



**Statewide Mutual**

**Financial Statements  
for the year ended  
30 June 2013**

*Insurance Protection Through Membership Strength*



## Board of Management

### Representative

<i>Name</i>	<i>Council</i>
Terrey Kiss (Chair)	Coolamon
Nick Tobin (Deputy)	Willoughby
Roger Bailey	Lithgow
Ron Barnes	Echelon
Leo Demer	JLT
Paul Henry (till 22/01/13)	Inverell
Guy McAnally-Elwin	Gilgandra
Ross McCreanor	North Sydney
Stephen Penfold	JLT
Kyme Lavelle	Rous County
Bill Warne	Queanbeyan
Peter Tegart	Bega Valley
Phil Pearce (till 01/03/13)	Newcastle
Peter Wilson (till 30/11/12)	Bellingen
Daryl Hagger (from 08/03/13)	Kempsey
Brian Bell (from 19/04/13)	Lake Macquarie
Jack O'Hara (from 19/04/13)	Walcha

### Claims & Risk Management Committee

Paul Henry (Chair till 22/01/13)  
 Bill Warne  
 Phil Pearce  
 Stephen Penfold  
 Ron Barnes  
 Peter Wilson

### Finance Committee

Nick Tobin (Chair)  
 Roger Bailey  
 Leo Demer  
 Terrey Kiss  
 Kyme Lavelle  
 Ross McCreanor  
 Peter Tegart  
 Guy McAnally-Elwin

### Executive Officer

John Attenborough

## Chairman's Report

I am pleased to report on the results and achievements of Statewide Mutual for the twelve months ended 30 June, 2013. This report outlines the operation of the Mutual Scheme covering the Public Liability protection offered to Mutual Members as well as the Statewide Property Mutual and Fidelity Guarantee Scheme. Membership of the various schemes is:

- Liability Scheme - 148
- Fidelity Guarantee Scheme - 144
- Property Mutual - 146

### LIABILITY SCHEME

The Liability Scheme reports a surplus for 2012/2013 of \$2,276,459 which gives an accumulated surplus as at 30 June, 2013 of \$23,397,659.

The accumulated funds are obviously the property of Member Councils and they have been accumulated notwithstanding that the Board has allocated \$23,920,901 in Risk Management incentive bonuses over the last eight years and a further \$2,000,000 will again be allocated in November 2013.

The strong financial position of Statewide has enabled the Board to continue to maintain stability in Insurance premiums. I note that in 2008/2009 the Board was able to reduce premiums by 5% and in the year under review has increased it by 3.5%

### PROPERTY MUTUAL

The Property Mutual has accumulated surpluses of \$10,429,576. As with the Liability Scheme, these surplus funds belong to Member Councils. As claims in a funds year are finalized, the remaining surplus is distributed to Member Councils based on a formula that includes individual loss ratios. To date, surpluses distributed to Members have totalled \$26,524,449.

### FIDELITY GUARANTEE

The accumulated surplus as at 30 June, 2013 totals \$1,434,211. It is noted that renewal terms on this policy have remained static since June 2006 except where variations have occurred in the amount of surplus refunded each year. The Board distributes 50% of each

year's surplus, however, the amount available for distribution is subject to variation based on the number of claims incurred in that particular year.

### BOARD MEMBERS

During the past year, Board Members Peter Wilson, Phil Pearce and Paul Henry resigned from the Board. They were replaced by Daryl Hagger, Brian Bell and Jack O'Hara.

I would like to thank Peter and Phil for the work they carried out whilst they were Members of the Board, and to Paul Henry who was the Chair of the Risk Management Committee, and the Inaugural Chairman of the Board of Statewide, I extend appreciation and acknowledgement for his contribution towards the activities and the success of Statewide Mutual. I congratulate Daryl, Brian and Jack on their election to the Board and wish them success in their Board Membership.

### STATEWIDE ADMINISTRATION

The administration of Statewide is carried out via two significant Committees, ie. Finance and Claims & Risk Management. The Board's Claims & Risk Management Committee is led by Chairman Bill Warne and his report on the activities of that Committee is annexed to this Annual Report. This Committee has been keen to ensure that Councils are provided with the resources to enhance their Risk Assessment capacity.

The Finance Committee is chaired by Nick Tobin, General Manager, Willoughby City Council. The Committee regularly monitors contributions, cash flow and claims and provides advice to the Board on its capacity to meet claims as and when they fall due and to provide rebates to Member Councils. I acknowledge the work done by Nick and the Members of the Finance Committee in ensuring that our finances continue to remain in a satisfactory position.

The Board of Management is made up of Officers from Member Councils, and appointees from our Scheme Manager, Jardine Lloyd Thompson. I pay tribute to my fellow Board Members for their valuable contribution to the performance of Statewide Mutual. Now that stability has been achieved in terms of

## **Chairman's Report** (continued)

claims and financing, the Board is looking forward to working with Member Councils to ensure that any legal obligations arising out of the Civil Liability Legislation can be met by improved work practices and Risk Management processes.

