# Financial information 2005-06

Motor Accident Insurance Commission

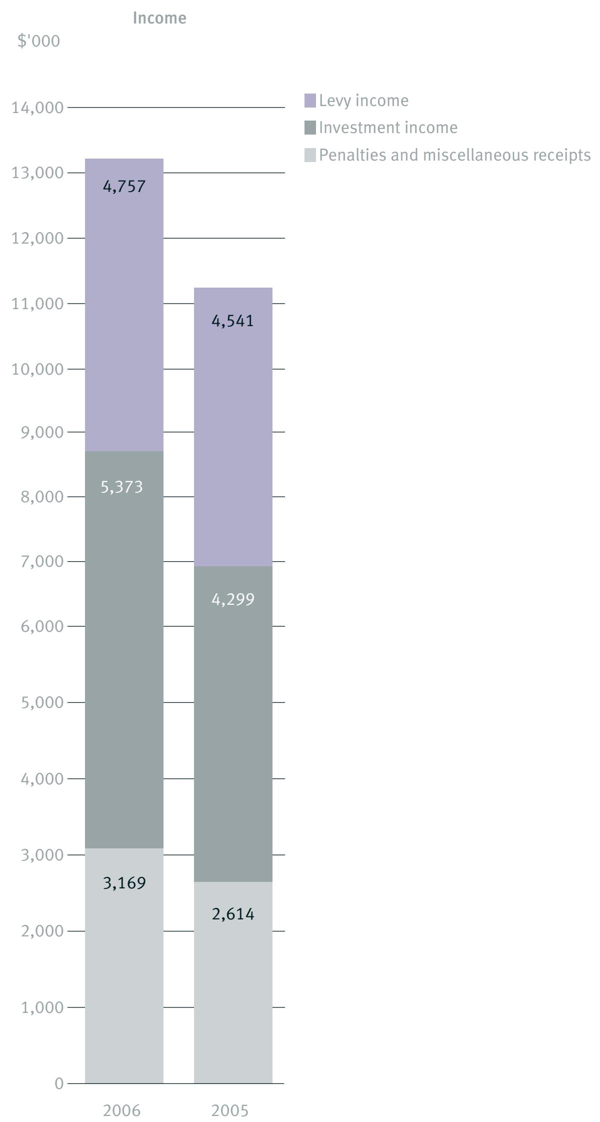
Motor Accident Insurance Commission

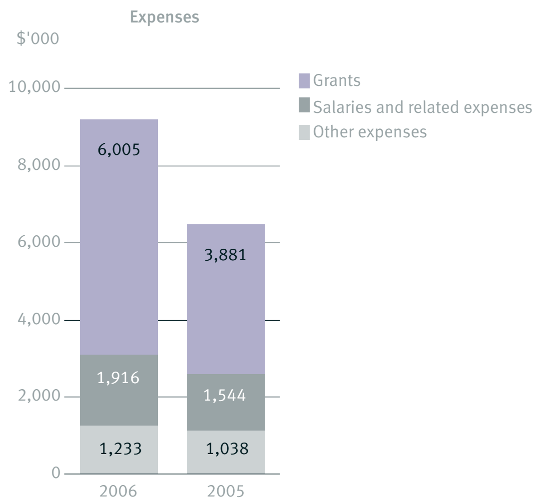
# Financial Summary

In comparison to the previous year, revenue increased overall from $11.454 million to $13.299 million. Levy income of $4.757 million was raised from the Statutory Insurance Scheme Levy which was set at a rate of $1.55 per CTP policy. Investment income from QIC investments increased significantly from $4.299 million to $5.373 million for the 2005-06 year and there was a slight increase in the revenue from penalty receipts.

The expenses of the Commission were significantly higher than the previous year, primarily a result of an increase in grant expenditure which was $6.005 million compared to $3.881 million in the 2004-05 financial year. Details of grant funding are provided in Appendix 5.

The resultant operating profit for the Commission for the year ended 30 June 2006 decreased by approximately 17% to $4.145 million.



## Motor Accident Insurance Commission
## Income Statement
## For the year ended 30 June 2006

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Income** | | | |
| ***Revenue*** | | | |
| Levy income | 2 | 4,757 | 4,541 |
| Investment income | 3 | 5,373 | 4,299 |
| Penalties and miscellaneous receipts | | 3,169 | 2,614 |
| **Total Income** | | **13,299** | **11,454** |
| | | | |
| **Expenses** | | | |
| Grants | | 6,005 | 3,881 |
| Salaries and related expenses | 4 | 1,916 | 1,544 |
| Depreciation and amortisation | 5 | 43 | 22 |
| Computer facilities management fee | | 209 | 156 |
| Rent | | 125 | 116 |
| Consultancy expenditure | | 271 | 224 |
| Other | 6 | 585 | 520 |
| **Total Expenses** | | **9,154** | **6,463** |
| | | | |
| **Operating Surplus** | | **4,145** | **4,991** |

The accompanying notes form part of these financial statements.

Motor Accident Insurance Commission
Balance Sheet
As at 30 June 2006

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| ***Current Assets*** | | | |
| Cash assets | 16(i) | 912 | 1,519 |
| Receivables | 7 | 517 | 123 |
| Investment securities | 8 | 26,207 | 21,711 |
| Prepayments | | 29 | 29 |
| ***Total Current Assets*** | | **27,665** | **23,382** |
| ***Non-Current Assets*** | | | |
| Receivables | 7 | 500 | 500 |
| Investment securities | 8 | 10,500 | 10,500 |
| Property, plant and equipment | 9 | 54 | 55 |
| Intangibles | 10 | 248 | 220 |
| ***Total Non-Current Assets*** | | **11,302** | **11,275** |
| ***Total Assets*** | | **38,967** | **34,657** |
| ***Current Liabilities*** | | | |
| Payables | 11 | 290 | 200 |
| Accrued employee benefits | 12 | 215 | 115 |
| ***Total Current Liabilities*** | | **505** | **315** |
| ***Non-Current Liabilities*** | | | |
| Accrued employee benefits | 12 | 32 | 15 |
| ***Total Non-Current Liabilities*** | | **32** | **15** |
| ***Total Liabilities*** | | **537** | **330** |
| ***Net Assets*** | | **38,430** | **34,327** |
| ***Equity*** | | | |
| Reserves | 13 | 15,300 | 14,096 |
| Retained profits | | 23,130 | 20,231 |
| ***Total Equity*** | | **38,430** | **34,327** |

The accompanying notes form part of these financial statements.

Motor Accident Insurance Commission
Statement of Changes in Equity
For the year ended 30 June 2006

| | Retained Profits | | Reserves (Note 13) | | Total Equity | |
|---|---|---|---|---|---|---|
| | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 |
| ***Balance 1 July*** | 20,231 | 14,746 | 14,096 | 14,596 | 34,327 | 29,342 |
| Operating Surplus | 4,145 | 4,991 | - | - | 4,145 | 4,991 |
| Transfer to Reserves | | | | | | |
| - Accident Prevention Initiatives | (2,476) | (1,441) | 2,476 | 1,441 | - | - |
| - Rehabilitation Initiatives | (2,299) | (1,940) | 2,299 | 1,940 | - | - |
| Transfer from Reserves | | | | | | |
| - Accident Prevention Initiatives | 1,441 | 1,484 | (1,441) | (1,484) | - | - |
| - Rehabilitation Initiatives | 2,130 | 2,397 | (2,130) | (2,397) | - | - |
| Net leave liabilities transferred from other business units | (42) | (6) | - | - | (42) | (6) |
| ***Balance 30 June*** | **23,130** | **20,231** | **15,300** | **14,096** | **38,430** | **34,327** |

The accompanying notes form part of these financial statements.

## Motor Accident Insurance Commission
## Statement of Cash Flows
## For the year ended 30 June 2006

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| ***Inflows:*** | | | |
| Levy income | | 4,757 | 4,541 |
| Investment income | | 5,361 | 4,284 |
| Penalties and miscellaneous receipts | | 3,149 | 2,610 |
| GST input taxes recovered from ATO | | 322 | 524 |
| ***Outflows:*** | | | |
| Grants | | (6,005) | (3,881) |
| Salaries and related expenses | | (1,842) | (1,533) |
| Computer facilities management fees | | (121) | (151) |
| Other | | (1,662) | (1,425) |
| ***Net cash provided by operating activities*** | **16(ii)** | **3,959** | **4,969** |
| **Cash flows from investing activities** | | | |
| ***Outflows:*** | | | |
| Purchase of property, plant and equipment | | (20) | - |
| Purchase of intangibles | | (50) | - |
| ***Net cash used in investing activities*** | | **(70)** | **-** |
| Net increase in cash held | | **3,889** | **4,969** |
| Cash at the beginning of the financial year | | 33,730 | 28,761 |
| ***Cash at the end of the financial year*** | **16(i)** | **37,619** | **33,730** |

The accompanying notes form part of these financial statements.

## Note 1 Summary of Significant Accounting Policies

### (a) Reporting Entity

The Motor Accident Insurance Commission is responsible for regulating and ongoing management of the Queensland Compulsory Third Party (CTP) Scheme.

### (b) Basis of Accounting

These financial statements have been prepared as general purpose financial statements in accordance with the requirements of Australian Equivalents to International Financial Reporting Standards (AEIFRS) for the first time. The disclosures required by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* concerning the transition from previous Generally Accepted Accounting Principles (GAAP) to AEIFRS are provided in Notes 20 and 21.

The AASB has issued amendments to existing standards. The amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005. The Motor Accident Insurance Commission has elected to early adopt the following accounting standards and amendments:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* [AASB 1 & AASB 101] (December 2004)
- AASB 2005-1 *Amendments to Australian Accounting Standards* [AASB 139] (May 2005)
- AASB 2005-4 *Amendments to Australian Accounting Standards* [AASB 139, AASB 132 & AASB 1] (June 2005)
- AASB 2005-5 *Amendments to Australian Accounting Standards* [AASB 1 & AASB 139] (June 2005)
- AASB 2005-8 *Amendments to Australian Accounting Standards* [AASB 1] (June 2005)
- AASB 7 *Financial Instruments: Disclosures* (August 2005)
- AASB 2005-9 *Amendments to Australian Accounting Standards* [AASB 139 & AASB 132] (September 2005)
- AASB 2005-10 *Amendments to Australian Accounting Standards* [AASB 132, AASB 101, AASB 114, AASB 117, AASB 139 & AASB 1] (September 2005)
- AASB 2005-11 *Amendments to Australian Accounting Standards* [AASB 101, AASB 132 & AASB 139] (September 2005)
- AASB 2006-2 *Amendments to Australian Accounting Standards* [AASB 1] (March 2006)

The financial statements have been prepared on a historical cost basis, except for investment securities which are shown at net market value.

### (c) Receivables

Trade debtors are recognised at the nominal amounts due at the time of sale or service delivery. Settlement of these amounts is required within 30 days from invoice date. The collectability of receivables is assessed at each reporting date with provision made for impairment. All known bad debts were written-off as at 30 June.

Other debtors generally arise from transactions outside the usual operating activities of the commission and are recognised at nominal amounts.

## Note 1 Summary of Significant Accounting Policies (continued)

### (d) Acquisitions of Assets

Actual cost is used for the initial recording of all non-current physical and intangible asset acquisitions. Cost is determined as the value given as consideration plus costs incidental to the acquisition, including all other costs incurred in getting the assets ready for use. However, any training costs are expensed as incurred.

