



New South Wales  
TREASURY



New South Wales  
TREASURY

# Annual Report 2003-04

Crown Entity

[www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

[www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

[www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

[www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

[www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

[www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

[www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

# Crown Entity Annual Report 2003-04

This is the third volume of the New South Wales Treasury's Annual Report for 2003-04.

This volume includes details of the agencies and the funds administered by New South Wales Treasury for the Crown Entity:

- ▶ Consolidated financial statements for the Crown Entity.
- ▶ Financial Statements of the Crown Entity's controlled activities, comprising the accounts of:
  - Insurance Ministerial Corporation
  - Liability Management Ministerial Corporation
  - Electricity Tariff Equalisation Ministerial Corporation
  - Crown Property Portfolio
  - Crown Lands Homesites Program
  - Land Development Working Account

Included in separate volumes are the annual reports for the Office of Financial Management (OFM) and the Office of State Revenue (OSR).

## Crown Entity Charter

The purpose of the Crown Entity is to manage and report on service-wide assets, liabilities and transactions that are the overall responsibility of the government rather than being the responsibility of individual departments and statutory bodies.

This ensures that financial statements of individual agencies only cover those matters over which they have direct control.

## Our Contact Details & Administration

The Crown Asset and Liability Management Branch in the Resources and Crown Directorate of NSW Treasury is responsible for the administration of the Crown Entity.

The Crown Asset and Liability Management Branch is located on:  
level 24, Governor Macquarie Tower  
1 Farrer Place, Sydney.

Inquiries may be directed to:  
The Director,  
Crown Asset and Liability Management  
Telephone: (02) 9228 4396.

### Contents

Crown Entity Charter	1
Contact Details & Administration	1
Highlights of 2003-04	2
Liability Management	3
Asset Management	7
Crown Entity Programs	8
Additional Crown Undertakings	9
Financial Statements	
▶ Consolidated Crown Entity	F11
▶ Insurance Ministerial Corporation	F57
▶ Liability Management Ministerial Corporation	F83
▶ Electricity Tariff Equalisation Ministerial Corporation	F97
▶ Crown Property Portfolio	F111
▶ Crown Lands Homesites Program	F133
▶ Land Development Working Account	F151

29 October 2004  
ISSN: 1440-2181

Total external costs associated with the production of this annual report were \$2,802 (GST included).

The report is available on the NSW Treasury (OFM) web site:  
[www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

## Highlights 2003-04

### Key Financial Indicators

Statement of Financial Performance (\$m)		
	2003-04	2002-03
Total Revenues	35,016	33,732
Total Expenses	34,279	35,390
<b>Surplus/(Deficit)</b>	<b>757</b>	<b>(1,658)</b>
Significant Items	0	2,196
<b>Surplus/(Deficit) excluding significant Items</b>	<b>757</b>	<b>538</b>

Statement of Financial Position (\$m)		
	2003-04	2002-03
<b>Liabilities:</b>		
Unfunded Superannuation*	12,355*	12,777
Insurance	4,606	4,262
Borrowings	11,854	12,102
<b>Assets:</b>		
Investments	7,473	6,082
* Includes the balance held in the General Government Liability Management Fund		

### Insurance Management

- ▶ New South Wales Treasury chairs the Heads of Treasuries Insurance Issues Working Group (IIWG). The IIWG has developed practical measures in response to the public liability insurance crisis. These measures were considered at a series of meetings attended by Commonwealth, State and Territory Ministers and all jurisdictions are now implementing a wide-ranging package of reforms.
- ▶ HIH motor accident and building warranty claims totalling over \$88 million were paid during the financial year.
- ▶ The HIH liability, assumed by the NSW Government, has been reduced from \$600 million to \$270 million, after taking into account an actuarial revaluation.

### Treasury Managed Funds (TMF) Tender

Development of a new contract management structure during 2003-04 for the TMF, to be introduced from 1 July 2005, provides an opportunity to:

- ▶ Improve scheme performance to minimise overall claims costs and budget impacts;
- ▶ Generate management cost savings and efficiency gains and introduce service and process innovation;
- ▶ Reduce the systemic risk associated with the exposure to just one provider; and
- ▶ Effectively manage contract risk, as competition and repeated tendering instil performance discipline and enable monitoring by facilitating comparisons between providers.

### Superannuation Management

Unfunded superannuation liabilities were reduced following improved portfolio investment returns, particularly from the equity markets

### Debt Management

Borrowings were reduced as a result of the 2003-04 general government sector cash budget surplus.