Jardine Lloyd Thompson continues to provide expertise advice to the Board and the efforts of Leo Demer and Stephen Penfold as Fund Managers are acknowledged, and their advice to the Board on Reinsurance arrangements and trends worldwide on Local Government Insurance are acknowledged. The work of Ron Barnes as the Board's Advisor on Risk Management is invaluable. Ron is passionate about Risk Management in Councils and is always available to provide assistance to individual Councils and their Staff as required.

I extend the appreciation of the Board to our Executive Officer, John Attenborough. As well as guiding the overall management of the Scheme, John is constantly available to provide advice to Member Councils. John has played a significant role in ensuring that Statewide continues to be a successful organisation that is able to provide Local Government with a stable and consistent insurance platform.

This will be my final report as the Chairman of Statewide Mutual. I did not accept nomination for the position of Chairman at the June 2013 Meeting and extend my congratulations to the new Chairman, Mr Nick Tobin, General Manager at Willoughby City Council. Nick is a genuine Local Government person and has the interest of the Local Government Industry foremost in his mind. I am sure that the direction of Statewide Mutual over the next period will be most successful and beneficial to the Industry.

I thank all the Board Members I have served with both past and present and further endorse my appreciation of the Staff at Jardine Lloyd Thompson who are integral to the success of Statewide Mutual. I urge all Local Government Councils in New South Wales to continue to support Statewide which provides industry controlled premiums and significant other benefits associated with Risk Management.



Terrey Kiss  
**Chairman**

## Executive Officer's Report

### BOARD OF MANAGEMENT

For the 2012/2013 Fund Year, Terrey Kiss was re-elected unopposed as Chairman – a position he has held since June 2001. Nick Tobin was re-elected as Deputy Chairman and Chairman of the Finance Committee, and Paul Henry continued as Chairman of the Claims & Risk Management Committee.

There were three resignations from the Board during the year – Phil Pearce (Hunter & Central Coast Representative), Peter Wilson (Mid North Coast Regional Representative) and Paul Henry (North West Region). Member Councils within the Regions subsequently appointed Brian Bell (Lake Macquarie), Daryl Hagger (Kempsey) and Jack O'Hara (Walcha) respectively.

Additionally, Terrey Kiss announced that he would not be seeking re-election as Chairman beyond June 2013, although he will continue in his position as Riverina Regional Representative.

### CONTRIBUTIONS – 2012/2013

There can be no greater testament to the success of the Statewide Mutual than a comparison of the Mission Statement set in 1994 against the results of the various Schemes since then.

*Applying innovative practices in the management of Local Government insurance which ensure the protection of Members through stable premiums, cost containment and spread of risk.*

Each of the Schemes offered under the Statewide Mutual banner continues to provide financial security to the Member Councils.

- **Liability** – While renewal terms on the Liability Scheme increased by 3.5% for this period, they still remained less than 2% above the terms that applied in the 2007/2008 Fund Year.

In August 2012, a further dividend (rebate) of \$2,700,000 was distributed to qualifying Members. That brought the total dividends distributed to Member Councils to \$23,920,901.

- **Property** – The Board resolved that the contribution rate to be applied to asset values for 2012/2013 would, for the third successive year, remain unchanged. However, contributions have varied by the same percentage as variations in the total value of assets declared by individual Member Councils.

Surplus distribution of \$3,250,000 occurred in April 2013 and the total amount distributed since inception of the Scheme now stands at \$26,524,449.

- **Fidelity Guarantee** – Terms offered for renewal of this Scheme increased by 3.5% for the first time since June 2006 and rebates of 50% of the surplus generated in each year are provided to member Councils by way of a credit on the renewal terms.
- **Casual Hirers** – Renewal terms offered on this Scheme have remained unchanged since June 2008.

### EXPANSION OF SCHEME PRODUCTS

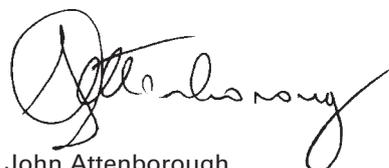
For some time the Statewide Board of Management has considered the merits of expanding the existing products offered to its Members to include Motor Vehicle and Councillors & Officers Liability covers.

The conventional markets currently underwriting the placement of these covers continue to be competitive, therefore the Board has delayed implementing these Mutuals. Notwithstanding the competitive nature of the prevailing insurance market, the Board resolved that, with effect from 30 June 2013, it is an opportune time to brand these products as Statewide Mutual products.

These products will continue to be underwritten 100% by each Council's existing Insurers, however should the current competitive market environment change at any time in the future, we will be well positioned to immediately commence mutually self-insuring Member Councils' Motor Vehicle and Councillors & Officers Liability exposures. The incentive in creating a Mutual is that it acts as a hedge against a hardening insurance market seeking increases in premium.

The re-branding of these products will not interfere with the current claims management procedures already in place with existing Insurers, and Council will continue to report and notify all claims to existing personnel and be managed in accordance with established practices.

It has been my pleasure and privilege to have again served as Executive Officer, and I commend the Board, its Committees and the Scheme Manager, Jardine Lloyd Thompson, for the commitment and dedication they have shown in ensuring that Statewide Mutual continues to provide Local Government in NSW with stable, strong and effective Self Insurance. We look forward to the continued successes that each Scheme has achieved over the last 19½ years.