Assets acquired at no cost or for nominal consideration are recognised at their fair value at date of acquisition in accordance with AASB 116 *Property, Plant and Equipment.*

### (e) Property, Plant and Equipment

Items of property, plant and equipment with a cost or other value equal to or in excess of the following thresholds are recognised for financial reporting purposes in the year of acquisition:

| | |
|---|---|
| Intangibles | $100,000 |
| Other | $5,000 |

Items with a lesser value are expensed in the year of acquisition.

### (f) Valuations of Non-Current Physical and Intangible Assets

Where intangible assets have an active market, they are measured at fair value, otherwise they are measured at cost.

Plant and equipment, other than major plant and equipment, are measured at cost. The carrying amounts for plant and equipment at cost should not materially differ from their fair value.

### (g) Intangibles

Intangible assets with a cost or other value greater than $100,000 are recognised in the financial statements, items with a lesser value being expensed. Each intangible asset is amortised over its estimated useful life less any anticipated residual value.

It has been determined that there is not an active market for any of the Commission's intangible assets. As such, the assets are recognised and carried at cost less accumulated amortisation.

<u>Internal Use Software</u>
Costs associated with the development of computer software have been capitalised and are amortised on a straight-line basis over the period of expected benefit, namely 5 years.

### (h) Amortisation and Depreciation of Intangibles and Property, Plant and Equipment

Amortisation and depreciation is calculated on a straight-line basis, to write off the net cost of each depreciable asset, progressively over its estimated useful life.

Internal use software under development is not amortised until it has been fully developed and utilised.

For each class of depreciable asset the following depreciation and amortisation rates are used:

| Class | Rate% |
|---|---|
| Plant and Equipment | 20 - 25 |
| Intangibles | 20 |

## Note 1 Summary of Significant Accounting Policies (continued)

### (i) Impairment of Non – Current Assets

All non-current physical and intangible assets are assessed for indicators of impairment on an annual basis. If an indicator of possible impairment exists, the Commission determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

The asset's recoverable amount is determined as the higher of the asset's fair value less costs to sell and depreciated replacement cost.

An impairment loss is recognised immediately in the Income Statement, unless the asset is carried at a revalued amount. When the asset is measured at a revalued amount, the impairment loss is offset against the asset revaluation reserve of the relevant class to the extent available.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

### (j) Investments

All funds not required for the day to day management of the Motor Accident Insurance Commission are invested with the Queensland Investment Corporation ("QIC") and are recorded in these financial statements at net market value.

### (k) Payables

Trade creditors are recognised upon receipt of goods or services at the contracted amount to be paid for the goods and services rendered. Amounts owing are unsecured and are generally settled on 30 day terms.

### (l) Employee Benefits

Wages, Salaries, Recreation Leave and Sick Leave

Wages, salaries and recreation leave due but unpaid at reporting date are recognised in the Balance Sheet at the remuneration rates expected to apply at the time of settlement and include related on-costs such as payroll tax, WorkCover premiums, long service leave levies and employer superannuation contributions.

For unpaid entitlements expected to be paid within 12 months, the liabilities are recognised at their undiscounted values. For those entitlements not expected to be paid within 12 months, the liabilities are recognised at their present value, calculated using the 1 year Commonwealth Government bond rate.

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

As sick leave is non-vesting, an expense is recognised for this leave as it is taken.

## Note 1 Summary of Significant Accounting Policies (continued)

### (l) Employee Benefits (continued)

Long Service Leave

Under the Queensland Government's long service leave scheme, a levy is made on the Commission to cover this cost. Levies are expensed in the period in which they are paid or payable. Amounts paid to employees for long service leave are claimed from the scheme as and when leave is taken.

No provision for long service leave is recognised in the financial statements, the liability being held on a whole-of-Government basis and reported in the financial report prepared pursuant to AAS 31 – *Financial Reporting by Governments*.

Superannuation

Employer superannuation contributions are paid to QSuper, the superannuation plan for Queensland Government employees, at rates determined by the State Actuary. Contributions are expensed in the period in which they are paid or payable. The Commission's obligation is limited to its contribution to QSuper.

No liability is recognised for accruing superannuation benefits in these financial statements, the liability being held on a whole-of-Government basis and reported in the financial report prepared pursuant to AAS 31 – *Financial Reporting by Governments*.

Executive Remuneration

The executive remuneration disclosures in the employee expenses note (note 4) in the financial statements include:

- the aggregate remuneration of all senior executives whose remuneration for the financial year is $100,000 or more, and
- the number of senior executives whose total remuneration for the financial year falls within each successive band, commencing at $100,000.

The remuneration disclosed is all remuneration received or receivable, directly or indirectly, from the Commission or any related party in connection with the management of the affairs of the Commission, whether as an executive or otherwise. For this purpose, remuneration includes:

- wages and salaries
- accrued leave (that is, the increase/decrease in the amount of annual leave owed to an executive, inclusive of any increase in the value of annual leave balances as a result of salary rate increases or the like)
- accrued superannuation contributions (being the value of all employer superannuation contributions during the financial year, both paid and payable as at 30 June 2006)
- Fringe benefits tax including motor vehicles and any other taxable allowances.

The remuneration disclosed does not include long service leave entitlements.

The disclosures apply to all senior executives appointed by Governor in Council and classified SES1 and above, with remuneration above $100,000 in the financial year. 'Remuneration' means any money, consideration or benefit, but excludes amounts:

- paid to an executive by an entity or its subsidiary where the person worked during the financial year wholly or mainly outside Australia during the time the person was so employed, or
- in payment or reimbursement of out of pocket expenses incurred for the benefit of the Commission.

In addition, separate disclosure of separation or redundancy / termination benefit payments is included.

## Note 1 Summary of Significant Accounting Policies (continued)

### (m) Reserves

The funds in equity have been sub-classified in the balance sheet, to fulfil our charter under Section 10(1) of the *Motor Accident Insurance Act 1994*. These funds are to be used in the research into the cause and prevention of motor vehicle accidents and the treatment and rehabilitation of those involved in motor vehicle accidents.

The Income Maintenance reserve is required to give the Commission and its creditors an added measure of protection from the effects of losses.

### (n) Contingent Assets

Under section 33(4) and 33(5) of the *Motor Accident Insurance Act 1994,* an amount of $57,818,000 was transferred from the Motor Accident Insurance Fund to the Nominal Defendant Fund on 22 January 2002 to be applied to outstanding claims liabilities arising from the insolvency of FAI General Insurance Company Limited.

Under section 33(6) and 33(7) of the *Motor Accident Insurance Act 1994,* should circumstances give rise to a recovery from the liquidation of FAI General Insurance Company Limited, or recovery from another party, the Treasurer may, by written notice to the Nominal Defendant, direct it to return funds of an amount, not exceeding $57,818,000 to the Motor Accident Insurance Fund.

### (o) Leases

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

### (p) Levy Collection, Contributions and Penalties

Levies received in accordance with Section 27 of the *Motor Accident Insurance Act 1994* are recognised as revenue at the time they are legally due to be paid by the Queensland Department of Transport to the Commission, upon receipt of monies from motorists.

Levies collected on behalf of the Queensland Department of Health and the Department of Emergency Services during the current year have not been included as revenue in the Statement of Financial Performance as these amounts are not controlled. Similarly, remittances made to Queensland Department of Health and the Department of Emergency Services have not been included as expenses.

Details on the levies collected on behalf of and distributed to Queensland Department of Health and the Department of Emergency Services are provided in Note 15.

Penalties imposed under Section 20 of the *Motor Accident Insurance Act 1994* are recognised as revenue at the time they are legally due to be paid by the Queensland Department of Transport and Department of Justice and Attorney-General to the Commission, upon receipt of monies from uninsured motorists.

### (q) Insurance

The Commission's non-current assets and other risks are insured through the Queensland Government Insurance Fund, premiums being paid on a risk assessment basis. In addition, the Commission pays premiums to WorkCover Queensland in respect of its obligations for employee compensation.

## Note 1 Summary of Significant Accounting Policies (continued)

### (r) Issuance of Financial Statements

The financial statements are authorised for issue by the Insurance Commissioner and the Manager, Corporate Governance at the date of signing the management certificate.

### (s) Judgement and Assumptions

The Commission has made no judgements or assessments which may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

### (t) Rounding and Comparatives

Amounts included in the financial statements have been rounded to the nearest $1,000 or, where that amount is $500 or less, to zero.

Comparative information has been restated where necessary to be consistent with disclosures in the current reporting period.

## Note 2 Levy Income

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Levies comprise amounts required to be paid by licensed CTP insurers on gross insurance premiums. | | |
| Statutory Insurance Scheme Levy | 4,757 | 4,541 |

## Note 3 Investment Income

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Distributions received from Queensland Investment Corporation | 5,161 | 4,166 |
| Interest received from funds held by Queensland Treasury | 212 | 133 |
| **Total** | **5,373** | **4,299** |

## Note 4 Salaries and related expenses

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Salaries and wages | 1,430 | 1,149 |
| Superannuation | 166 | 149 |
| Long service leave expense | 20 | 18 |
| Recreation leave expense | 127 | 104 |
| Workers' compensation premium | 3 | 3 |
| Other related expenses | 170 | 121 |
| **Total** | **1,916** | **1,544** |

## Note 4 Salaries and related expenses (continued)

The number of employees including both full-time employees and part-time employees measured on a full-time equivalent basis is:

| | 2006 | 2005 |
|---|---|---|
| Number of Employees: | 26.26 | 18.97 |

*Executive Remuneration*

The following is remuneration paid / payable to senior executives for the proportion of time spent on activities of the Commission:

| | |
|---|---|
| $120,000 to $139,999 | 1 |
| Aggregate amount of total remuneration of executives shown above | $123,263 |
| Aggregate amount of separation and redundancy / termination benefit payments during the year to executives shown above | Nil |

## Note 5 Depreciation and Amortisation

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Plant and equipment | 21 | 22 |
| Intangibles | 22 | - |
| **Total** | **43** | **22** |

## Note 6 Other Expenses

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Administration Fees | 171 | 157 |
| Legal and Barrister Fees | 78 | 28 |
| Insurance Premiums - QGIF | 25 | 24 |
| Audit Fees – Auditor-General | 12 | 12 |
| Other | 299 | 299 |
| **Total** | **585** | **520** |

Total external audit fees relating to the 2005-06 financial year are estimated to be $12,000 (2004-05: $12,000)

Motor Accident Insurance Commission
Notes to and forming part of the financial statements
For the year ended 30 June 2006

| | | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Note 7** | **Receivables** | | |
| | **Current** | | |
| | Accrued investment income | 45 | 33 |
| | Penalties receivable | 105 | 85 |
| | Other receivables | 367 | 5 |
| | **Total** | **517** | **123** |
| | **Non-Current** | | |
| | Loan Receivable | 500 | 500 |
| | **Total** | **500** | **500** |
| **Note 8** | **Investment Securities** | | |
| | **Current** | | |
| | Queensland Investment Corporation | 26,207 | 21,711 |
| | **Non-Current** | | |
| | Queensland Investment Corporation | 10,500 | 10,500 |
| | **Total** | **36,707** | **32,211** |
| **Note 9** | **Property, Plant and Equipment** | | |
| | Plant and equipment: | | |
| | At Cost | 196 | 182 |
| | Less: Accumulated depreciation | (142) | (127) |
| | **Total** | **54** | **55** |

Plant and equipment is valued at cost in accordance with Queensland Treasury's *Non-Current Asset Accounting Policies for the Queensland Public Sector.*