## Liability Management

### ***Public Liability and Other Insurance Issues***

The Government's public liability legislative reform package has slowed the growth in the cost of future public liability claims and increased the availability of insurance coverage to the general community and professions.

New South Wales chairs the Heads of Treasuries Insurance Issues Working Group that developed wide-ranging public liability and other insurance reforms.

The forthcoming Treasury Managed Fund tender will increase competition between claim providers by establishing a multi provider model.

Key issues considered by meetings of Commonwealth, State and Territory Insurance Ministers were:

#### **Long Term Care for the Catastrophically Injured**

PriceWaterhouseCoopers presented to Ministers a report detailing a range of options for possible implementation of a long-term care scheme. The report covered the issues of scheme framework and governance, insurance framework, coverage and eligibility, and a service delivery model.

Further work is necessary to explore potential costs, benefits and efficiencies that could arise from the establishment of a nationally consistent framework in respect of all catastrophic injury. It was noted that a long-term care scheme would have significant implications for existing health, social welfare and disability arrangements and funding. Ministers will receive the final report at their next meeting in February 2005.

#### **Medical Indemnity Issues**

Ministers agreed to examine the operation of medical assessment panels, including existing arrangements, as a potential means of reducing claims costs and assisting consumers in producing better outcomes. Such panels would not consider issues of causation but operate to determine the extent of the injury and streamline compensation cases.

#### **Professional Standards Legislation**

All jurisdictions confirmed unanimous support for professional standards legislation reforms. It was agreed that any legislation or schemes being developed should be flexible enough to meet the concerns of large purchasers of professional services.

#### **Industry Response to Insurance Reforms**

A representative of NSW Treasury formed part of a Commonwealth-State delegation that met key insurance industry personnel in London during February 2004. The extensive tort law reforms that have been undertaken by all Australian jurisdictions were discussed in detail. The insurance industry responded positively to the Australian reforms.

### **HIH Liabilities**

To maintain the community's confidence in the insurance industry, the Government assumed liability for the outstanding compulsory third party claims under policies in force with HIH prior to 31 December 2000, and for claims under the home warranty insurance scheme in respect of HIH policies entered into prior to 15 March 2001.

The claim liability assumed by the NSW Government was over \$600 million. That has been reduced to \$270 million, after actuarial revaluation, as at 30 June 2004.

Over \$88 million of claim payments were made to ex - HIH policy holders during the year.

The New South Wales and Victoria Governments have co-operated to provide reinsurance arrangements to support the Builders Warranty Insurance market.

Through this initiative, and as a result of reforms following the Grellman Inquiry into home warranty insurance, Insurance Australia Group has entered the Builders Warranty Insurance market.

### **Treasury Managed Fund (TMF) Tender**

The TMF was established on 1 July 1989 as a self-insurance scheme to manage general government sector risks. TMF cover includes workers' compensation, property, public liability, comprehensive motor vehicle, and other insurable risk, except compulsory third party motor vehicle cover.

GIO Australia has managed the TMF since its inception. When the TMF was established, GIO was owned by the NSW Government. At the time of the GIO privatisation, GIO was given a five year contract for the management of the TMF. GIO has won this business at two competitive tenders. The current five year contract expires on 30 June 2005. NSW Treasury is using this opportunity to move toward open competition in providing self insurance services by unbundling the current activities incorporated under the single contract model, and moving towards a multi-provider model.

During 2003-04 Treasury was involved in the preparation of the tender documentation after extensive consultation with key stakeholders including TMF member agencies, potential tenderers and the Department of Commerce.

The tender was issued on 4 October 2004. There are five single provider contracts, including:

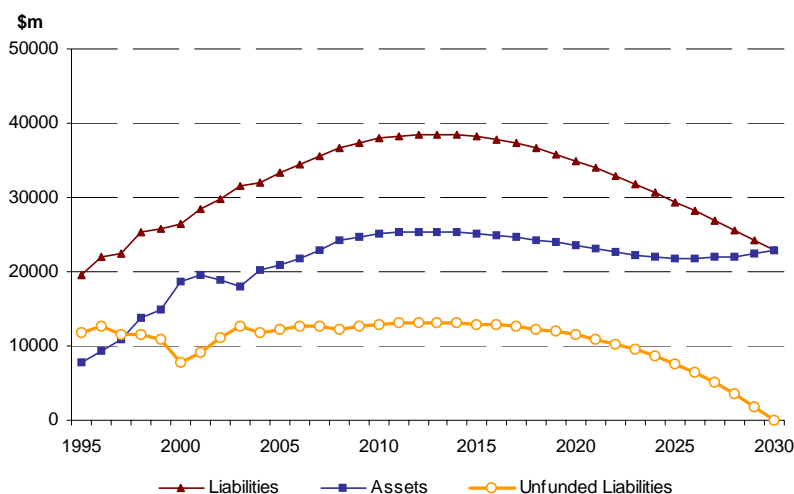
- ▶ Three contracts for workers' compensation claims
- ▶ One contract for health liability claims
- ▶ One contract for other claims categories

NSW Treasury has established procedures to ensure accountability, openness and avoid conflicts of interest, including appointing a steering committee of representatives from Treasury and other government agencies.

## The year in review

### Superannuation Management

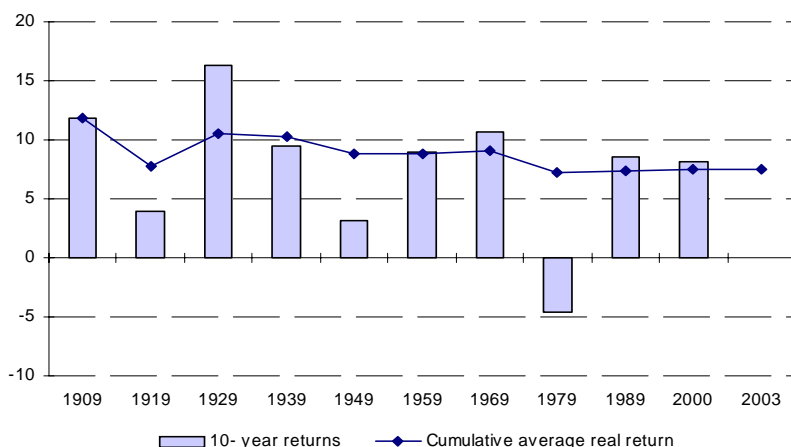
**Chart 1: Projected General Government Pooled Fund Scheme Superannuation Gross Liabilities, Assets and Net Liabilities**



As shown in Chart 1, current estimates predict that defined benefit schemes' superannuation liabilities will be fully funded by 2030. The estimated long-term earnings rate that the Crown assumes in valuing Pooled Fund liabilities is 7.3%. Considering the historical returns of the Australian equity market represented in Chart 2, this rate is considered realistic. However, Australia is scheduled to adopt International Accounting Standards (IAS) for reporting periods beginning on or after 1 January 2005

One of the major changes affecting NSW superannuation liabilities will be the adoption of AASB 119 "Employee Benefits".

**Chart 2: 103 Year History of the Australian Equity Market (a)**



(a) Data for Australian equities obtained from the ABN-AMRO Global Investment Returns Yearbook 2004 compiled by Elroy Dimson, Paul Marsh and Mike Staunton from the London Business School.

AASB 119 requires for financial reporting purposes that the discount rate for valuing superannuation liabilities be equal to a high quality net corporate bond rate, or if there is not a sufficiently deep market for corporate bonds, a net government bond rate. The bond rate adopted should be reduced for estimated tax payable. The Pooled Fund Scheme's actuary, Mercer Human Resources, has advised that the scheme's discount rate will be based on the net government bond rate.

Adopting AASB 119 will have the effect of substantially increasing estimated unfunded liabilities for accrual financial reporting purposes. Treasury strongly disagrees with this basis for valuing liabilities because:

- It will break the nexus between the method of calculating superannuation liabilities for financial accrual reporting and funding purposes.
- It does not reflect the most likely earnings capability of the Pooled Fund asset portfolio. The standard assumes that investment returns are equal to the net government bond rate whereas the Pooled Fund's actual growth asset allocation in shares and property is approximately 75%
- The AASB119 tax payable assumption is not correct for State Super due to the impact of Australian share dividend franking credits and other available deductions. For funding purposes a zero tax rate is expected.

In future Financial Statements, the calculation and disclosure of unfunded superannuation liabilities will be calculated on two bases. The first basis will be for balance sheet recognition purposes and will generally accord with AASB 119 requirements regarding the assumed discount rate. The second calculation on a funding basis will be used for note disclosure and Crown funding plan purposes.