John Attenborough  
Executive Officer

## Claims and Risk Management Committee

2012/13 has been a busy and challenging year for the Committee with a large turnover in Committee membership, changes in the Regional Risk Managers network and the bedding down of new processes and procedures.

2013 saw three of the four elected Board members of the Claims and Risk Management Committee resign from the Board for a variety of reasons. We thank committee members, Phil Pearce, Peter Wilson and Paul Henry for their contribution and input to the Committee during their time as a member of the Statewide Board. Paul Henry was the Chair of the Committee until February 2013 and provided valuable leadership, counsel and commitment to the promotion of risk management in Local Government and his zeal and experience is greatly missed.

The seven member Regional Risk Management network also experienced membership changes in 2012/13 with Ellie Diaz being promoted to a senior role with JLTA and Nigel Sutton going into a senior management role in Local Government. We wish them well in their new endeavours and thank them for their contribution to the promotion of risk management within the membership. We welcome back to the team Fiona Goodman who will be based in Orange and Sally Osland who operates from Tamworth. The Board has great confidence that these appointments will strengthen the network and add to the diversity of skills and abilities.

The most significant change throughout the year has been the rollout of the Continuous Improvement Pathway (CIP) for member Councils. This project replaces the former Risk Management audit and asks Councils to set a programme of risk management initiatives to achieve during the year. The CIP is bedding down well and should drive continuous improvement throughout the membership.

A future project that has been well received has been the Water Quality Initiative undertaken by the Royal Life Saving Society. This project provides guidance training and advice to member Council in the management of swimming pool water quality and it has been well patronised and appreciated by Councils. The programme will be continued into the future.

The Climate Change Risk Assessment and Adaption programme has continued in 2012/13 with the majority of members now having participated. The Programme has been well received and is being used as a basis for Councils to integrate the impact of

climate change into their planning and future initiatives using a decision making framework developed by Statewide. It is expected that the programme will be scaled back in the future.

During the year Statewide rolled out a Contractor Insurance Management System (CIMS) for members. This initiative provides a registration system for contractors for their insurance details. At years end, 52 Councils were using the system and 742 contractors had enrolled. CIMS will grow and be further developed in coming years.

The Annual Risk Management Seminar was again well patronised by members and an interesting and varied programme of presentations was provided. The Annual Risk Management awards were presented with Lachlan Shire Council being the winner for 2012/13 for its "Emergency Management – 2012 March Flood Event" project. This event is a great opportunity for Council staff, Insurance Broking personnel and the Regional Risk Manager network to catch up, exchange views and perceive and broaden their knowledge.

Guidance material issued by Statewide continues to be well used and appreciated by members. During the year new Guidance notes were issued for "*Legal Professional Privilege in accordance with the GIPA Act*" and "*Management of Saleyards*".

The Board and Committee acknowledge and congratulate Mr Ron Barnes and his team of hard working intuitive Regional Risk Managers for their efforts, innovation and enthusiasm for Statewide and the services that are provided to member Councils. This support is greatly appreciated.

Bill Warne  
**Claims and Risk Management Committee.**

## Statements of Financial Position

as at 30 June 2013

	Fidelity Guarantee Fund 2013 \$	Fidelity Guarantee Fund 2012 \$	Liability Fund 2013 \$	Liability Fund 2012 \$	Property Fund 2013 \$	Property Fund 2012 \$
<b>Current Assets</b>						
Cash Assets (Note 3)	1,129,176	312,956	15,066,945	10,218,338	1,135,793	1,013,300
Receivables (Note 4)	79,335	29,738	9,319,351	8,265,529	1,892,580	2,539,734
Reinsurance Recoveries (Note 4)	200,000	150,000	35,191,498	34,173,737	1,812,544	2,105,950
Non Reinsurance Recoveries (Note 4)	0	0	507,441	507,441	0	-
Reinsurance profit commission accrued	0	0	0	0	0	0
Provision for Doubtful Debts (Notes 4 & 8)	0	0	(507,441)	(507,441)	0	0
Other Financial Assets (Note 3)	1,145,000	1,870,682	24,118,258	27,108,355	20,473,726	18,059,561
	<b>2,553,511</b>	<b>2,363,376</b>	<b>83,696,052</b>	<b>79,765,959</b>	<b>25,314,642</b>	<b>23,718,544</b>
<b>Non-Current Assets</b>						
Reinsurance profit commission accrued	0	0	0	0	0	0
Reinsurance Recoveries (Notes 4)	0	0	98,471,618	94,932,609	0	0
Provision for Doubtful Debts (Notes 4 & 8)	0	0	(8,711,536)	(7,570,536)	0	0
	0	0	89,760,082	87,362,073	0	0
<b>TOTAL ASSETS</b>	<b>2,553,511</b>	<b>2,363,376</b>	<b>173,456,134</b>	<b>167,128,032</b>	<b>25,314,642</b>	<b>23,718,544</b>
<b>Current Liabilities</b>						
Creditors and Accrued Expenses	4,807	98,466	1,008,315	1,471,027	2,267,124	2,275,589
Contributions Received in Advance	183,568	132,758	19,009,119	14,413,398	15,585	0
Outstanding Claims (Note 7)	291,503	268,483	26,008,208	32,793,960	12,602,358	8,232,741
Accrued Surplus Distributions	639,422	203,582	0	0	0	0
	1,119,300	703,288	46,025,642	48,678,385	14,885,067	10,508,329
<b>Non-current Liabilities</b>						
Outstanding Claims (Note 7)	0	0	104,032,832	94,653,140	0	0
<b>TOTAL LIABILITIES</b>	<b>1,119,300</b>	<b>703,288</b>	<b>150,058,474</b>	<b>143,331,525</b>	<b>14,885,067</b>	<b>10,508,329</b>
<b>NET ASSETS/(LIABILITIES)</b>	<b>1,434,211</b>	<b>1,660,087</b>	<b>23,397,659</b>	<b>23,796,508</b>	<b>10,429,576</b>	<b>13,210,215</b>
<b>MEMBERS EQUITY</b>						
<b>ACCUMULATED SURPLUS/(DEFICIT)</b>	<b>1,434,211</b>	<b>1,660,087</b>	<b>23,397,659</b>	<b>23,796,508</b>	<b>10,429,576</b>	<b>13,210,215</b>