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year are as follows:

| | Plant and Equipment 2006 $'000 | Total 2006 $'000 |
|---|---|---|
| Carrying amount at 1 July 2005 | 55 | 55 |
| Additions | 20 | 20 |
| Disposals | - | - |
| Depreciation | (21) | (21) |
| Carrying amount at 30 June 2006 | **54** | **54** |

## Note 10 Intangibles

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Software: | | |
| At Cost | 433 | 163 |
| Less: Accumulated amortisation | (185 | (163) |
| | **248** | **-** |
| Internal use software under development: | | |
| At Cost | - | 220 |
| **Total** | **248** | **220** |

| | Software 2006 $'000 | Internal Use Software Under Development 2006 $'000 | Total 2006 $'000 |
|---|---|---|---|
| Carrying amount at 1 July 2005 | - | 220 | 220 |
| Additions | - | 50 | 50 |
| Disposals | - | - | - |
| Transfers | 270 | (270) | - |
| Amortisation | (22) | - | (22) |
| Carrying amount at 30 June 2006 | **248** | **-** | **248** |

## Note 11 Payables

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Sundry Creditors and accruals | **290** | **200** |

## Note 12 Accrued Employee Benefits

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| **Current** | | |
| Wages outstanding | 62 | 22 |
| Recreation Leave | 153 | 93 |
| **Total** | **215** | **115** |
| **Non-Current** | | |
| Recreation Leave | 32 | 15 |
| **Total** | **32** | **15** |

The discount rate used to calculate the present value of non-current annual leave is 5.32% (2005: 5.168%)

Motor Accident Insurance Commission
Notes to and forming part of the financial statements
For the year ended 30 June 2006

| | | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Note 13** | **Reserves** | | |
| | Composition and movements: | | |
| | **Income Maintenance** | | |
| | **Balance at beginning and end of year** | **10,500** | **10,500** |
| | **Accident Prevention Initiatives** | | |
| | Balance at beginning of year | 1,441 | 1,484 |
| | Transfer to retained profits | (1,441) | (1,484) |
| | Transfer from retained profits | 2,476 | 1,441 |
| | **Balance at end of year** | **2,476** | **1,441** |
| | **Rehabilitation Initiatives** | | |
| | Balance at beginning of year | 2,155 | 2,612 |
| | Transfer to retained profits | (2,130) | (2,397) |
| | Transfer from retained profits | 2,299 | 1,940 |
| | **Balance at end of year** | **2,324** | **2,155** |
| | **Total** | **15,300** | **14,096** |

**Note 14 Commitments for Expenditure**

**(a) Maintenance Contract Commitments**

Total expenditure contracted for at balance date but not provided for in the financial statements:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Due not later than one year | 328 | 35 |
| Due later than one year but not later than five years | - | - |
| **Total** | **328** | **35** |

**(b) Operating Lease Rental Commitments**

Future operating lease rentals not provided for in the financial statements are payable as follows:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Due not later than one year | 187 | 155 |
| Due later than one year but not later than five years | 187 | 169 |
| **Total** | **374** | **374** |

| | | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Note 14** | **Commitments for Expenditure (continued)** | | |
| **(c)** | **Motor Vehicle Lease Commitments** | | |
| | Future operating lease rentals not provided for in the financial statements are payable as follows: | | |
| | Due not later than one year | 11 | 11 |
| | Due later than one year but not later than five years | - | 7 |
| | **Total** | **11** | **21** |
| **(d)** | **Grant Commitments** | | |

The *Motor Accident Insurance Act 1994* provides for the Commission to allocate funds for strategic accident prevention and rehabilitation initiatives. The payment of these grant monies is dependent on the grantee organisation satisfying conditions as set out in the grant agreement.

Future grant commitments not provided for in the financial statements are payable as follows:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Due not later than one year | 2,654 | 3,595 |
| Due later than one year but not later than five years | 4,675 | 331 |
| **Total** | **7,329** | **3,926** |

## Note 15 Agency Transactions

The Motor Accident Insurance Commission (MAIC) receives Hospital and Emergency Services Levy amounts from Queensland Transport for transfer payments to Queensland Department of Health and the Department of Emergency Services. Details of amounts collected and administered by MAIC during the year and the amount held on behalf of Queensland Department of Health and the Department of Emergency Services at year end are as follows:

### Levies

Comprise amounts collected from Queensland Transport on gross insurance premiums.

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Levies collected but not remitted in the previous year | 2,310 | 2,092 |
| Hospital levy | 19,120 | 17,617 |
| Emergency Services levy | 8,575 | 7,928 |
| | **30,005** | **27,637** |

Motor Accident Insurance Commission
Notes to and forming part of the financial statements
For the year ended 30 June 2006

| | | Notes | 2006 $'000 | 2005 $'000 |
|---|---|---|---|---|
| **Note 15** | **Agency Transactions (continued)** | | | |
| | **Contributions** | | | |
| | Comprise payments to Queensland Department of Health and the Department of Emergency Services on account of levies received from Queensland Transport. | | | |
| | Hospital levy contributions | | 18,947 | 17,423 |
| | Emergency Services levy contributions | | 8,513 | 7,904 |
| | | | **27,460** | **25,237** |
| | Amounts collected on behalf of but not yet remitted to Queensland Department of Health and the Department of Emergency Services in respect of hospital and emergency services levies as at 30 June: | | **2,545** | **2,310** |
| **Note 16** | **Statement of Cash Flows** | | | |
| **(i)** | **Reconciliation of cash** | | | |
| | For the purposes of the Statement of Cash Flows, cash includes cash on hand and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows: | | | |
| | Cash | | 912 | 1,519 |
| | Investments | **8** | 36,707 | 32,211 |
| | **Total** | | **37,619** | **33,730** |
| **(ii)** | **Reconciliation of operating surplus with net cash provided by operating activities** | | | |
| | Operating surplus | | 4,145 | 4,991 |
| | Add non-cash items: | | | |
| | Depreciation | | 21 | 22 |
| | Amortisation | | 22 | - |
| | Direct changes to equity | | (42) | (6) |
| | Changes in assets and liabilities: | | | |
| | Increase / (Decrease) in payables | | 90 | (3) |
| | (Increase) in receivables | | (394) | (17) |
| | (Increase) in prepayments | | - | (27) |
| | Increase in accrued employee benefits | | 117 | 9 |
| | Net cash provided by operating activities | | **3,959** | **4,969** |

**(iii)** The Motor Accident Insurance Commission has no unused borrowing or overdraft facility.

## Note 17 Financial Instruments

### (a) Categorisation of Financial Instruments

| Financial Instrument | Related Financial Statement Notes | Accounting Policies | Terms and Conditions |
|---|---|---|---|
| Financial Assets | | | |
| Cash on hand | 16 (i) | Recorded at book value, which approximates fair value.<br>Interest is recognised in the Income Statement when earned. | Under the Cash Management Incentives Regime (CMIR) the Treasury Controlled Bank account earns interest on surplus funds and pays interest when in overdraft. The interest rate is changed quarterly and the June quarter rate is 4.59%. |
| Receivables | | | |
| Penalties receivable | 7 | Recognition - upon receipt of fines by Qld Transport and the Courts. Measurement - prescribed by the *Motor Accident Insurance Act 1994*.<br>Recorded at book value. | Usually received within 30 days from the month due. |
| Loans receivable | 7 | Recognition – upon issue of funds. Measurement – based on memorandum of agreement and recorded at book value. | No interest rate applied as this is funding to promote research into accident rehabilitation. Repayments in accordance with individual loan agreements. |
| Investment Securities | 8 | Recognition – on the day funds are invested. Measurement – at net market value. | May be drawn upon as and when required. |
| Financial Liabilities | | | |
| Payables | 11 | Recognition – upon receipt of goods or services irrespective of whether an invoice has been received. Measurement – based on agreed purchase/contract costs. | Amounts are usually settled within 30 days upon receipt of invoice. |

The Commission invests with the Queensland Investment Corporation (QIC). QIC will have invested in a variety of financial instruments including derivatives, which expose the Commission's investments to a variety of investment risks including market risk, credit risk, interest rate risk and currency risk.

## Note 17 Financial Instruments (continued)

### (b) Interest Rate Risk Exposure

The Commission invests in financial assets for the primary purpose of obtaining a return on investments, to help meet the costs of administering the *Motor Accident Insurance Act 1994*. The Commission's return on the investments will fluctuate in accordance with movements in the market interest rates.

| 2006 | Notes | Floating interest rate $'000 | Fixed interest rate maturing 1 year or less $'000 | Over 1 to 5 years $'000 | More than 5 years $'000 | Non Interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash* | | 912 | - | - | - | - | 912 |
| Receivables | 7 | - | - | - | - | 1,017 | 1,017 |
| Investments | 8 | - | - | - | - | 36,707** | 36,707 |
| | | **912** | **-** | **-** | **-** | **37,724** | **38,636** |
| **Financial Liabilities** | | | | | | | |
| Payables | 11 | - | - | - | - | 290 | 290 |
| **Net Financial Assets** | | **912** | **-** | **-** | **-** | **37,434** | **38,346** |
| ***Weighted average Interest rate** | 4.63% | | | | | | |

| 2005 | Notes | Floating interest rate $'000 | Fixed interest rate maturing 1 year or less $'000 | Over 1 to 5 years $'000 | More than 5 years $'000 | Non Interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash* | | 1,519 | - | - | - | - | 1,519 |
| Receivables | 7 | - | - | - | - | 623 | 623 |
| Investments | 8 | - | - | - | - | 32,211** | 32,211 |
| | | **1,519** | **-** | **-** | **-** | **32,834** | **34,353** |
| **Financial Liabilities** | | | | | | | |
| Payables | 11 | - | - | - | - | 222 | 222 |
| **Net Financial Assets** | | **1,519** | **-** | **-** | **-** | **32,612** | **34,131** |
| ***Weighted average Interest rate** | 4.55% | | | | | | |

** Investments in QIC are not classified as interest bearing as the Commission receives a distribution of profits based on the earnings of units in investments in QIC.

## Note 17 Financial Instruments (continued)

### (c) Credit Risk Exposures

Credit exposure represents the extent of credit related losses that the Commission may be subject to on amounts to be received from financial assets. The Commission, while exposed to credit related losses in the event of non-performance by counterparties of financial institutions, does not expect any counterparties to fail to meet their obligations.

### (d) Fair Values

The carrying amounts of financial assets and liabilities approximate their fair values. The fair value of investments is measured at net market value based on QIC advice.

**Financial assets past due but not impaired**

| | Contractual repricing / maturity date: | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Overdue | | | | |
| | Not overdue | Less than 30 days | 30 – 60 days | 61 – 90 days | More than 90 days | Total | Total financial assets |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets** | | | | | | | |
| Receivables | - | 501 | 8 | 8 | 500 | 1,017 | 1,017 |
| **Total** | **-** | **501** | **8** | **8** | **500** | **1,017** | **1,017** |

**Impaired financial assets**

| | Contractual repricing / maturity date: | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Overdue | | | | |
| | Not overdue | Less than 30 days | 30 – 60 days | 61 – 90 days | More than 90 days | Total | Total financial assets |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets** | | | | | | | |
| Receivables | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## Note 18 Segment Information

The Commission operates within one primary and one geographical segment that being the administration of the Queensland compulsory third party motor vehicle insurance scheme.

## Note 19 Events Occurring after Balance Date

No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial report.