### **Debt Management**

General government sector borrowings are mainly represented by the debt portfolios of the Crown Entity and the Roads and Traffic Authority. These portfolios are managed by NSW Treasury Corporation (TCorp).

Debt management has the twin objectives of:

- ▶ a) minimising the market value of debt subject to specified risk constraints over the long term, and
- ▶ b) minimising the cost of debt.

TCorp uses an active management style with the aim of adding value relative to a benchmark portfolio. This involves positioning the portfolios according to TCorp's view of future interest rates.

Memoranda of understandings between Treasury, the Roads and Traffic Authority and TCorp constrain the management of the portfolios. These include a requirement to adhere to finance expense budget allocations which are agreed at the beginning of each financial year.

### **Risk Management Review**

The Public Authorities (Financial Arrangements) Act 1987 ("PAFA Act") regulates the power of authorities to enter into various financial arrangements including investments, borrowings, derivatives, joint financing arrangements, joint ventures, and government guarantees. The Crown Asset and Liability Management Branch (CALM) administers the PAFA Act, and co-ordinates the PAFA Act Risk Management Reviews.

Trowbridge Deloitte was awarded the tender in October 2003 to undertake the reviews. During 2003-04 a review of randomly selected NSW Government agencies' risk management activities as they relate to powers granted under the PAFA Act was undertaken.

The reviews focused on determining the robustness of the agencies' risk management framework. Surveys were distributed by CALM to the selected agencies to examine the adequacy of agencies' staff, computer systems, internal reporting procedures and other arrangements.



Members of the PAFA Risk Committee (from left seated): Andrew Waddington, Paul Travers, Susan Timmins and Stephen Cheesewright. Back row (from left standing): May Tai and Glenn Grainger.



### Asset Management

#### ***Insurance Funding – Treasury Managed Fund (TMF)***

- ▶ The Treasury Managed Fund is fully funded with net assets of \$505 million as at 30 June 2004.
- ▶ Liability Management Ministerial Corporation funds have grown to \$2,885 million as at 30 June 2004.
- ▶ Combined investment return for LMMC and State Super was 12.75%.

The Treasury Managed Fund's total assets exceeded the fund's total gross liabilities by \$505 million as at 30 June 2004, compared with net assets of \$296 million as at 30 June 2003.

This significant improvement in the TMF's financial position was achieved by better than anticipated investment returns. The TMF's investment return was 9.7% in 2003-04.

The general government sector's self-insurance scheme is expected to remain fully funded in the future provided that normal equity returns are achieved.

The Fund's assets are allocated to 60% bonds, 40% shares.

A prudential margin of \$139 million has been added to the TMF central estimate of the outstanding public liability claims in 2004.

This change was introduced to recognise the expected volatility of future liability payments, and follows the practice adopted for workers' compensation claims which applies a similar margin.

#### ***Liability Management Ministerial Corporation (LMMC)***

The accumulation of financial assets in the LMMC will help to minimise the cost of servicing superannuation by providing flexibility in the timing of superannuation contributions to the public sector defined benefit schemes.

Legislation establishing the Liability Management Fund provides that the balance in the Fund can only be used to meet superannuation liabilities. In the case where unfunded superannuation liabilities are extinguished, the balance can be applied to debt reduction.

The Management Committee of the Fund consists of:

- ▶ the Secretary of NSW Treasury,
- ▶ another officer of Treasury,
- ▶ the Chairperson of the SAS Trustee Corporation (trustee of the defined benefit superannuation schemes),
- ▶ the Chief Executive of NSW Treasury Corporation, and
- ▶ at least one other member appointed by the Treasurer.

The Committee's role is to advise the Secretary in relation to the management of the Fund including:

- ▶ investment strategy;
- ▶ appointment of custodians, consultants and investment managers; and
- ▶ monitoring and reviewing the performance of assets, investments and service providers.

At 30 June 2004 the balance of the Fund was \$2,885 million, including contributions of \$1,124 million from the Crown Entity and investment income of \$112 million. The Fund's investment return for the year was 4.92% and with the STC defined benefit schemes earned a combined return of 12.75%.



## The year in review



Treasury members of the TMF Project team, (from left), John Angelakis, Kerry Slater and Peter English.