The accompanying notes form an integral part of these Financial Statements.

## Statements of Financial Performance

for the year ended 30 June 2013

	Fidelity Guarantee Fund 2013 \$	Fidelity Guarantee Fund 2012 \$	Liability Fund 2013 \$	Liability Fund 2012 \$	Property Fund 2013 \$	Property Fund 2012 \$
Member Contributions	444,846	460,548	42,395,736	41,082,627	34,686,736	34,073,708
Outward Reinsurance Expense	(290,000)	(255,000)	(35,037,118)	(33,027,119)	(17,597,190)	(17,298,837)
Reinsurance Profit Share	0	0	1,050,844	869,690	0	0
Claims Expense (Note 5)	39,878	(13,498)	2,180,656	735,671	(11,564,201)	(6,608,337)
Other Scheme Expenses (Note 6)	(80,000)	(76,073)	(6,370,016)	(5,993,269)	(5,887,291)	(4,908,451)
Excess of contributions and reinsurance profit share over claims and related expenses	114,724	115,977	4,220,102	3,667,601	(361,946)	5,258,082
Investment Income	95,812	122,446	1,533,161	2,059,161	1,244,139	1,481,970
Decrease/(Increase) in Bad/Doubtful Debts	0	0	(1,141,000)	1,433,924	0	0
General Expenses	(573)	(6,970)	(2,335,805)	(1,557,749)	(439,047)	(2,877,717)
<b>Surplus from Ordinary Activities</b>	<b>209,964</b>	<b>231,453</b>	<b>2,276,459</b>	<b>5,602,938</b>	<b>443,146</b>	<b>3,862,335</b>
<b>ACCUMULATED SURPLUS</b>						
Accumulated Surplus at the beginning of the year	1,660,087	1,544,062	23,796,508	20,893,570	13,210,215	14,847,868
Operating Surplus from Ordinary Activities	209,964	231,453	2,276,459	5,602,938	443,146	3,862,335
Adjustment to prior years' Surplus Distribution	0	299	0	0	0	0
Current year Surplus Distribution	(435,841)	(115,726)	(2,675,307)	(2,700,000)	(3,223,786)	(5,499,987)
<b>ACCUMULATED SURPLUS</b>	<b>1,434,211</b>	<b>1,660,087</b>	<b>23,397,659</b>	<b>23,796,508</b>	<b>10,429,576</b>	<b>13,210,215</b>

The accompanying notes form an integral part of these Financial Statements.

## Statements of Cash Flows

for the year ended 30 June 2013

	Fidelity Guarantee Fund 2013 \$	Fidelity Guarantee Fund 2012 \$	Liability Fund 2013 \$	Liability Fund 2012 \$	Property Fund 2013 \$	Property Fund 2012 \$
<b>Cash flows from operating activities</b>						
Receipt of contributions from members (including advance contributions & GST)	495,656	445,320	46,991,457	33,199,401	34,889,998	34,095,668
Receipt of Profit Share	–	–	1,050,844	2,326,513	–	–
Claims payments (net of recoveries)	12,898	1,946	(831,305)	806,788	(6,269,817)	(6,978,345)
Outward Reinsurance Payment	(333,103)	(223,549)	(35,003,148)	(33,294,802)	(17,597,190)	(17,298,837)
Payment of other expenses	(174,231)	(78,938)	(9,168,532)	(7,348,184)	(6,334,803)	(6,166,844)
Interest received	89,318	121,301	1,494,501	2,052,961	1,072,255	1,471,791
<b>Net cash flows provided by operating activities</b>	<b>90,538</b>	<b>266,080</b>	<b>4,533,816</b>	<b>(2,257,324)</b>	<b>5,760,444</b>	<b>5,123,432</b>
<b>Cash flows from financing activities</b>						
Surplus Distribution	0	(127,641)	(2,675,307)	(2,700,000)	(3,223,786)	(5,499,987)
<b>Net cash flows used in financing activities</b>	<b>0</b>	<b>(127,641)</b>	<b>(2,675,307)</b>	<b>(2,700,000)</b>	<b>(3,223,786)</b>	<b>(5,499,987)</b>
<b>Net cash flows</b>	<b>90,538</b>	<b>138,439</b>	<b>1,858,510</b>	<b>(4,957,324)</b>	<b>2,536,658</b>	<b>(376,555)</b>
Cash at the beginning of the year	2,183,638	2,045,198	37,326,693	42,284,017	19,072,861	19,449,416
Net increase / (decrease) in cash	90,538	138,439	1,858,510	(4,957,324)	2,536,658	(376,555)
<b>Cash at the end of the year (Note 3)</b>	<b>2,274,176</b>	<b>2,183,638</b>	<b>39,185,203</b>	<b>37,326,693</b>	<b>21,609,519</b>	<b>19,072,861</b>