## Note 20 Reconciliation of Adjustments from previous GAAP to Australian Equivalents to International Financial Reporting Standards (AEIFRS) – as at 1 July 2004

| Note | | Previous GAAP 1/7/2004 $'000 | Effect of transition to AEIFRS $'000 | AEIFRS 1/7/2004 $'000 |
|---|---|---|---|---|
| | ***Current Assets*** | | | |
| | Cash assets | 2,734 | - | 2,734 |
| | Receivables | 106 | - | 106 |
| | Investment securities | 15,527 | - | 15,527 |
| | Prepayments | 2 | - | 2 |
| | ***Total Current Assets*** | **18,369** | **-** | **18,369** |
| | ***Non-Current Assets*** | | | |
| | Receivables | 500 | - | 500 |
| | Investment securities | 10,500 | - | 10,500 |
| | Property, plant and equipment | 77 | - | 77 |
| | Intangibles | 220 | - | 220 |
| | ***Total Non-Current Assets*** | **11,297** | **-** | **11,297** |
| | ***Total Assets*** | **29,666** | **-** | **29,666** |
| | ***Current Liabilities*** | | | |
| | Payables | 225 | - | 225 |
| 20.1 | Provisions | 100 | - | 100 |
| | Accrued employee benefits | - | - | - |
| | ***Total Current Liabilities*** | **325** | **-** | **325** |
| | ***Non-Current Liabilities*** | | | |
| 20.1 | Provisions | - | (1) | (1) |
| | Accrued employee benefits | - | - | - |
| | ***Total Non-Current Liabilities*** | **-** | **(1)** | **(1)** |
| | ***Total Liabilities*** | **325** | **(1)** | **324** |
| | ***Net Assets*** | **29,341** | **1** | **29,342** |
| | ***Equity*** | | | |
| | Reserves | 14,596 | - | 14,596 |
| 20.1 | Retained profits | 14,745 | 1 | 14,746 |
| | ***Total Equity*** | **29,341** | **1** | **29,342** |

| Notes to Reconciliation | | $’000 |
|---|---|---|
| 20.1 | Impact of discounting on non-current recreation leave: | |
| | **Adjustment to non-current provisions** | **(1)** |
| | **Adjustment to retained profits** | **1** |

**Income Statement and Statement of Cash Flows**

No adjustments were required to the Income Statement and Statement of Cash Flows as a result of transition to Australian equivalents to IFRS.

Motor Accident Insurance Commission
Notes to and forming part of the financial statements
For the year ended 30 June 2006

## Note 21 Reconciliation of Adjustments from previous GAAP to Australian Equivalents to International Financial Reporting Standards (AEIFRS) – as at 1 July 2005

| Note | | Previous GAAP 1/7/2005 $'000 | Effect of transition to AEIFRS Opening Adjustments 1 July 2004 $'000 | Effect of transition to AEIFRS 2004-05 Adjustments $'000 | AEIFRS 1/7/2005 $'000 |
|---|---|---|---|---|---|
| | ***Current Assets*** | | | | |
| | Cash assets | 1,519 | - | - | 1,519 |
| | Receivables | 123 | - | - | 123 |
| | Investment securities | 21,711 | - | - | 21,711 |
| | Prepayments | 29 | - | - | 29 |
| | ***Total Current Assets*** | **23,382** | **-** | **-** | **23,382** |
| | ***Non-Current Assets*** | | | | |
| | Receivables | 500 | - | - | 500 |
| | Investment securities | 10,500 | - | - | 10,500 |
| | Property, plant and equipment | 55 | - | - | 55 |
| | Intangibles | 220 | - | - | 220 |
| | ***Total Non-Current Assets*** | **11,275** | **-** | **-** | **11,275** |
| | ***Total Assets*** | **34,657** | **-** | **-** | **34,657** |
| | ***Current Liabilities*** | | | | |
| 21.1 | Payables | 222 | - | (22) | 200 |
| 21.1 | Provisions | 93 | - | (93) | - |
| 21.1 | Accrued employee benefits | - | - | 115 | 115 |
| | ***Total Current Liabilities*** | **315** | **-** | **-** | **315** |
| | ***Non-Current Liabilities*** | | | | |
| 21.1 | Provisions | 16 | (1) | (15) | - |
| 21.1 | Accrued employee benefits | - | - | 15 | 15 |
| | ***Total Non-Current Liabilities*** | **16** | **(1)** | **-** | **15** |
| | ***Total Liabilities*** | **331** | **(1)** | **-** | **330** |
| | ***Net Assets*** | **34,326** | **1** | **-** | **34,327** |
| | ***Equity*** | | | | |
| | Reserves | 14,096 | - | - | 14,096 |
| | Retained profits | 20,230 | 1 | - | 20,231 |
| | ***Total Equity*** | **34,326** | **1** | **-** | **34,327** |

| **Notes to Reconciliation** | | **$'000** |
|---|---|---|
| 21.1 | Employee benefits no longer a provision, now an accrual (reclassification required): | |
| | **Adjustment to current payables** | **(22)** |
| | **Adjustment to current provisions** | **(93)** |
| | **Adjustment to accrued employee benefits** | **115** |
| | **Adjustment to non- current provisions** | **(15)** |
| | **Adjustment to accrued employee benefits** | **15** |

**Income Statement and Statement of Cash Flows**

No adjustments were required to the Income Statement and Statement of Cash Flows as a result of transition to Australian equivalents to IFRS.

# Certificate of the Motor Accident Insurance Commission

The foregoing general purpose financial statements have been prepared pursuant to section 46F(1) of the *Financial Administration and Audit Act 1977* (the Act), and other prescribed requirements. In accordance with section 46F(3) of the Act we certify that:

(a) the financial statements and notes to and forming part thereof are in agreement with the accounts and records of the Motor Accident Insurance Commission; and

(b) in our opinion:

  (i) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and

  (ii) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Motor Accident Insurance Commission for the year ended 30 June 2006 and of the financial position of the Commission at the end of that year.

L Anderson
Insurance Commissioner

L Lee
Manager Corporate Governance

Dated: 28 September 2006

# Independent Audit Report

To the Motor Accident Insurance Commission

## Matters Relating to the Electronic Presentation of the Audited Financial Report

The audit report relates to the financial report of the Motor Accident Insurance Commission for the financial year ended 30 June 2006 included on the Motor Accident Insurance Commission's web site. The Insurance Commissioner is responsible for the integrity of the Motor Accident Insurance Commission's web site. We have not been engaged to report on the integrity of the Motor Accident Insurance Commission's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from the Motor Accident Insurance Commission, to confirm the information included in the audited financial report presented on this web site.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

## Scope

*The Financial Report*

The financial report of the Motor Accident Insurance Commission consists of the Income Statements, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, notes to and forming part of the financial report and certificates given by the Insurance Commissioner and officer responsible for the financial administration of the Motor Accident Insurance Commission, for the year ended 30 June 2006.

*The Commission's responsibility*

The Commission is responsible for the preparation and true and fair presentation of the financial report, 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*

As required by law, an independent audit was conducted in accordance with *QAO Auditing Standards*, which incorporate the *Australian Auditing Standards*, to enable me to provide an independent opinion whether in all material respects the financial report is presented fairly, in accordance with the prescribed requirements, including any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

Audit procedures included –

- examining information on a test/sample basis to provide evidence supporting the amounts and disclosures in the financial report;
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Commission;
- obtaining written confirmation regarding the material representations made in conjunction with the audit; and
- reviewing the overall presentation of information in the financial report.

## Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors.

The Auditor-General is the auditor of all public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

## Audit Opinion

In accordance with s.46G of the *Financial Administration and Audit Act 1977* –

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

(b) in my opinion –

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

(ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of the Motor Accident Insurance Commission for the financial year 1 July 2005 to 30 June 2006 and of the financial position as at the end of that year.

M O'Grady, (as Delegate of the Auditor-General of Queensland)
29 September 2006

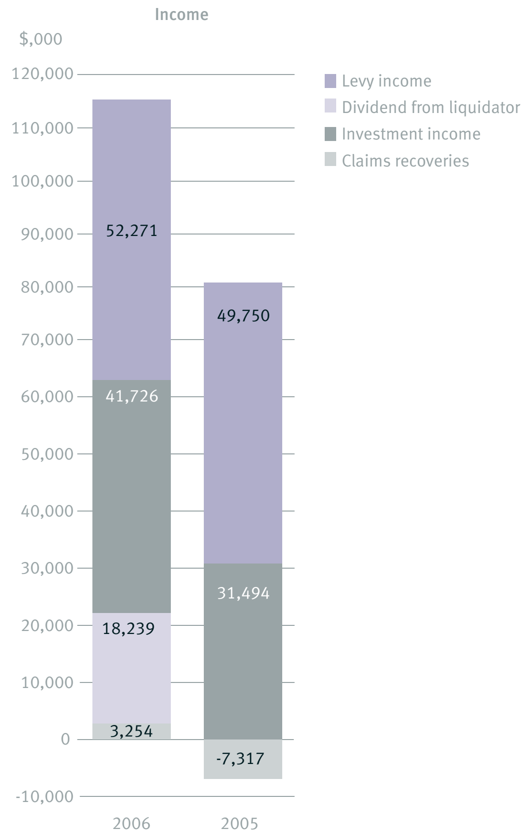
Queensland Audit Office,
Brisbane

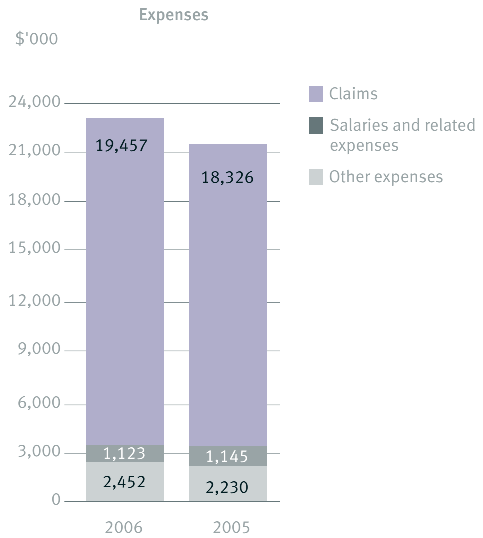
Nominal Defendant
# Financial Summary

The operating profit of the Nominal Defendant for the year ended 30 June 2006 was $92.458 million compared to the prior year's operating profit of $52.226 million. Reimbursement to the State Government for the Indemnity to the Nominal Defendant to meet the liabilities of FAI during the year amounted to $18.526 million. The amount of this reimbursement was determined after deducting cash receipts of the CTP levy surcharge, $3.144 million of funds transferred from the Nominal Defendant Section 31 operations and $18.239 million of the first insolvency dividend received from the HIH liquidator during 2005-06.

In relation to the normal business of the Nominal Defendant (claims relating to unidentified and uninsured vehicles under section 31 of the Act), payments on claims and associated costs during the financial year decreased slightly from $17.471 million to $16.667 million. The provisions for outstanding claims liabilities were actuarially assessed and were increased by $14.494 million.

The income from the levy for the normal business of the Nominal Defendant increased to $37.747 million reflecting growth in the number of registered vehicles. The Nominal Defendant levy was set at $12.95 per Class 1 policy, plus the $5 HIH levy which raised $14.524 million in the year. Claims recoveries were $3.254 million during the year, up from ($7.317) million in the previous year. The increase in Other Expenses predominantly reflects an increase in the 2005-06 reinsurance premium and QIC management fees. The performance of the QIC investments improved significantly from $31.494 million to $41.726 million for the 2005-06 year.