### Crown Entity Programs

<b><i>Program</i></b>	<b><i>Objectives</i></b>	<b><i>Description</i></b>
Debt Servicing Costs	To meet Crown debt servicing and related costs on loans, advances made to the State by the Commonwealth, and on NSW Treasury Corporation loans. Payment of interest to Treasury Banking System member agencies	Debt administration, management of the Crown portfolio and cash management of the Treasury Banking System in conjunction with the NSW Treasury Corporation. Recoupment from various bodies of their portion of debt servicing costs.
Refunds and Remissions of Crown Revenue	To provide petrol and alcohol subsidy payments and tax refunds where appropriate.	Payment of petrol and alcohol subsidies, and remissions and refunds, under certain circumstances, in regard to State taxation and other Crown revenues.
Other Asset and Liability Management Activities	To provide funding for assumed Crown superannuation costs and past service accrued liabilities. To provide asset/liability management services for cash, superannuation, insurance and other liabilities.	Periodic payments towards costs of accrued defined benefit employer superannuation liabilities and Crown employer superannuation guarantee charge contributions. Compensation payments for risks not covered under insurance arrangements, working capital advances, interest subsidies and State Bank loan indemnity claims.
Natural Disasters Relief	To alleviate hardship suffered by individuals as a result of bushfires, floods, drought and other natural disasters. To restore community assets damaged by natural disasters.	Provision of funds to various departments and authorities (including local government) involved in administering joint Commonwealth/State schemes.

## **Additional Crown Entity Undertakings**

### ***Consolidated Fund***

Activities are principally the collection of State taxation, Commonwealth grants and financial distributions from public trading and financial enterprise sector agencies on behalf of the New South Wales Government.

Payments mainly comprise recurrent and capital appropriation payments to general government budget dependent agencies.

### ***Insurance Ministerial Corporation***

The Insurance Ministerial Corporation (IMC) administers the insurance liabilities and financial assists of the Treasury Managed Fund (TMF), the Government Workers' Compensation Account and the Transport Accidents Compensation Fund.

The TMF is a self-insurance scheme owned and underwritten by the Government. It provides a full range of covers and services for its members. Fund members include all general government budget dependent agencies, all public hospitals and a number of other government authorities.

### ***Liability Management Ministerial Corporation***

The Liability Management Ministerial Corporation was established to manage the General Government Liability Management Fund. Crown employer contributions are accumulated in the Fund and invested pending the payment of funds to the Superannuation Trustee Corporation.

### ***Electricity Tariff Equalisation Ministerial Corporation***

The Fund manages purchase cost risk for electricity retail suppliers of small retail customers in New South Wales.

### ***Crown Lands Homesites Program***

The program administers the development and sale of residential Crown Lands homesites in urban areas.

### ***Land Development Working Account***

The account administers the development of Crown land for residential purposes in country New South Wales and for commercial purposes on a Statewide basis.

### ***Crown Property Portfolio***

Activities relate to management of a portfolio of Crown rental and other real estate assets of the State where ownership or control has not been passed to individual agencies. This includes the fit out/refurbishment of Crown owned buildings under the Government's CBD Asset Strategy.



Financial Statements for the year ended 30 June 2004

# Consolidated Crown Entity



New South Wales  
TREASURY



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### CROWN ENTITY

To Members of the New South Wales Parliament

#### Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matter referred to in the qualification paragraph below, the financial report of the Crown Entity:

- (a) presents fairly the Crown Entity's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 45E and 45EA of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

#### Qualification

As disclosed in Note 1 Statement of Significant Accounting Policies, the Crown Entity does not recognise Crown land that is dedicated or reserved (the Reserves) under the *Crown Lands Act 1989*. In my opinion, the fair value of the Reserves is required to be recognised by Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments" because the State has the capacity to benefit from their use and can regulate the access of others to that benefit.

#### The Secretary's Role

The financial report is the responsibility of the Secretary of NSW Treasury. It consists of the statement of financial performance, the statement of financial position, the statement of cash flows and the accompanying notes.

