incurred – undiscounted	–	(3,237)	(3,237)	–	(13,356)	(13,356)
Discount and discount movement – gross claims incurred	(498)	4,610	4,112	(433)	(273)	(716)
Discount and discount movement – reinsurance and other recoveries	498	(3,010)	(2,512)	433	1,281	1,724
Discount and discount movement – HCCS recoveries	–	(94)	(94)	–	333	333
Discount and discount movement – ROCS recoveries	–	(183)	(183)	–	472	472
Net discount movement	–	1,323	1,323	–	1,813	1,813
Net claims incurred – discounted	–	(1,914)	(1,914)	–	(11,543)	(11,543)

	2005			2004		
	Current Year \$000	Prior Years \$000	Total \$000	Current Year \$000	Prior Years \$000	Total \$000
Current year claims relate to risks borne in the current financial year. Prior year claims relate to a re-assessment of the risks borne in all previous financial years.						
<b>CONSOLIDATED</b>						
Gross claims incurred and related expenses – undiscounted	39,710	(13,650)	26,060	29,665	12,813	42,478
Reinsurance and other recoveries – undiscounted	(2,780)	10,661	7,881	(3,100)	(4,193)	(7,293)
HCCS recoveries – undiscounted	(6,189)	(669)	(6,858)	(2,540)	(4,708)	(7,248)
ROCS recoveries – undiscounted	(471)	(660)	(1,131)	–	(10,797)	(10,797)
Net claims incurred – undiscounted	30,270	(4,318)	25,952	24,025	(6,885)	17,140
Discount and discount movement – gross claims incurred	(6,418)	4,258	(2,160)	(4,719)	(7,176)	(11,895)
Discount and discount movement – reinsurance and other recoveries	656	(2,830)	(2,174)	887	2,956	3,843
Discount and discount movement – HCCS recoveries	1,458	(254)	1,204	626	737	1,363
Discount and discount movement – ROCS recoveries	112	84	196	–	2,031	2,031
Net discount movement	(4,192)	1,258	(2,934)	(3,206)	(1,452)	(4,658)
Net claims incurred – discounted	26,078	(3,060)	23,018	20,819	(8,337)	12,482

FOR THE YEAR ENDED 30 JUNE 2005

**25. FINANCIAL INSTRUMENTS****(a) Accounting Policies, Terms and Conditions**

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies, Terms and Conditions
<b>(i) Financial assets</b>		
Cash assets	6	Interest is recognised in the Statement of Financial Performance when earned. Cash at bank has effective interest rates ranging from 3.98% to 5.48% (2004: 4.63% to 5.45%).
Receivables	7 & 9	The carrying amount approximates fair value.
Managed portfolios	10	The accounting policies in relation to non-current investments are set out in note 1(e). Managed portfolios are monitored by professional investment managers.
<b>(ii) Financial liabilities</b>		
Sundry creditors and accruals	12	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Trade liabilities are normally settled on 30 day terms.

FOR THE YEAR ENDED 30 JUNE 2005

## 25. FINANCIAL INSTRUMENTS (continued)

### (b) Interest Rate Risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities both recognised and unrecognised at the balance date, are as follows:

	Floating interest rate		Non-interest bearing		Total carrying amount as per statement of financial position		Weighted average effective interest rate	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 %	2004 %
<b>Financial Instruments</b>								
<i>(i) Financial assets</i>								
Cash at bank	60,626,291	58,100,233	-	-	60,626,291	58,100,233	5.02	5.05
Discounted bank bills	49,195,126	19,730,235	-	-	49,195,126	19,730,235	5.68	5.42
Managed portfolios*	-	-	35,498,044	47,642,488	35,498,044	47,642,488		
Total financial assets	109,821,417	77,830,468	35,498,044	47,642,488	145,319,461	125,472,956		
<i>(ii) Financial liabilities</i>								
Sundry creditors and accruals	-	-	7,237,868	6,562,429	7,237,868	6,562,429		
Total financial liabilities	-	-	7,237,868	6,562,429	7,237,868	6,562,429		

\* Income from managed portfolios takes the form of interest, distributions, dividends received and realised and unrealised gains.