## Nominal Defendant
## Income Statement
## For the year ended 30 June 2006

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Income** | | | |
| ***Revenue*** | | | |
| Levy income | 1(o) | 52,271 | 49,750 |
| Investment income | 5 | 41,726 | 31,494 |
| Dividend from liquidator | 6 | 18,239 | - |
| ***Total Income*** | | **112,236** | **81,244** |
| ***Expenses*** | | | |
| Claims | 2 | 19,457 | 18,326 |
| (Claims recoveries) / write back of claims recoveries | | (3,254) | 7,317 |
| Net claims incurred | 3 | 16,203 | 25,643 |
| Other expenses | 4 | 3,575 | 3,375 |
| ***Total Expenses*** | | **19,778** | **29,018** |
| ***Operating Surplus*** | | **92,458** | **52,226** |

The accompanying notes form part of these financial statements.

## Nominal Defendant
## Balance Sheet
## As at 30 June 2006

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| ***Current Assets*** | | | |
| Cash assets | 15(i) | 1,122 | 2,215 |
| Receivables | 7 | 1,023 | 1,114 |
| Investment securities | 8 | 89,662 | 48,804 |
| Prepayments | | 3 | 6 |
| ***Total Current Assets*** | | **91,810** | **52,139** |
| ***Non-Current Assets*** | | | |
| Investment securities | 8 | 226,477 | 191,189 |
| Property, plant and equipment | 9 | 9 | 15 |
| Intangibles | 10 | 171 | 217 |
| ***Total Non-Current Assets*** | | **226,657** | **191,421** |
| ***Total Assets*** | | **318,467** | **243,560** |
| ***Current Liabilities*** | | | |
| Payables | 11 | 17,784 | 434 |
| Accrued employee benefits | 12 | 211 | 81 |
| Provision for outstanding claims | 13 | 47,314 | 67,615 |
| Unearned levies | | 26,500 | 25,222 |
| ***Total Current Liabilities*** | | **91,809** | **93,352** |
| ***Non-Current Liabilities*** | | | |
| Accrued employee benefits | 12 | 14 | 11 |
| Provision for outstanding claims | 13 | 178,034 | 175,517 |
| ***Total Non-Current Liabilities*** | | **178,048** | **175,528** |
| ***Total Liabilities*** | | **269,857** | **268,880** |
| ***Net Assets*** | | **48,610** | **(25,320)** |
| ***Equity*** | | | |
| Contributed equity | | 227,011 | 245,537 |
| Accumulated losses | | (178,401) | (270,857) |
| ***Total Equity*** | | **48,610** | **(25,320)** |

The accompanying notes form part of these financial statements.

## Nominal Defendant
## Statement of Changes in Equity
## For the year ended 30 June 2006

| | Contributed Equity | | Accumulated Losses | | Total Equity | |
|---|---|---|---|---|---|---|
| | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 |
| ***Balance 1 July*** | 245,537 | 230,881 | (270,857) | (325,749) | (25,320) | (94,868) |
| Operating Surplus | - | - | 92,458 | 52,226 | 92,458 | 52,226 |
| State Government Equity (withdrawal) / injection (Note 1(c)) | (18,526) | 14,656 | - | - | (18,526) | 14,656 |
| Net leave liabilities transferred from other business units | - | - | (2) | 1 | (2) | 1 |
| Adjustment for change in actuarial estimate as per requirement of application of AASB 1023 (Note 22) | - | - | - | 2,665 | - | 2,665 |
| ***Balance 30 June*** | **227,011** | **245,537** | **(178,401)** | **(270,857)** | **48,610** | **(25,320)** |

The accompanying notes form part of these financial statements.

## Nominal Defendant
## Statement of Cash Flows
## For the year ended 30 June 2006

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| ***Inflows:*** | | | |
| Levy income | | 53,549 | 50,883 |
| Claims recoveries | | 3,344 | 4,685 |
| Investment income | | 41,736 | 31,490 |
| Dividend from liquidator | | 18,239 | - |
| GST recovered from ATO | | 696 | 876 |
| ***Outflows:*** | | | |
| Claims | | (37,331) | (60,974) |
| Salaries and related expenses | | (990) | (1,133) |
| Other | | (3,094) | (3,238) |
| ***Net cash provided by operating activities*** | **15(ii)** | **76,149** | **22,589** |
| **Cash flows from investing activities** | | | |
| ***Outflows:*** | | | |
| Purchase of property, plant and equipment | | - | (49) |
| ***Net cash used in investing activities*** | | **-** | **(49)** |
| **Cash flows from investing activities** | | | |
| ***Inflows:*** | | | |
| Queensland Treasury Indemnity Receipts | | - | 30,754 |
| ***Outflows:*** | | | |
| Queensland Treasury Indemnity Payments | | (1,096) | - |
| ***Net cash used in financing activities*** | | **(1,096)** | **30,754** |
| **Net increase in cash held** | | **75,053** | **53,294** |
| Cash at the beginning of the financial year | | 242,208 | 188,914 |
| ***Cash at the end of the financial year*** | **15(i)** | **317,261** | **242,208** |

The accompanying notes form part of these financial statements.

Nominal Defendant
Notes to and forming part of the financial statements
For the year ended 30 June 2006

## Note 1 Summary of Significant Accounting Policies

### (a) Reporting Entity

The Nominal Defendant was established under the *Motor Accident Insurance Act 1994* to act as a Queensland Compulsory Third Party (CTP) insurer for claims arising from unidentified and uninsured vehicles and to provide continuity of protection if a licensed insurer becomes insolvent.

### (b) Basis of Accounting

These financial statements have been prepared as general purpose financial statements in accordance with the requirements of Australian Equivalents to International Financial Reporting Standards (AEIFRS) for the first time. The disclosures required by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* concerning the transition from previous Generally Accepted Accounting Principles (GAAP) to AEIFRS are provided in Notes 21 and 22.

The AASB has issued amendments to existing standards. The amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005. The Nominal Defendant has elected to early adopt the following accounting standards and amendments:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* [AASB 1 & AASB 101] (December 2004)
- AASB 2005-1 *Amendments to Australian Accounting Standards* [AASB 139] (May 2005)
- AASB 2005-4 *Amendments to Australian Accounting Standards* [AASB 139, AASB 132, AASB 1 & AASB 1023] (June 2005)
- AASB 2005-5 *Amendments to Australian Accounting Standards* [AASB 1 & AASB 139] (June 2005)
- AASB 2005-8 *Amendments to Australian Accounting Standards* [AASB 1] (June 2005)
- AASB 7 *Financial Instruments: Disclosures* (August 2005)
- AASB 2005-9 *Amendments to Australian Accounting Standards* [AASB 1023, AASB 139 & AASB 132] (September 2005)
- AASB 2005-10 *Amendments to Australian Accounting Standards* [AASB 132, AASB 101, AASB 114, AASB 117, AASB 139, AASB 1 & AASB 1023] (September 2005)
- AASB 2005-11 *Amendments to Australian Accounting Standards* [AASB 101, AASB 132 & AASB 139] (September 2005)
- AASB 2005-12 *Amendments to Australian Accounting Standards* [AASB 1023] (December 2005)
- AASB 2006-2 *Amendments to Australian Accounting Standards* [AASB 1] (March 2006)

The financial statements have been prepared on a historical cost basis, except for investment securities which are shown at net market value.

### (c) Deed of Indemnity

Under section 33(2) of the *Motor Accident Insurance Act 1994,* the Nominal Defendant (the Fund) has assumed the Queensland Compulsory Third Party liabilities of the insolvent insurer, FAI General Insurance Company Limited (FAI).

The State Government has agreed to indemnify the Nominal Defendant for any shortfalls relating to the above. Any funds to be advanced to the Nominal Defendant are determined after taking into consideration a component of the levy, recoveries from the liquidator of the insolvent insurer and funds transferred from the Motor Accident Insurance Commission.

The funds provided by the State are to be recorded by the Nominal Defendant as equity injections in its financial statements. Where cash receipts from the CTP levy surcharge and/or recoveries from the liquidator of HIH exceed outflows from HIH CTP claims, that amount will be remitted back to the State Government and recorded as an equity withdrawal.

## Note 1 Summary of Significant Accounting Policies (continued)

### (d) Receivables

Trade debtors are recognised at the nominal amounts due at the time of sale or service delivery. Settlement of these amounts is required within 30 days from invoice date. The collectability of receivables is assessed at each reporting date with provision made for impairment. All known bad debts were written-off as at 30 June.

It is not the policy of the Nominal Defendant to recognise the debt or potential income accruing as the result of judgements granted in favour of it for legal costs and claims against uninsured owners and/or drivers. The resultant receipts are immaterial when compared to the Nominal Defendant's other sources of income and are recognised in the financial statements in the period in which they are received. This policy is under constant review by the Nominal Defendant.

### (e) Acquisition of Assets

Actual cost is used for the initial recording of all non-current physical and intangible asset acquisitions. Cost is determined as the value given as consideration plus costs incidental to the acquisition, including all other costs incurred in getting the assets ready for use. However, any training costs are expensed as incurred.

Assets acquired at no cost or for nominal consideration are recognised at their fair value at date of acquisition in accordance with AASB 116 *Property, Plant and Equipment.*

### (f) Property, Plant and Equipment

Items of property, plant and equipment with a cost or other value equal to or in excess of the following thresholds are recognised for financial reporting purposes in the year of acquisition:

| | |
|---|---|
| Intangibles | $100,000 |
| Other | $5,000 |

Items with a lesser value are expensed in the year of acquisition.

### (g) Valuations of Non-Current Physical and Intangible Assets

Where intangible assets have an active market, they are measured at fair value, otherwise they are measured at cost.

Plant and equipment, other than major plant and equipment, are measured at cost. The carrying amounts for plant and equipment at cost should not materially differ from their fair value.

### (h) Intangibles

Intangible assets with a cost or other value greater than $100,000 are recognised in the financial statements, items with a lesser value being expensed. Each intangible asset is amortised over its estimated useful life less any anticipated residual value.

It has been determined that there is not an active market for any of the Nominal Defendant's intangible assets. As such, the assets are recognised and carried at cost less accumulated amortisation.

Internal Use Software
Costs associated with the development of computer software have been capitalised and are amortised on a straight-line basis over the period of expected benefit, namely 5 years.

## Note 1 Summary of Significant Accounting Policies (continued)

### (i) Amortisation and Depreciation of Intangibles and Property, Plant and Equipment

Amortisation and depreciation is calculated on a straight-line basis, to write off the net cost of each depreciable asset, progressively over its estimated useful life.

Internal use software under development is not amortised until it has been fully developed and utilised.

For each class of depreciable asset the following depreciation and amortisation rates are used:

| Class | Rate% |
|---|---|
| Plant and Equipment | 20 - 25 |
| Software | 20 |

### (j) Impairment of Non – Current Assets

All non-current physical and intangible assets are assessed for indicators of impairment on an annual basis. If an indicator of possible impairment exists, the Nominal Defendant determines the asset's recoverable amount. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

The asset's recoverable amount is determined as the higher of the asset's fair value less costs to sell and depreciated replacement cost.

An impairment loss is recognised immediately in the Income Statement, unless the asset is carried at a revalued amount. When the asset is measured at a revalued amount, the impairment loss is offset against the asset revaluation reserve of the relevant class to the extent available.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

### (k) Investments

All funds not required for the day to day management of the Nominal Defendant are invested with the Queensland Investment Corporation ("QIC") and are recorded in the financial statements at net market value.

### (l) Payables

Trade creditors are recognised upon receipt of goods or services at the contracted amount to be paid for the goods and services rendered. Amounts owing are unsecured and are generally settled on 30 day terms.

### (m) Provisions for Outstanding Claims

Provisions for outstanding claims have been actuarially calculated as at the financial year-end by an independent actuarial firm, Finity Consulting Pty Limited, the principals of which are Fellows of the Institute of Actuaries in Australia. The Actuaries have furnished a Certificate.