#### The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Secretary in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Secretary had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Crown Entity,
- that the Crown Entity has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

### **Audit Independence**

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



A T Whitfield  
Deputy Auditor-General

SYDNEY  
28 October 2004



## STATEMENT OF DEPARTMENT HEAD

Pursuant to Section 45F of the *Public Finance and Audit Act 1983*, I state that:

- (a) The accompanying financial statements for the year ended 30 June 2004 have been prepared in accordance with the relevant provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000*, Accounting Standards and Urgent Issues Group Consensus Views and the Treasurer's Directions;
- (b) The statements exhibit a true and fair view of the financial position and transactions of the Crown Entity; and
- (c) There are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Kerry Schott  
Acting Secretary  
28 October 2004



# CROWN ENTITY

## Statement of Financial Performance for the Year Ended 30 June 2004

		2004 \$000	2003 \$000
<b>Expenses</b>			
Superannuation		1,417,299	3,893,531
Long service leave		489,255	631,650
Depreciation	10	2,999	5,526
Amortisation	10	79,368	87,586
Grants and subsidies	2(a)	83,854	148,610
Borrowing costs	2(b)	722,379	765,859
Insurance claims	2(c)	1,160,972	1,162,923
Other	2(d)	735,163	956,943
Recurrent appropriations	30	27,183,244	25,354,325
Capital appropriations	30	2,404,841	2,383,110
<b>Total Expenses</b>		<b>34,279,374</b>	<b>35,390,063</b>
<b>Revenue</b>			
Taxation, fines and regulatory fees	3(a)	15,480,109	14,605,799
Commonwealth grants	3(b)	15,338,620	15,158,839
Financial distributions	3(c)	1,470,186	1,350,794
Sale of goods and services	3(d)	1,089,601	1,026,866
Investment income	3(e)	708,864	372,153
Other	3(f)	1,076,739	1,272,513
<b>Total Revenues</b>		<b>35,164,119</b>	<b>33,786,964</b>
<b>Gain/(Loss) on Disposal of Non-Current Assets</b>	4	( 127,792)	( 54,406)
<b>SURPLUS /(DEFICIT) FOR THE YEAR</b>		<b>756,953</b>	<b>( 1,657,505)</b>
<b>NON-OWNER TRANSACTION CHANGES IN EQUITY</b>			
Net increase/(decrease) in asset revaluation reserve	18	642,933	24,482
Net increase/(decrease) in accumulated deficit on change to accounting policy on IBNR recognition	18	-	3,273
<b>TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY</b>		<b>642,933</b>	<b>27,755</b>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>	18	<b>1,399,886</b>	<b>( 1,629,750)</b>

The accompanying notes form part of these statements.

# CROWN ENTITY

## Statement of Financial Position as at 30 June 2004

		2004 \$000	2003 \$000
<b>ASSETS</b>	<b>Notes</b>		
<b>Current Assets</b>			
Cash assets	23	381,748	1,987,920
Other financial assets	6	732,096	2,418,629
Advances repayable to the Crown	7	137,838	91,194
Inventories	8	22,419	14,320
Receivables	9	2,116,318	1,738,901
Other		988	1,272
<b>Total Current Assets</b>		<b>3,391,407</b>	<b>6,252,236</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	10	5,387,618	5,576,146
Investments in Associates	5	560,638	549,698
Other financial assets	6	6,741,246	3,663,295
Advances repayable to the Crown	7	1,528,581	1,576,379
Inventories	8	3,817	3,677
Receivables	9	1,731,983	1,660,056
Other - Health Super Growth Fund		420,358	-
<b>Total Non-Current Assets</b>		<b>16,374,241</b>	<b>13,029,251</b>
<b>Total Assets</b>		<b>19,765,648</b>	<b>19,281,487</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	11	422,518	680,521
Bank overdraft	23	2,194,128	3,430,965
Interest bearing liabilities	12	1,361,198	2,455,724
Non-interest bearing liabilities	13	52,549	57,559
Unfunded superannuation	15	32,000	-
Employee benefits and other provisions	16	254,197	239,268
Provision for outstanding insurance claims	17	729,416	687,024
Lease incentive	27	3,818	3,819
Other	28	443,007	103,619
<b>Total Current Liabilities</b>		<b>5,492,831</b>	<b>7,658,499</b>
<b>Non-Current Liabilities</b>			
Payables	11	229,282	292,285
Interest bearing liabilities	12	8,309,178	7,856,004
Non-interest bearing liabilities	13	318,580	289,699
Unfunded superannuation	15	15,208,090	14,427,600
Employee benefits and other provisions	16	2,384,713	2,162,867
Provision for outstanding insurance claims	17	3,817,783	3,378,450
Lease incentive	27	13,805	18,070
Other	28	451,961	470,431
<b>Total Non-Current Liabilities</b>		<b>30,733,392</b>	<b>28,895,406</b>
<b>Total Liabilities</b>		<b>36,226,223</b>	<b>36,553,905</b>
<b>Net Liabilities</b>		<b>( 16,460,575)</b>	<b>( 17,272,418)</b>
<b>EQUITY</b>			
Reserves	18	870,479	707,187
Retained deficit	18	( 17,331,054)	( 17,979,605)
<b>Total Equity</b>		<b>( 16,460,575)</b>	<b>( 17,272,418)</b>

The accompanying notes form part of these statements.