FOR THE YEAR ENDED 30 JUNE 2005

## 25. FINANCIAL INSTRUMENTS (continued)

**(c) Net fair values**

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Total carrying amount as per statement of financial position		Aggregate net fair value	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>(i) Financial assets</b>				
Cash at bank	60,626,291	58,100,233	60,626,291	58,100,233
Discounted bank bills	49,195,126	19,730,235	49,195,126	19,730,235
Managed investment funds	35,498,044	47,642,488	35,498,044	47,642,488
Total financial assets	145,319,461	125,472,956	145,319,461	125,472,956
<b>(ii) Financial liabilities</b>				
Sundry creditors and accruals	7,237,868	6,562,429	7,237,868	6,562,429
Total financial liabilities	7,237,868	6,562,429	7,237,868	6,562,429

The following methods of assumptions are used to determine the net fair values of financial assets and liabilities:

**Sundry creditors and accruals**

The carrying amount approximates fair value.

**Non-current investments**

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net assets base of the investment.

**(d) Credit risk exposures**

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of financial asset is the carrying amount of those assets as indicated in the statement of financial position.

The consolidated entity does not have a significant exposure to any individual party. Short and long term money market securities are managed by two major commercial financial institutions.

# 7 | Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 26. LEASE COMMITMENTS

### Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements.

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Payable:				
– no later than 1 year	<b>352,610</b>	230,112	<b>73,684</b>	73,684
– later than 1 year and not later than 5 years	<b>1,634,132</b>	1,337,784	<b>12,281</b>	73,684
– later than 5 years	<b>36,180</b>	299,436	–	–
Aggregate lease expenditure contracted for at balance date	<b>2,022,922</b>	1,867,332	<b>85,965</b>	147,368

Operating leases have an average term of 3 years and 2 months (2004: 3 years and 4 months). The operating leases pertain to leased office premises and leased office equipment.

## 27. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

The aggregate employee benefit liability is comprised of:

Provisions – current (note 13)	<b>253,009</b>	104,962	–	–
Provisions – non-current (note 14)	<b>27,132</b>	–	–	–
	<b>280,141</b>	104,962		

FOR THE YEAR ENDED 30 JUNE 2005

## 28. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

During the year, the Association has continued with its transition process for accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. During 2004/2005, the Association allocated internal resources and engaged expert consultants to identify key areas that will be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Association's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when the Association prepares its first fully AIFRS compliant financial report for the year ending 30 June 2006 with comparatives for the year ended.

Management has decided to apply the exemption provided under AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards which permits entities not to apply the requirements of AASB 132 Financial Instruments: Presentations and Disclosures, AASB 139 Financial Instruments: Recognition and Measurement and AASB 1023: General Insurance Contracts for the year ended 30 June 2005. The standards will be applied from 1 July 2005.

Set out below are the key areas identified that the adoption of AIFRS may impact on the Association.

### *AASB 136 Impairment of Assets*

The recoverable amount of an asset is determined as the higher of its net selling price and value in use. The Association's current policy is that value in use is the net amount expected to be recovered through the net cash inflows arising from the asset's continued use and subsequent disposal. Under AIFRS, the Association is a not-for profit entity. AIFRS allows the value in use for a not for profit entity to be the depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits. Impairment testing undertaken as at the transition date did not result in any material impairment write downs.

### *AASB 139 Financial Instruments*

AASB 139 requires all financial instruments be classified into the following four categories, being:

- (i) a financial asset or financial liability;
- (ii) held-to-maturity investments;
- (iii) loans and receivables;
- (iv) available-for-sale financial assets

After the initial recognition, the classification of the financial instrument will then determine the accounting treatment.