## Note 1 Summary of Significant Accounting Policies (continued)

### (m) Provisions for Outstanding Claims (continued)

Claims incurred expense and a liability for outstanding claims are recognised for claims incurred but not yet paid, incurred but not yet reported claims and anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claims files and estimating unnotified claims and settlement costs using statistics based on past experiences and trends.

The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all claims do not 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 and superimposed inflation. The expected future payments are then discounted to a present value at the reporting date using discount rates based on investment opportunities available to the Nominal Defendant on the amount of funds sufficient to meet claims as they become payable. The details of rates applied are included in Note 13.

### (n) Funding of Nominal Defendant

Funding is by way of levies, as explained at Note 1(o); interest on investments; and moneys recovered by the Nominal Defendant against owners and/or drivers of uninsured vehicles and failed claimants. In addition, any shortfall resulting from FAI claims liabilities is funded by the State Government as detailed at Note 1(c).

### (o) Levies

In order to comply with the provisions of Australian Accounting Standard AASB 1023 *General Insurance Contracts*, the Nominal Defendant levy, as stated in Section 12 of the *Motor Accident Insurance Act 1994,* is to be treated as “premium” as defined in AASB 1023 and is accounted for as such in accordance with the provisions of AASB 1023.

Levy revenue is recognised in the Income Statement only when it has been earned in accordance with the accounting principles set out in AASB 1023. Levies received but not earned as at the end of the reporting period are recorded as a liability *(unearned levies)* in the Balance Sheet and then systematically transferred to revenue in the Income Statement as the levy is earned over time. In accordance with AASB 1023 the recognition of earned levy is on the basis of the passage of time, commencing from the week in which motorists remit their CTP premiums to the Queensland Department of Transport.

Levy revenue is received from motorists via the Queensland Department of Transport in accordance with Section 29 of the *Motor Accident Insurance Act 1994* based on a levy on gross premiums collected for Compulsory Third Party motor vehicle insurance policies. These levies are used to fund estimated costs of the Nominal Defendant scheme for the financial year and shortfalls from previous years.

The Nominal Defendant levy rate is fixed each year by regulation in accordance with Section 14A(1) of the *Motor Accident Insurance Act 1994.*

The Motor Accident Insurance Commission makes a recommendation to the Minister on the levy rate after obtaining and considering actuarial advice.

## Note 1 Summary of Significant Accounting Policies (continued)

### (p) Employee Benefits

<u>Wages, Salaries, Recreation Leave and Sick Leave</u>
Wages, salaries and recreation leave due but unpaid at reporting date are recognised in the Balance Sheet at the remuneration rates expected to apply at the time of settlement and include related on-costs such as payroll tax, WorkCover premiums, long service leave levies and employer superannuation contributions.

For unpaid entitlements expected to be paid within 12 months, the liabilities are recognised at their undiscounted values. For those entitlements not expected to be paid within 12 months, the liabilities are recognised at their present value, calculated using the 1 year Commonwealth Government bond rate.

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

As sick leave is non-vesting, an expense is recognised for this leave as it is taken.

<u>Long Service Leave</u>
Under the Queensland Government's long service leave scheme, a levy is made on the Nominal Defendant to cover this cost. Levies are expensed in the period in which they are paid or payable. Amounts paid to employees for long service leave are claimed from the scheme as and when leave is taken.

No provision for long service leave is recognised in the financial statements, the liability being held on a whole-of-Government basis and reported in the financial report prepared pursuant to AAS 31 – *Financial Reporting by Governments*.

<u>Superannuation</u>
Employer superannuation contributions are paid to QSuper, the superannuation plan for Queensland Government employees, at rates determined by the State Actuary. Contributions are expensed in the period in which they are paid or payable. The Nominal Defendant's obligation is limited to its contribution to QSuper.

No liability is recognised for accruing superannuation benefits in these financial statements, the liability being held on a whole-of-Government basis and reported in the financial report prepared pursuant to AAS 31 – *Financial Reporting by Governments*.

### (q) Leases

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

### (r) Insurance

The Nominal Defendant's non-current assets and other risks are insured through the Queensland Government Insurance Fund, premiums being paid on a risk assessment basis. In addition, the Nominal Defendant pays premiums to WorkCover Queensland in respect of its obligations for employee compensation.

## Note 1 Summary of Significant Accounting Policies (continued)

### (s) Issuance of Financial Statements

The financial statements are authorised for issue by the Nominal Defendant and the Manager, Corporate Governance at the date of signing the management certificate.

### (t) Judgement and Assumptions

The Nominal Defendant places high reliance on actuarial estimates provided by its actuaries, Finity Consulting Pty Limited in calculating the Provision for Outstanding Claims as at the end of the financial year. Refer to Notes 1(m) and 13. The Nominal Defendant has made no judgements or assessments which may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

### (u) Rounding and Comparatives

Amounts included in the financial statements have been rounded to the nearest $1,000 or, where that amount is $500 or less, to zero.

Comparative information has been restated where necessary to be consistent with disclosures in the current reporting period.

## Note 2 Claims

Claims comprise amounts required to be paid on behalf of those insured, amounts set aside for future claims and claims settlement costs. Claims settlement costs include costs that can be associated directly with individual claims, such as legal and professional fees.

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Decrease in provision for outstanding claims | (17,784) | (42,676) |
| Claims and associated settlement costs | 37,241 | 61,002 |
| **Total** | **19,457** | **18,326** |

**Claims attributable to FAI**

The following amounts attributable to FAI are included in the claims figures listed above:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Decrease in provision for outstanding claims | (32,278) | (53,365) |
| Claims and associated settlement costs | 20,574 | 43,531 |
| **Total** | **(11,704)** | **(9,834)** |

Nominal Defendant
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## Note 3 Net Claims Incurred

Current period claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in all previous reporting periods.

**Claims attributable to Nominal Defendant (section 31)**

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Current Year $'000 | Prior Years $'000 | Total $'000 | Current Year $'000 | Prior Years $'000 | Total $'000 |
| Gross claims incurred and related expenses | | | | | | |
| - undiscounted | 47,911 | (2,037) | 45,874 | 40,518 | (7,892) | 32,626 |
| Reinsurance and other recoveries | | | | | | |
| - undiscounted | (1,191) | (1,351) | (2,542) | (1,005) | (4,121) | (5,126) |
| Net claims incurred | | | | | | |
| - undiscounted | 46,720 | (3,388) | 43,332 | 39,513 | (12,013) | 27,500 |
| Discount and discount movement | | | | | | |
| - gross claims incurred | (12,177) | (974) | (13,151) | (7,883) | 7,338 | (545) |
| Discount and discount movement | | | | | | |
| - reinsurance and other recoveries | 304 | 326 | 630 | 197 | 458 | 655 |
| Net discount movement | (11,873) | (648) | (12,521) | (7,686) | 7,796 | 110 |
| **Net Claims Incurred** | | | | | | |
| **- discounted** | **34,847** | **(4,036)** | **30,811** | **31,827** | **(4,217)** | **27,610** |

**Claims attributable to FAI**

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Current Year $'000 | Prior Years $'000 | Total $'000 | Current Year $'000 | Prior Years $'000 | Total $'000 |
| Gross claims incurred and related expenses | | | | | | |
| - undiscounted | - | (13,299) | (13,299) | - | (35,628) | (35,628) |
| Reinsurance and other recoveries | | | | | | |
| - undiscounted | - | (2,904) | (2,904) | - | 25,558 | 25,558 |
| Net claims incurred | | | | | | |
| - undiscounted | - | (16,203) | (16,203) | - | 10,070 | 10,070 |
| Discount and discount movement | | | | | | |
| - gross claims incurred | - | 1,594 | 1,594 | - | 10,350 | 10,350 |
| Discount and discount movement | | | | | | |
| - reinsurance and other recoveries | - | - | - | - | (2,247) | (2,247) |
| Net discount movement | - | 1,594 | 1,594 | - | 8,103 | 8,103 |
| **Net Claims Incurred** | | | | | | |
| **- discounted** | **-** | **(14,608)** | **(14,608)** | **-** | **(1,967)** | **(1,967)** |
| **Total Net Claims Incurred** | | | | | | |
| **- discounted** | **34,847** | **(18,644)** | **16,203** | **31,827** | **(6,184)** | **25,643** |

Nominal Defendant
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| | | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|---|
| **Note 3** | **Net Claims Incurred (continued)** | | | |
| | **Net Claims Incurred** | | | |
| | Net Claims Incurred – discounted | | 30,811 | 27,610 |
| | Claims Recoveries | | 350 | 550 |
| | | | 31,161 | 28,160 |
| | Add: Claims attributable to FAI | | (14,608) | (1,967) |
| | Claims Recoveries – FAI | | 2,904 | (7,867) |
| | | 2 | (11,704) | (9,834) |
| | **Total Claims** | 2 | **19,457** | **18,326** |
| **Note 4** | **Other expenses** | | | |
| | Salaries and related expenses | | | |
| | Salaries and wages | | 757 | 858 |
| | Superannuation | | 99 | 109 |
| | Long service leave expense | | 13 | 13 |
| | Recreation leave expense | | 71 | 86 |
| | Workers' compensation premium | | 2 | 2 |
| | Other related expenses | | 181 | 77 |
| | Depreciation – Property, Plant and Equipment | | 6 | 11 |
| | Amortisation – Intangibles | | 46 | 5 |
| | Rent | | 89 | 96 |
| | Consultancy Expenditure | | 112 | 119 |
| | Reinsurance | | 1,338 | 1,242 |
| | Administration Fees | | 539 | 444 |
| | Audit Fees – Auditor-General | | 23 | 23 |
| | Insurance Premiums – QGIF | | 1 | 1 |
| | Other | | 298 | 289 |
| | **Total** | | **3,575** | **3,375** |

The number of employees including both full-time employees and part-time employees measured on a full-time equivalent basis is:

| | 2006 | 2005 |
|---|---|---|
| Number of Employees: | 11.77 | 15.35 |

Total external audit fees relating to the 2005-06 financial year are estimated to be $23,000 (2004-05: $23,000). There are no non-audit services included in this amount.