### Reconciliation of net cash flows from operating activities to operating result for the year

Operating Result for the year	209,964	231,453	2,276,459	5,602,938	443,146	3,862,335
(Increase) / Decrease in Receivables	(49,597)	30,307	(1,053,822)	130,409	647,155	(299,471)
(Decrease) / Increase in Creditors & Accrued Expenses	(93,659)	94,766	(462,711)	202,834	(8,465)	1,619,324
Increase / (Decrease) in Contributions Received in Advance	50,811	(15,228)	4,595,721	(7,891,192)	15,585	–
(Increase) / Decrease in Accrued Profit Share Commission	–	–	–	1,456,823	–	–
Decrease / (Increase) in Reinsurance Recoveries	(50,000)	(150,000)	(4,556,769)	(4,065,085)	293,405	490,348
Decrease / (Increase) in Non-Reinsurance Recoveries	–	–	–	–	–	–
(Decrease) / Increase in Provisions for Doubtful Debts	–	–	1,141,000	(1,433,924)	–	–
(Decrease) / Increase in Outstanding Claims Provisions	23,020	74,783	2,593,940	3,739,875	4,369,617	(549,103)
<b>Net cash provided by operating activities</b>	<b>90,538</b>	<b>266,080</b>	<b>4,533,816</b>	<b>(2,257,324)</b>	<b>5,760,444</b>	<b>5,123,432</b>

The accompanying notes form an integral part of these Financial Statements.

# Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2013

## 1 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by Statewide Mutual in respect of the Liability Scheme, the Fidelity Guarantee Scheme and the Property Mutual Scheme are stated to assist in a general understanding of these financial statements and have been consistently applied during the year.

The financial statements have been made out in accordance with the requirements in the Deed of Establishment dated 22 March 1994, and the accounting policies described below.

### (a) Accounting basis

The directors have prepared the financial statements on the basis that the company is a non reporting entity because there are no users dependent on general purpose financial statements. The financial statements are therefore special purpose financial statements that have been prepared in order to meet the needs of members.

The financial statements have been prepared in accordance with the significant accounting policies disclosed below which the directors have determined are appropriate to meet the needs of the members. Such accounting policies consistent with the previous period unless stated otherwise.

### (b) Contributions

Contributions comprise amounts charged to members of the Scheme for policy cover. The earned portion of contributions received is recognised as revenue. Contributions are earned from the date of attachment of risk.

All contributions received, except for amounts received in advance were fully earned at balance date. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern of risks undertaken.

Contributions are recognised net of the amount of goods and services tax (GST). Receivables are stated with the amount of GST included. The amount of GST payable to the Australian Tax Office (ATO) is recognised as a current liability in the Statement of Financial Position.

### (c) Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of business written during the period. The liability covers claims incurred but not yet paid, incurred but not reported claims, and the anticipated costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating un-notified claims and settlement costs using statistical and actuarial techniques. 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 outstanding claims liability for the Liability Scheme has been set having regard to independent actuarial advice.

The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using risk free discount rates. The discount recognised is limited to interest income that can be earned on cash and other financial assets held by the Liability Scheme.

### (d) Other Financial Assets

Investments, primarily cash on deposit with banks, are valued at net market value at balance date.

### (e) Non Reinsurance recoveries

The non reinsurance recoveries represents recoveries pursued against third parties as a result of claims previously paid by Statewide. The recoveries of such claims are generally litigious and can take considerable time to collect. As such, recoveries are only recognised when the amount is certain to be recovered.

### (f) Cash flows

For the purpose of the statements of cash flows, cash includes cash at bank, deposits held at call with banks, and other short term deposits.

### (g) Excess and Recoveries

When claim payments made by the Schemes include excesses (or part thereof) recoverable from Members, excesses due at balance date are brought to account as recoveries outstanding.

### (h) Taxation

The Scheme operates as a trust in accordance with existing Australian tax law and intends to distribute all its taxable income (investment income) to beneficiaries. Accordingly, no provision for income tax has been made.

## 2 ACCOUNTING ESTIMATES AND JUDGEMENTS

### Accounting estimates and Judgements

Management discussed with the Finance Committee the development, selection and disclosure of the Scheme's critical accounting policies and estimates and the application of these policies and estimates.

## Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2013

### Key sources of estimation uncertainty

The key area of estimation uncertainty for the Schemes is in its estimation of outstanding claims, reinsurance recoveries and profit commissions.

### Outstanding Claims

The outstanding claims provision comprises the central estimate and a risk margin which is added to the central estimate to achieve a desired probability of adequacy. The outstanding claim provision is discounted to reflect the time value of money.

A central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. A risk margin is added to the central estimate of outstanding claims in order to increase the probability that the estimates will be adequate.

Central estimates for each class of business are determined by reference to a variety of estimation techniques. These are generally based on actuarial analysis of historical experience and assume an underlying pattern of claims development and payment. The final selected central estimates are based on a judgmental consideration of the results of each method and other qualitative information. Qualitative information might include for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant.

### Reinsurance Recoveries

Central estimates are calculated gross of any reinsurance and non-reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers and other parties.

The nature of the liability claims for which Statewide Mutual provides cover is such that they can take many years to settle with related "Excess Layer" reinsurance recoveries not falling due for payment until the primary claim has been finalised.

During the first four years of its operation (1995-1998) Statewide Mutual placed a significant proportion of its Liability Reinsurance Programme with the FAI Insurance Group ("FAI"). In August 2001, FAI, which by then had become a wholly owned subsidiary of HIH Insurance, was placed into liquidation along with other entities in the HIH Group. In addition Statewide Mutual also has exposure to the insolvent UK insurer, Independent Insurance Company Limited ("Independent Insurance") that provided reinsurance cover in the Liability and Property Schemes' Insurance Programmes.

In view of the significant uncertainties as to whether Statewide Mutual will eventually recover any of the reinsurance recoveries due from FAI and Independent Insurance, a provision for non recovery amounting to \$4.323 million (2012: \$4.323 million) has been raised in the financial statements at 30 June, 2013, refer to note 8.

The outstanding claims are projected assuming no recoveries from insolvent Insurers.

### Reinsurance Profit Commissions

From 2004 the Scheme has participated in a national reinsurance programme which covers Statewide Mutual and similar schemes in other states. The reinsurance treaty includes a profit commission clause which pays a profit commission to the member schemes after 10 years if premium paid to reinsurers exceed the ultimate claims paid by the schemes in the relevant underwriting year.

The reinsurance profit commission represents the present value of the projected surplus on the 2004 to 2007 Liability Fund years. The entitlement to profit commission is sensitive to future claims expense on the 2008 to 2013 Fund Years, the cumulative national claims experience and the interest rate movements over the next 10 years. As such, the estimated profit accrued will be reassessed on an annual basis.

As at 30 June 2013, the accrued profit commission represents the projected profit commission which is certain of being collected.

Fidelity Guarantee Fund 2013	Fidelity Guarantee Fund 2012	Liability Fund 2013	Liability Fund 2012	Property Fund 2013	Property Fund 2012
\$	\$	\$	\$	\$	\$

### 3 CASH ASSETS

Cash at the end of the year as shown in the statements of cash flows consists of:

Cash Assets	1,129,176	312,956	15,066,945	10,218,338	1,135,793	1,013,300
Investments	1,145,000	1,870,682	24,118,258	27,108,355	20,473,726	18,059,561
	2,274,176	2,183,638	39,185,203	37,326,693	21,609,519	19,072,861

## Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2013

	Fidelity Guarantee Fund 2013 \$	Fidelity Guarantee Fund 2012 \$	Liability Fund 2013 \$	Liability Fund 2012 \$	Property Fund 2013 \$	Property Fund 2012 \$
<b>4 RECEIVABLES</b>						
Recoveries outstanding	0	0	101,886	94,595	661,248	1,078,620
Accrued interest	36,232	29,738	482,848	444,188	462,732	290,847
Prepayment	(0)	(0)	3,109,309	3,106,776	(0)	0
Prepayment GST	43,103	0	4,189,242	4,225,745	0	0
GST debtors	(0)	0	124,362	44,739	4,441	5,427
Debtors Sundry	–	–	1,311,704	349,487	0	213,004
Debtors	0	0	0	0	764,158	951,836
	79,335	29,738	9,319,351	8,265,529	1,892,580	2,539,734
Reinsurance Profit Commission accrued - current	0	0	0	0	0	0
Reinsurance Profit Commission accrued - non-current	0	0	0	0	0	0
Non reinsurance recoveries - current	0	0	507,441	507,441	0	0
Reinsurance recoveries - current	200,000	150,000	35,191,498	34,173,737	1,812,544	2,105,950
Reinsurance recoveries - non current	0	0	98,471,618	94,932,609	0	0
Provision for Doubtful Debts - current	0	0	(507,441)	(507,441)	0	0
Provision for Doubtful Debts - non current	0	0	(8,711,536)	(7,570,536)	0	0
	279,335	179,738	134,270,931	129,801,339	3,705,124	4,645,684
<b>5 CLAIMS EXPENSE</b>						
Net Claims Paid	(12,898)	88,715	(210,536)	(441,679)	6,483,807	6,779,213
Claims outstanding at beginning of year	(268,483)	(193,700)	(127,447,100)	(123,707,225)	(8,232,741)	(8,781,844)
Claims outstanding at end of year	291,503	268,483	130,041,040	127,447,100	12,602,358	8,232,741
Recoveries outstanding at beginning of year	0	0	94,595	125,813	1,078,620	966,500
Recoveries outstanding at end of year	0	0	(101,886)	(94,595)	(661,248)	(1,078,620)
Reinsurance Recoveries at beginning of year	150,000	0	129,106,346	125,041,261	2,105,950	2,596,298
Less Reinsurance Recoveries at end of year	(200,000)	(150,000)	(133,663,116)	(129,106,346)	(1,812,544)	(2,105,950)
Non reinsurance recoveries at beginning of year	0	0	507,441	507,441	0	0
Non reinsurance recoveries at end of year	0	0	(507,441)	(507,441)	0	0
	(39,878)	13,498	(2,180,656)	(735,671)	11,564,201	6,608,337

## Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2013

	Fidelity Guarantee Fund 2013 \$	Fidelity Guarantee Fund 2012 \$	Liability Fund 2013 \$	Liability Fund 2012 \$	Property Fund 2013 \$	Property Fund 2012 \$
<b>6 OTHER SCHEME EXPENSES</b>						
Scheme Admin, Funds Management, Claims Management and Risk Management Fees	80,000	76,073	6,370,016	5,993,269	5,887,291	4,908,451
<b>7 OUTSTANDING CLAIMS</b>						
Reported claims outstanding	291,503	268,483	39,701,325	36,464,255	11,412,358	6,742,741
Provision for claims incurred but not reported, claims development, prudential margin and claims settlement costs.	0	0	104,489,625	102,368,725	1,190,000	1,490,000
Discount to present value	0	0	(14,149,910)	(11,385,880)	0	0
	291,503	268,483	130,041,040	127,447,100	12,602,358	8,232,741
Comprising						
Current Liabilities	291,503	268,483	26,008,208	32,793,960	12,602,358	8,232,741
Non-Current Liabilities	0	0	104,032,832	94,653,140	0	0
	291,503	268,483	130,041,040	127,447,100	12,602,358	8,232,741

The Actuarial assumptions with respect to the Liability Fund are:

- (a) The average term to settlement of outstanding claims is 2013: 0.51 years (2012: 1.45 years)  
 (b) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the liability for outstanding claims

Inflation Rate	2013, 2.50 to 4.00%	2012, 2.50 to 4.25%			
	2014 and beyond, 2.50 to 4.00%	2013 and beyond, 2.50 to 4.25%			
Superimposed Inflation Professional Indemnity			0.00%		0.00%
Superimposed Inflation Personal Injury			0.00%		0.00%
Discount Rate Range	2013, 2.63%	2012, 2.79%			
	2014 and beyond, 2.52 to 5.14%	2013 and beyond, 2.13 to 4.25%			

### 8 PROVISION FOR DOUBTFUL DEBTS

A provision of 100% of the remaining actuarial projected exposure (2012:100%) has been made for potential non-payment of current and future reinsurance recoveries due from FAI Insurance due to the liquidation of the HIH Group.

A full provision was made against any exposure to the Independent Insurance Company Limited.

A provision was made for the potential Non Recovery from "The Underwriting Insurance Company" for the Estimated Ultimate Claims Liability of 2013 \$4,504,325, discounted by \$131,196 to current value \$4,373,129 (2012 \$3,330,130, discounted by \$98,000 to current value \$3,232,130).

### 9 PROVISION FOR SURPLUS DISTRIBUTIONS

In accordance with the Board of Management meeting resolution dated 11 October 2002, and also with Clause 9.11.2 of the Statewide Mutual Deed of Establishment, a distribution (of an amount to be determined by the Board of Management) will be made after the adoption of the Financial Statements at the end of each financial year.

## **Certificate by Chairman and Finance Committee Chairman**

In our opinion, the accompanying financial statements of Statewide Mutual comprising the Statements of Financial Position, Statements of Financial Performance, Statements of Cash Flows and accompanying notes as set out on pages 1 to 9:

- (a) give a true and fair view of the financial position of the Scheme as at 30 June 2013 and of its performance as represented by the results of its operations and its cash flows for the year ended on that date.
- (b) are drawn up in accordance with the provisions of the Deed of Establishment dated 22 March 1994; and
- (c) are drawn up in accordance with the accounting policies contained in note 1.

Dated 6 September 2013

A handwritten signature in black ink, appearing to be "TK", written over a horizontal line.

Terry Kiss  
**Chairman of Board of Management**

A handwritten signature in black ink, appearing to be "NT", written over a horizontal line.

Nick Tobin  
**Chairman of Finance Committee**

## **Independent audit report to the Members of Statewide Mutual**

### **Report on the financial report**

We have audited the accompanying financial report, being a special purpose financial report, of Statewide Mutual ("the Schemes"), which comprises the statements of financial position as at 30 June 2013, and the statements of financial position and statement of cash flows for the year ended on that date, notes 1 - 9 comprising a summary of significant accounting policies and other explanatory information.