**CROWN ENTITY**  
**Statement of Cash Flows for the Year Ended 30 June 2004**

	Notes	2004 \$000	2003 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Payments</b>			
Employee related		( 1,059,089)	( 928,535)
Grants and subsidies		( 197,974)	( 277,241)
Borrowing costs		( 707,981)	( 731,947)
Recurrent appropriation	30	( 27,183,244)	( 25,354,325)
Capital appropriation	30	( 2,404,841)	( 2,383,110)
Other		( 1,624,778)	( 1,873,542)
<b>Total Payments</b>		<b>( 33,177,907)</b>	<b>( 31,548,700)</b>
<b>Receipts</b>			
Taxation, fines and regulatory fees		15,281,256	14,644,100
Sale of goods and services		1,396,377	394,345
Commonwealth grants	30	15,338,620	15,158,839
Interest received		461,357	298,440
Dividend Received		81,200	
Financial distribution from Non Budget Sector		1,034,225	1,215,606
Other		1,280,169	1,089,068
Transfer Payments		-	918,704
<b>Total Receipts</b>		<b>34,873,204</b>	<b>33,719,102</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	24	<b>1,695,297</b>	<b>2,170,402</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments		( 2,951,595)	( 1,122,839)
Purchase of property, plant & equipment		( 18,473)	( 561,926)
Advance made		( 97,710)	( 90,212)
Other		( 420,358)	( 87,618)
Proceeds from sales of investment		3,830	-
Proceeds from sales of property, plant & equipment		227,333	309,247
Advance repayment received		98,865	127,396
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>( 3,158,108)</b>	<b>( 1,425,952)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings and advances		8,500	561,526
Repayment of borrowings and advances		( 734,480)	( 977,778)
Other		-	86,755
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>( 725,980)</b>	<b>( 329,497)</b>
<b>NET CASHFLOW FROM GOVERNMENT</b>		<b>-</b>	<b>-</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>		<b>( 2,188,791)</b>	<b>414,953</b>
Opening cash and cash equivalents		971,342	( 23,611)
Proceeds of capital restructure	30	137,000	580,000
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	23	<b>( 1,080,449)</b>	<b>971,342</b>

The accompanying notes form part of these statements

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Reporting Entity***

Within the whole-of-government financial reporting framework, a separate reporting entity, the Crown Entity, reports on service-wide assets, liabilities, revenues and expenses.

Activities comprising the Crown Entity are summarised below:

- **Crown Finance Entity**  
Payments are made from parliamentary allocations to meet the costs of:
  - debt servicing of the Crown debt portfolio;
  - superannuation employer contributions for general government budget dependent agencies;
  - provision of grants and subsidies to public sector bodies;
  - administering the long service leave liability for general government budget dependent agencies and agencies which have moved from being budget dependent sector to the non-budget dependent sector;
  - performing the functions of residual entities of the State.
- **Consolidated Fund**  
Activities represent the collection of state taxation, Commonwealth grants and financial distributions from the non-budget dependent sector agencies on behalf of the State of New South Wales. Payments comprise recurrent and capital appropriation payments to Budget dependent agencies. Details of receipts and payments of the Consolidated Fund are disclosed in Note 30.

Other Crown entities are:

- **Insurance Ministerial Corporation**  
The Corporation was created to provide self insurance coverage for general government budget dependent agencies. It comprises the Treasury Managed Fund and Pre Managed Fund Reserve, Government Workers Compensation Account and the Transport Accident Compensation Fund, currently managed by GIO General Limited.
- **Crown Lands Homesites Program**  
Administers the development and sale of residential Crown lands homesites in urban areas.
- **Land Development Working Account**  
Administers the development of Crown land for residential purposes in country New South Wales and for commercial purposes on a State wide basis.

- **Crown Property Portfolio**

Administers the Crown property portfolio, comprising multiple occupancy buildings for sub lease to public sector agencies, heritage properties and industrial sites.

- **Electricity Tariff Equalisation Ministerial Corporation**

Administers the Electricity Tariff Equalisation Fund to manage purchase cost risk for electricity retail suppliers of small retail customers in New South Wales.