Nominal Defendant
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| | | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Note 4** | **Other expenses (continued)** | | |
| | **Other expenses attributable to FAI are included in the figures listed above:** | | |
| | Salaries and related expenses | | |
| | Salaries and wages | 188 | 339 |
| | Superannuation | 25 | 40 |
| | Long service leave expense | 3 | 5 |
| | Recreation leave expense | 20 | 32 |
| | Workers' compensation premium | 1 | 1 |
| | Other related expenses | 18 | 26 |
| | Rent | 21 | 32 |
| | Consultancy Expenditure | 10 | 20 |
| | Audit Fees – Auditor-General | 9 | 9 |
| | Other | 80 | 42 |
| | **Total** | **375** | **546** |

The number of employees including both full-time employees and part-time employees measured on a full-time equivalent basis is:

| | | 2006 | 2005 |
|---|---|---|---|
| | Number of Employees: | 1.95 | 3.4 |

| | | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Note 5** | **Investment Income** | | |
| | Distributions received from Queensland Investment Corporation | 41,614 | 31,361 |
| | Interest received from funds held by Queensland Treasury | 112 | 133 |
| | **Total** | **41,726** | **31,494** |
| **Note 6** | **Dividend from liquidator** | | |
| | First interim insolvency dividend of five cents in the dollar received from FAI Liquidator | **18,239** | **-** |
| **Note 7** | **Receivables** | | |
| | **Current** | | |
| | Accrued investment income | 31 | 42 |
| | Claims Recoveries receivable | 936 | 1,025 |
| | Other receivables | 56 | 47 |
| | **Total** | **1,023** | **1,114** |

Nominal Defendant
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| | | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Note 8** | **Investment Securities** | | |
| | **Current** | | |
| | Queensland Investment Corporation | 89,662 | 48,804 |
| | **Non-Current** | | |
| | Queensland Investment Corporation | 226,477 | 191,189 |
| | **Total** | **316,139** | **239,993** |

**Note 9 Property, Plant and Equipment**

| | 2006 | 2005 |
|---|---|---|
| Plant and equipment: | | |
| At Cost | 65 | 65 |
| Less: Accumulated depreciation | (56) | (50) |
| **Total** | **9** | **15** |

Plant and equipment is valued at cost in accordance with Queensland Treasury's *Non-Current Asset Accounting Policies for the Queensland Public Sector.*

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year are as follows:

| | Plant and Equipment 2006 $'000 | Total 2006 $'000 |
|---|---|---|
| Carrying amount at 1 July 2005 | 15 | 15 |
| Additions | - | - |
| Disposals | - | - |
| Depreciation | (6) | (6) |
| Carrying amount at 30 June 2006 | **9** | **9** |

| | | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **Note 10** | **Intangibles** | | |
| | Software: | | |
| | At Cost | 388 | 388 |
| | Less: Accumulated amortisation | (217) | (171) |
| | **Total** | **171** | **217** |

Nominal Defendant
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| Note 10 Intangibles (continued) | Software 2006 $'000 | Total 2006 $'000 |
|---|---|---|
| Carrying amount at 1 July 2005 | 217 | 217 |
| Additions | - | - |
| Disposals | - | - |
| Amortisation | (46) | (46) |
| Carrying amount at 30 June 2006 | **171** | **171** |

| Note 11 Payables | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Sundry Creditors and accruals | 354 | 435 |
| Queensland Treasury Indemnity Payable | 17,430 | - |
| **Total** | **17,784** | **435** |

The following amounts attributable to FAI are included in the payables figures listed above:

| | | |
|---|---|---|
| Sundry Creditors and accruals | **41** | **95** |

**Note 12 Accrued Employee Benefits**

| | | |
|---|---|---|
| **Current** | | |
| Wages outstanding | 143 | 15 |
| Recreation Leave | 68 | 66 |
| | **211** | **81** |
| **Non-Current** | | |
| Recreation Leave | 14 | 11 |
| **Total** | **225** | **92** |

The following amounts attributable to FAI are included in the payables figures listed above:

| | | |
|---|---|---|
| **Current** | | |
| Wages outstanding | 10 | 5 |
| Recreation Leave | 22 | 24 |
| | **32** | **29** |
| **Non-Current** | | |
| Recreation Leave | - | - |
| **Total** | **32** | **29** |

The discount rate used to calculate the present value of non-current annual leave is 5.32% (2005: 5.168%)

Nominal Defendant
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## Note 13 Provision for Outstanding Claims

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| The total provision is as follows: | | |
| Current | 47,314 | 67,615 |
| Non – current | 178,034 | 175,517 |
| **Total** | **225,348** | **243,132** |

The consulting actuaries have recommended an allowance for reinsurance recoveries in the valuation of the outstanding claims liabilities of the FAI-Tail claims. While there has been no diminution in the legal standing of the Nominal Defendant to these Reinsurance monies it has been recognised that the actual receipt of these funds may be protracted. As a consequence and out of prudence it has been decided to no longer recognise the following allowance in the provision for outstanding claims valuation from 30 June 2005:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Reinsurance recoveries allowance (undiscounted) | 3,545 | 5,064 |
| Discount to present value | (340) | (460) |
| **Reinsurance recoveries allowance (discounted)** | **3,205** | **4,604** |

**Outstanding Claims attributable to the Nominal Defendant (section 31)**

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Expected future claims payments (undiscounted) | 207,664 | 178,457 |
| Expected recoveries (undiscounted) | (9,573) | (7,381) |
| Discount to present value | (41,348) | (28,828) |
| **Liability for outstanding claims** | **156,743** | **142,249** |
| Current | 25,999 | 28,927 |
| Non – Current | 130,744 | 113,322 |
| **Total** | **156,743** | **142,249** |

**(i)** The weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 3.74 years (2005 – 3.39 years).

**(ii)** The following average inflation (normal and superimposed) rates and discount rates were used in measuring the liability for outstanding claims.

| | 2006 | 2005 |
|---|---|---|
| Claims expected to be paid: | | |
| Not later than one year | | |
| Inflation rate | 7.0% | 7.0% |
| Discount rate | 6.0% | 5.25% |
| Later than one year | | |
| Inflation rate | 7.0% | 7.0% |
| Discount rate | 6.0% | 5.25% |

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## Note 13 Provision for Outstanding Claims (continued)

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| **Outstanding Claims attributable to FAI** | | |
| Expected future claims payments (undiscounted) | 76,699 | 110,571 |
| Expected recoveries (undiscounted) | (3,545) | (5,064) |
| Discount to present value | (7,754) | (9,228) |
| **Liability for outstanding claims** | **65,400** | **96,279** |
| Current | 20,319 | 32,387 |
| Non – Current | 45,081 | 63,892 |
| **Total** | **65,400** | **96,279** |

(i) The weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 2.04 years (2005 – 2.11 years).

(ii) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the liability for outstanding claims.

| | 2006 | 2005 |
|---|---|---|
| Claims expected to be paid: | | |
| Not later than one year | | |
| Inflation rate | 7.0% | 7.0% |
| Discount rate | 6.00% | 5.25% |
| Later than one year | | |
| Inflation rate | 7.0% | 7.0% |
| Discount rate | 6.00% | 5.25% |

## Note 14 Commitments for Expenditure

**Operating Lease Rental Commitments**

Future operating lease rentals not provided for in the financial statements are payable as follows:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Due not later than one year | 123 | 101 |
| Due later than one year but not later than five years | 123 | 110 |
| **Total** | **246** | **211** |

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| | | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|---|
| **Note 14** | **Commitments for Expenditure (continued)** | | | |
| | **Maintenance Contract Commitments** | | | |
| | Total expenditure contracted for at balance date but not provided for in the financial statements: | | | |
| | Due not later than one year | | 248 | 156 |
| | Due later than one year but not later than five years | | - | - |
| | **Total** | | **248** | **156** |

| | | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|---|
| **Note 15** | **Statement of Cash Flows** | | | |
| **(i)** | **Reconciliation of cash** | | | |
| | For the purposes of the Statement of Cash Flows, cash includes cash on hand and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows: | | | |
| | Cash | | 1,122 | 2,215 |
| | Investment Securities | 8 | 316,139 | 239,993 |
| | **Total** | | **317,261** | **242,208** |
| **(ii)** | **Reconciliation of operating surplus with net cash provided by operating activities** | | | |
| | Operating surplus | | 92,458 | 52,226 |
| | Add non-cash items: | | | |
| | Depreciation | | 6 | 16 |
| | Amortisation | | 46 | - |
| | Direct changes to equity | | (2) | 2,401 |
| | Changes in assets and liabilities: | | | |
| | (Increase) / decrease in prepayments | | 3 | (1) |
| | Decrease in receivables | | 91 | 12,032 |
| | (Decrease) in payables | | (80) | (151) |
| | Increase in unearned levies | | 1,278 | 1,133 |
| | (Decrease) in provisions | | (17,784) | (45,076) |
| | Increase in accrued employee benefits | | 133 | 9 |
| | Net cash provided by operating activities | | **76,149** | **22,589** |

**(iii)** The Nominal Defendant Fund has no unused borrowing or overdraft facility.

Nominal Defendant
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## Note 16 Financial Instruments

### (a) Categorisation of Financial Instruments

| Financial Instrument | Related Financial Statement Notes | Accounting Policies | Terms and Conditions |
|---|---|---|---|
| Financial Assets | | | |
| Cash on hand | 15 (i) | Recorded at book value, which approximates fair value.<br>Interest is recognised in the Income Statement when earned. | Under the Cash Management Incentives Regime (CMIR) the Treasury Controlled Bank account earns interest on surplus funds and pays interest when in overdraft. The interest rate is changed quarterly and the June quarter rate is 4.59%. |
| Receivables | | | |
| Claims Recoveries receivable | 7 | Recognition – at their assessed value.<br>Measurement – based on actuarial assessment. | No interest is charged and no security is obtained. |
| Investment Securities | 8 | Recognition – on the day funds are invested.<br>Measurement – at net market value. | May be drawn upon as and when required. |
| Financial Liabilities | | | |
| Payables | 11 | Recognition – upon receipt of goods or services irrespective of whether an invoice has been received.<br>Measurement – based on agreed purchase/contract costs. | Amounts are usually settled within 30 days upon receipt of invoice. |

The Nominal Defendant invests with the Queensland Investment Corporation (QIC). QIC will have invested in a variety of financial instruments including derivatives, which expose the Nominal Defendant's investments to a variety of investment risks including market risk, credit risk, interest rate risk and currency risk.

### (b) Interest Rate Risk Exposure

The Fund invests in financial assets for the primary purpose of obtaining a return on investments, to help meet the costs of the Nominal Defendant and satisfy liabilities for motor vehicle accident claims. The Fund's return on the investments will fluctuate in accordance with movements in the market interest rates.

Nominal Defendant
Notes to and forming part of the financial statements
For the year ended 30 June 2006

## Note 16 Financial Instruments (continued)

| 2006 | Notes | Floating interest rate $'000 | Fixed interest rate maturing 1 year or less $'000 | Over 1 to 5 years $'000 | More than 5 years $'000 | Non Interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash* | | 1,122 | - | - | - | - | 1,122 |
| Receivables | 7 | - | - | - | - | 1,023 | 1,023 |
| Investments | 8 | - | - | - | - | 316,139** | 316,139 |
| | | **1,122** | **-** | **-** | **-** | **317,162** | **318,284** |
| **Financial Liabilities** | | | | | | | |
| Payables | 11 | - | - | - | - | - | - |
| **Net Financial Assets** | | **1,122** | **-** | **-** | **-** | **299,378** | **300,500** |
| ***Weighted average Interest rate** | **4.63%** | | | | | | |

| 2006 | Notes | Floating interest rate $'000 | Fixed interest rate maturing 1 year or less $'000 | Over 1 to 5 years $'000 | More than 5 years $'000 | Non Interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash* | | 2,215 | - | - | - | - | 2,215 |
| Receivables | 7 | - | - | - | - | 1,114 | 1,114 |
| Investments | 8 | - | - | - | - | 239,993** | 239,993 |
| | | **2,215** | **-** | **-** | **-** | **241,107** | **243,322** |
| **Financial Liabilities** | | | | | | | |
| Payables | 11 | - | - | - | - | 435 | 435 |
| **Net Financial Assets** | | **2,215** | **-** | **-** | **-** | **240,672** | **242,887** |
| ***Weighted average Interest rate** | **4.55%** | | | | | | |

**Investments in QIC are not classified as interest bearing as the Nominal Defendant receives a distribution of profits based on the earnings of units in investments in QIC.

## Note 16 Financial Instruments (continued)

### (c) Credit Risk Exposures

Credit exposure represents the extent of credit related losses that the Nominal Defendant may be subject to on amounts to be received from financial assets. The Nominal Defendant, while exposed to credit related losses in the event of non-performance by counterparties of financial institutions, does not expect any counterparties to fail to meet their obligations.