### **Board of Management's responsibility for the financial report**

The Board of Management ("the Board") of the Schemes are responsible for the preparation and fair presentation of the financial report and have determined that the basis for preparation described in Note 1(a) to the financial report is appropriate to meet the requirements of the Deed of Establishment dated 22 March 1994 and are appropriate to meet the needs of the members. The Board's responsibility also includes such internal control as the Board determines necessary to enable the preparation of a financial report that is free from material misstatement whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the basis of accounting described in Note 1(a) to the financial statements so as to present a view which is consistent with our understanding of the Scheme's financial position, and of its performance and cash flows.

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

### **Independence**

In conducting our audit, we have complied with the independence requirements of the Accounting Professional and Ethical Standards Board.

### **Auditor's Opinion**

In our opinion the financial report presents fairly, in all material respects, the financial position of Statewide Mutual as of 30 June 2013 and of its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in Note 1 to the financial statements.

### **Basis of Accounting**

Without modifying our opinion, we draw attention to Note 1 (a) to the financial report, which describes the basis of accounting. The financial report has been prepared to assist Statewide Mutual to meet the requirements of the Deed of Establishment dated 22 March 1994 and to meet the needs of its members. As a result, the financial report may not be suitable for another purpose.

KPMG



Andrew Reeves  
**Partner**

Sydney  
6 September 2013

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4. BALLINA – LPF
5. BALRANALD – LPF
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9. BELLINGEN – LPF
10. BERRIGAN – LPF
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13. BOGAN – LPF
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18. BROKEN HILL CITY – LPF
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28. CENTRAL MURRAY – LPF
29. CENTRAL TABLELAND – LPF
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32. CLARENCE VALLEY – LPF
33. COBAR – LPF
34. COBAR WATER BOARD – LPF
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36. CONARGO – LPF
37. COOLAMON – LPF
38. COOMA MONARO – LPF
39. COONAMBLE – LPF
40. COOTAMUNDRA – LPF
41. COROWA – LPF
42. COWRA – LPF
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44. DUBBO CITY – LPF
45. DUNGOG – LPF
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51. GLOUCESTER – LPF
52. GOLDENFIELDS (WATER) COUNTY – LPF

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57. GREATER TAREE CITY – LPF
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65. HAY – LPF
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77. LEETON – LPF
78. LEICHHARDT – LPF
79. LISMORE CITY – LPF
80. LITHGOW – LPF
81. LIVERPOOL PLAINS – LPF
82. LOCKHART – LPF
83. MAITLAND CITY – LPF
84. MANLY – LPF
85. MID WESTERN REGIONAL – LPF
86. MID COAST (WATER) COUNTY – LPF
87. MOREE PLAINS – LPF
88. MOSMAN – LPF
89. MURRAY – LPF
90. MURRUMBIDGEE – LPF
91. MUSWELLBROOK – LPF
92. NAMBUCCA – LPF
93. NARRABRI – LPF
94. NARRANDERA – LPF
95. NARROMINE – LPF
96. NEW ENGLAND TABLELANDS – LP
97. NEWCASTLE CITY – LPF
98. NORFOLK ISLAND - LP
99. NORTH SYDNEY - LPF
100. OBERON - LPF
101. ORANGE CITY - LPF
102. PALERANG – LPF
103. PARKES – LPF

**MEMBER**

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105. PORT MACQUARIE-HASTINGS – LPF
106. PORT STEPHENS – LPF
107. QUEANBEYAN CITY – LPF
108. RANDWICK CITY – LPF
109. RICHMOND RIVER COUNTY – LP
110. RICHMOND VALLEY – LPF
111. RIVERINA (WATER) COUNTY – LPF
112. ROUS – LPF
113. CITY of RYDE – LPF
114. SHOALHAVEN – LPF
115. SINGLETON – LPF
116. SNOWY RIVER – LPF
117. SOUTHERN TABLELANDS COUNTY – LPF
118. STRATHFIELD – LPF
119. SUTHERLAND – LPF
120. TAMWORTH REGIONAL – LPF
121. TEMORA – LPF
122. TENTERFIELD – LPF
123. TUMBARUMBA – LPF
124. TUMUT – LPF
125. TWEED – LPF
126. UPPER HUNTER COUNTY – LF
127. UPPER HUNTER SHIRE – LPF
128. UPPER LACHLAN – LPF
129. UPPER MACQUARIE COUNTY – LF
130. URALLA – LPF
131. URANA – LPF
132. WAGGA WAGGA CITY – LPF
133. WAKOOL – LPF
134. WALCHA – LPF
135. WALGETT – LPF
136. WARREN – LPF
137. WARRINGAH – LPF
138. WARRUMBUNGLE – LPF
139. WEDDIN – LPF
140. WELLINGTON – LPF
141. WENTWORTH – LPF
142. WILLOUGHBY CITY – LPF
143. WINGECARRIBEE – LPF
144. WOLLONDILLY – LPF
145. WOOLLAHRA – LPF
146. WYONG – LPF
147. YASS VALLEY – LPF
148. YOUNG – LPF

L – Liability Scheme  
P – Property Scheme  
F – Fidelity Guarantee Scheme

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