FOR THE YEAR ENDED 30 JUNE 2005

## 28. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (continued)

### *AASB 1023 General Insurance Contracts*

AASB 1023 has been revised under AIFRS to incorporate the limited improvements to accounting for insurance contracts required by AASB 4 Insurance Contracts. The AIFRS version of AASB 1023 has introduced a more comprehensive liability adequacy test. For the purpose of the liability adequacy test, we offer insurance under one APRA Insurance class being Professional Indemnity. The revised standard also requires more detailed disclosures in the notes to the accounts with respect to the valuation of outstanding claims liability and all assets backing insurance liabilities to be measured at fair value.

The International Accounting Standards Board is currently progressing Phase II of the Insurance Project, which will consider the recognition and measurement of insurance contracts. This project is not expected to be completed before 2007.

### *AASB 112 Income Taxes*

The Association currently calculates income tax balances under the income statement method. Income tax will be calculated using the balance sheet approach, which may result in more deferred tax assets and liabilities as they are based on asset and liability values.

### *AASB 116 Property, Plant and Equipment*

A review of the measurement basis for all property, plant and equipment has been undertaken. Property, plant and equipment is not used to back insurance liabilities, therefore we have adopted the cost method for measurement. The depreciation method adopted is straight line, as this best reflects the pattern in which the assets future economic benefits are consumed. This is reviewed annually along with all other Property Plant and Equipment processes. This treatment is consistent with the requirements under AIFRS.

AASB 1047 *Disclosures* recommends that the financial effects of AIFRS be presented as a line by line reconciliation of the financial statement items prepared on the basis of existing accounting policies and accounting policies reflecting the adoption of AIFRSs. A reconciliation has not been disclosed in the financial statements, as there were no material financial impacts identified for the opening balance sheet as at 1 July 2004 or for the period to 30 June 2005.

While the Association has endeavoured to provide details on any areas it believes will be materially impacted by the transition to AIFRS, further differences may arise as implementation is finalised. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the AIFRS project team; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations. The Association will continue to monitor the progress of Phase II of the International Accounting Standards Board's Insurance Project.

## 29. CONTINGENT LIABILITY

Prior to the decision reached by the Federal Court in the Coleambally Irrigation Mutual Co-operative Ltd case, the Australian Taxation Office allowed non-profit organisations to rely on the mutuality principle to treat income from members as non assessable. Under the Federal Court decision, the principle of mutuality is affected where an organisation's winding up clause prevents the distribution of profits or assets to the members of the organisation.

On the 27 May 2005, the High Court decided not to grant special leave to appeal the decision to the Full Federal Court. The case confirmed the view that where an organisation's winding up clause prevents the distribution of profits or assets to the members of an organisation, the principle of mutuality cannot apply.

This decision had the potential to impact on the Association. The Associations Incorporations Act, under which the Association is incorporated, prohibits the distribution of assets to the members on winding up.

On the 30 May 2005, the Minister for Revenue announced that the Government will amend the income tax law to ensure certain not-for-profit organisations are not subject to tax on income as a result of the Coleambally decision. The amendment which is still to be enacted will give legislative backing to the Tax Office practice that applied to distribution clauses prior to the judicial decisions.

The Association does not foresee an adverse impact.

FOR THE YEAR ENDED 30 JUNE 2005

### 30. ASSOCIATION DETAILS

The registered office of the Association is:

Level 3, 516 Hay Street  
Subiaco WA 6008

The principal places of business are:

**Brisbane**

Level 8, 87 Wickham Terrace  
Spring Hill QLD 4000

**Melbourne**

Level 1, 101–105 Dundas Place  
Albert Park VIC 3206

**Perth**

Level 3, 516 Hay Street  
Subiaco WA 6008

**Sydney**

Level 5, AMA House  
69 Christie Street  
St Leonards NSW 2065