### (d) Fair Values

The carrying amounts of financial assets and liabilities approximate their fair values. The fair value of investments is measured at net market value based on QIC advice.

The Nominal Defendant is unable to comply with the disclosure requirements in AASB 7 *Financial Instrument disclosures* paragraph 37(a) and (b) for the Nominal Defendant's financial assets. The difficulty for disclosure relates to the inability to age the receivable for sharing recoveries on claims due to the difficulty in accurately predicting the finalisation period of a claim.

## Note 17 Segment Information

The Nominal Defendant operates in one primary and geographical segment and operates as a statutory body in the motor vehicle insurance industry in Queensland.

## Note 18 Contingent Liabilities

**(a)** Indemnity for liabilities of FAI General Insurance Company Limited ("FAI")

In accordance with the Deed of Indemnity to the Nominal Defendant for the assumed HIH CTP Liability, funding is provided by the State Government for shortfalls relating to liabilities of FAI. Refer Statement of Changes in Equity.

In accordance with the Deed of Indemnity, where the cash receipts of the Compulsory Third Party ("CTP") levy surcharge and any amounts received from the liquidator of the HIH Group exceed the amount paid for the claims liabilities and management costs, as a result of the insolvency of FAI, the Nominal Defendant will pay the excess to the Treasurer. Refer Statement of Changes in Equity.

**(b)** Funds transferred from Motor Accident Insurance Fund (MAIC)

Under section 33(6) and 33(7) of the *Motor Accident Insurance Act 1994,* should circumstances give rise to a recovery from the liquidation of FAI, or recovery from another party, the Treasurer may, by written notice to the Nominal Defendant, direct it to return funds of an amount, not exceeding $57,818,000 to the Motor Accident Insurance Fund.

## Note 19 Contingent Asset

On 15 March 2001 FAI General Insurance Company Limited was placed into provisional liquidation. The Nominal Defendant has by law become entitled to monies arising from Reinsurance Treaties held by FAI General Insurance Company Limited. While there has been no diminution in the legal standing of Nominal Defendant to these Reinsurance monies it has been recognised that the actual receipt of these funds may be protracted. As a consequence and out of prudence it has been decided to no longer recognise these monies as a current receivable.

## Note 20 Events Occurring after Balance Date

No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial report.

Nominal Defendant
Notes to and forming part of the financial statements
For the year ended 30 June 2006

## Note 21 Reconciliation of Adjustments from previous GAAP to Australian Equivalents to International Financial Reporting Standards (AEIFRS) – as at 1 July 2004

| Note | | Previous GAAP 1/7/2004 $'000 | Effect of transition to AEIFRS $'000 | AEIFRS 1/7/2004 $'000 |
|---|---|---|---|---|
| | ***Current Assets*** | | | |
| | Cash assets | 1,562 | - | 1,562 |
| | Receivables | 29,244 | - | 29,244 |
| | Investment securities | 37,116 | - | 37,116 |
| | Prepayments | 5 | - | 5 |
| | ***Total Current Assets*** | **67,927** | **-** | **67,927** |
| | ***Non-Current Assets*** | | | |
| | Investment securities | 150,236 | - | 150,236 |
| | Property, plant and equipment | 26 | - | 26 |
| | Intangibles | 173 | - | 173 |
| | ***Total Non-Current Assets*** | **150,435** | **-** | **150,435** |
| | ***Total Assets*** | **218,362** | **-** | **218,362** |
| | ***Current Liabilities*** | | | |
| | Payables | 600 | - | 600 |
| | Provision for employee entitlements | 69 | - | 69 |
| | Provision for outstanding claims | 78,811 | - | 78,811 |
| | Unearned levies | 24,089 | - | 24,089 |
| | ***Total Current Liabilities*** | **103,569** | **-** | **103,569** |
| | ***Non-Current Liabilities*** | | | |
| 21.2 | Provision for employee entitlements | - | (1) | (1) |
| 21.1 | Provision for outstanding claims | 195,397 | 14,265 | 209,662 |
| | ***Total Non-Current Liabilities*** | **195,397** | **14,264** | **209,661** |
| | ***Total Liabilities*** | **298,966** | **14,264** | **313,230** |
| | ***Net Liabilities*** | **(80,604)** | **(14,264)** | **(94,868)** |
| | ***Equity*** | | | |
| | Contributed equity | 230,881 | - | 230,881 |
| 21.3 | Accumulated losses | (311,485) | (14,264) | (325,749) |
| | ***Total Equity*** | **(80,604)** | **(14,264)** | **(94,868)** |

Nominal Defendant
Notes to and forming part of the financial statements
For the year ended 30 June 2006

| Notes to Reconciliation | | $'000 |
|---|---|---|
| 21.1 | Impact of prudential margin on FAI Provision for outstanding claims: | |
| | **Adjustment to non – current provision for outstanding claims** | **14,265** |
| 21.2 | Impact of discounting on non-current recreation leave: | |
| | **Adjustment to non-current provision for employee entitlements** | **(1)** |
| 21.3 | The adjustments to Accumulated losses are as follows: | |
| | Impact of prudential margin on FAI Provision for outstanding claims | (14,265) |
| | Impact of discounting on non-current recreation leave | 1 |
| | **Adjustment to accumulated losses** | **(14,264)** |

**Income Statement and Statement of Cash Flows**

No adjustments were required to the Income Statement and Statement of Cash Flows as a result of transition to Australian equivalents to IFRS.

Nominal Defendant
Notes to and forming part of the financial statements
For the year ended 30 June 2006

## Note 22 Reconciliation of Adjustments from previous GAAP to Australian Equivalents to International Financial Reporting Standards (AEIFRS) – as at 1 July 2005

| Note | | Previous GAAP 1/7/2005 $'000 | Effect of transition to AEIFRS Opening Adjustments 1 July 2004 $'000 | 2004-05 Adjustments $'000 | AEIFRS 1/7/2005 $'000 |
|---|---|---|---|---|---|
| | *Current Assets* | | | | |
| | Cash assets | 2,215 | - | - | 2,215 |
| | Receivables | 1,114 | - | - | 1,114 |
| | Investment securities | 48,804 | - | - | 48,804 |
| | Prepayments | 6 | - | - | 6 |
| | ***Total Current Assets*** | **52,139** | **-** | **-** | **52,139** |
| | *Non-Current Assets* | | | | |
| | Investment securities | 191,189 | - | - | 191,189 |
| | Property, plant and equipment | 15 | - | - | 15 |
| | Intangibles | 217 | - | - | 217 |
| | ***Total Non-Current Assets*** | **191,421** | **-** | **-** | **191,421** |
| | ***Total Assets*** | **243,560** | **-** | **-** | **243,560** |
| | *Current Liabilities* | | | | |
| 22.1 | Payables | 449 | - | (15) | 434 |
| 22.1 | Provision for employee entitlements | 66 | - | (66) | - |
| 22.1 | Accrued employee benefits | - | - | 81 | 81 |
| 22.2 | Provision for outstanding claims | 63,207 | - | 4,408 | 67,615 |
| | Unearned levies | 25,222 | - | - | 25,222 |
| | ***Total Current Liabilities*** | **88,944** | **-** | **4,408** | **93,352** |
| | *Non-Current Liabilities* | | | | |
| 22.1 | Provision for employee entitlements | 12 | (1) | (11) | - |
| 22.1 | Accrued employee benefits | - | - | 11 | 11 |
| 22.2 | Provision for outstanding claims | 168,325 | 14,265 | (7,073) | 175,517 |
| | ***Total Non-Current Liabilities*** | **168,337** | **14,264** | **(7,073)** | **175,528** |
| | ***Total Liabilities*** | **257,281** | **14,264** | **(2,665)** | **268,880** |
| | ***Net Liabilities*** | **(13,721)** | **(14,264)** | **2,665** | **(25,320)** |
| | *Equity* | | | | |
| | Contributed equity | 245,537 | - | - | 245,537 |
| 22.2 | Accumulated losses | (259,258) | (14,264) | 2,665 | (270,857) |
| | ***Total Equity*** | **(13,721)** | **(14,264)** | **2,665** | **(25,320)** |

Nominal Defendant
Notes to and forming part of the financial statements
For the year ended 30 June 2006

## Notes to Reconciliation

| | | $'000 |
|---|---|---|
| 22.1 | Employee benefits no longer a provision, now an accrual (reclassification required): | |
| | **Adjustment to current payables** | (15) |
| | **Adjustment to current provision for employee entitlements** | (66) |
| | **Adjustment to current accrued employee benefits** | 81 |
| | **Adjustment to non - current provision for employee entitlements** | (11) |
| | **Adjustment to non - current accrued employee benefits** | 11 |
| 22.2 | Impact of the reduction in the prudential margin on the FAI Provision for outstanding claims: | |
| | **Adjustment to current provision for outstanding claims** | 4,408 |
| | **Adjustment to non – current provision for outstanding claims** | (7,073) |
| | **Adjustment to accumulated losses** | 2,665 |

## Income Statement and Statement of Cash Flows

No adjustments were required to the Income Statement and Statement of Cash Flows as a result of transition to Australian equivalents to IFRS.

# Certificate of the Nominal Defendant

The foregoing general purpose financial statements have been prepared pursuant to section 46F(1) of the *Financial Administration and Audit Act 1977* (the Act), and other prescribed requirements. In accordance with section 46F(3) of the Act we certify that:

(a) the financial statements and notes to and forming part thereof are in agreement with the accounts and records of the Nominal Defendant; and

(b) in our opinion:

  (i) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and

  (ii) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Nominal Defendant for the financial year ended 30 June 2006 and of the financial position of the Nominal Defendant at the end of that financial year.

L Anderson
Nominal Defendant

L Lee
Manager Corporate Governance

Dated: 28 September 2006

# Independent Audit Report

To the Nominal Defendant

**Matters Relating to the Electronic Presentation of the Audited Financial Report**

The audit report relates to the financial report of the Nominal Defendant for the financial year ended 30 June 2006 included on Nominal Defendant's web site. The Nominal Defendant are responsible for the integrity of the Nominal Defendant's web site. We have not been engaged to report on the integrity of the Nominal Defendant's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from the Nominal Defendant, to confirm the information included in the audited financial report presented on this web site.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

**Scope**

*The Financial Report*
The financial report of the Nominal Defendant consists of the Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, notes to and forming part of the financial report and certificate given by the Nominal Defendant and officer responsible for the financial administration of the Nominal Defendant, for the year ended 30 June 2006

*The Nominal Defendant's Responsibility*
The Nominal Defendant is responsible for the preparation and true and fair presentation of the financial report, 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*
As required by law, an independent audit was conducted in accordance with *QAO Auditing Standards,* which incorporate the *Australian Auditing Standards,* to enable me to provide an independent opinion whether in all material respects the financial report is presented fairly, in accordance with the prescribed requirements, including any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

Audit procedures included –

- examining information on a test/sample basis to provide evidence supporting the amounts and disclosures in the financial report;
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Nominal Defendant;
- obtaining written confirmation regarding the material representations made in conjunction with the audit; and
- reviewing the overall presentation of information in the financial report.

**Independence**

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors.

The Auditor-General is the auditor of all public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

**Audit Opinion**

In accordance with s.46G of the *Financial Administration and Audit Act 1977* –

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

(b) in my opinion –

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

(ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of the Nominal Defendant for the financial year 1 July 2005 to 30 June 2006 and of the financial position as at the end of that year.

M O'Grady, (as Delegate of the Auditor-General of Queensland)
29 September 2006

Queensland Audit Office,
Brisbane