- **Crown Leaseholds**

Collects annual instalments relating to the purchase of Crown land and generates revenue from leases, licences and permissive occupancies of Crown land. It is the accounting entity that reports the value of vacant Crown land.

- **Liability Management Ministerial Corporation (LMMC)**

The LMMC was established to manage the General Government Liability Management Fund through which accumulated Crown funds are invested pending the payment of employer contributions to the SAS Trustee Corporation Superannuation Fund.

These activities are aggregated in the Crown Entity financial statements. Separate financial statements are produced for each of the Crown activities.

When reporting as a single economic entity, all inter entity transactions and balances are eliminated.

The Crown Entity is considered to be a “going concern” as the ability to tax means that it is able to pay its debts as and when they become due and payable.

### ***Basis of Accounting***

The Crown Entity’s financial statements are a general purpose financial report prepared on an accrual basis in accordance with Australian Accounting Standards, authoritative pronouncements of the Australian Accounting Standards Board, the Urgent Issues Group Consensus Views, relevant requirements of the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulations and Treasury Accounting Policy Statements. Approval was granted to exempt the Crown Entity from the Financial Reporting Code.

Where there are inconsistencies between the above requirements the legislative provisions prevail.

Except for certain investments and property, plant and equipment, which are recorded at valuation, the financial statements are prepared in accordance with the historical cost convention. All amounts are rounded to the nearest one thousand dollars and are in Australian currency.

# **CROWN ENTITY**

## **NOTES TO AND FORMING PART OF THE**

### **2003-04 FINANCIAL STATEMENTS**

#### **EXPENSES**

##### **Employee Benefits**

The Crown Entity has no employees. Its work is done by staff of the Department of Commerce, Department of Infrastructure, Planning and Natural Resources, Landcom, NSW Treasury Corporation and NSW Treasury. GIO General Ltd is contracted to administer the Insurance Ministerial Corporation.

The Crown Asset and Liability Management Branch of the Office of Financial Management, NSW Treasury, provides staff for the Crown Finance Entity. Staff costs are met by the Crown Finance Entity.

Superannuation expenses are payments to the First State Superannuation Fund and other complying accumulation funds and to liabilities assumed by the Crown Entity from budget dependent general government sector agencies. The movements in unfunded superannuation are detailed in Note 15.

Similarly, long service leave expenses are for liabilities assumed by the Crown for budget dependent agencies and members of the Non-Budget LSL Pool. The expense is based on using the present value method as set out in AASB 1028 "Employee Benefits" for general government agencies. The Non-Budget LSL Pool continues to use the nominal method to calculate the expense.

##### **Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an item expense;
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the Australian Taxation Office is included as part of receivables or payables.

##### **Leased Assets**

A distinction is made between finance and operating leases. A finance lease transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets. Operating leases are those where the lessor retains all such risks and benefits.

Finance leases are recognised as assets and liabilities at the present value of the minimum lease payments. The lease asset is amortised on a straight-line basis over the term of the lease or, where it is likely that the entity will obtain ownership of the asset, the useful life of the asset to the entity. Lease payments are allocated between the principal component of the lease liability and the interest expense.

Operating lease payments are charged to the Statement of Financial Performance in the periods incurred.

##### **Grants and Subsidies**

The Crown Entity pays grants and subsidies on a reimbursement basis. The exception is Snowy Scheme Reform payments are to a Joint Government Enterprise (JGE). The Commonwealth, New South Wales, Victorian and South Australian Governments have agreed to establish the JGE, with the Victorian Government to act as fund manager.

##### **Depreciation of Physical Non-Current Assets**

Depreciation is on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each depreciable asset as it is consumed over its estimated useful life. Land is not a depreciable asset. Depreciation on buildings is at 2.5% and computer equipment at 33.3%.

##### **Amortisation of Physical Non-Current Assets**

Leased assets are amortised over the period of the lease or the life of the asset whichever is greater.

#### **REVENUE**

##### **State Taxation**

State taxation is recognised as follows:

- government-assessed revenues (mainly land tax) are measured at the time assessments are issued;
- taxpayer-assessed revenues (including payroll tax and stamp duty) are measured when the funds are received by the tax collecting agency. Additional revenues are measured for assessments following review of returns lodged by taxpayers;
- fees (such as those issued by RTA) are measured when the cash is received;
- fines (such as those issued by Courts) are measured when the fine is issued. When fines become overdue, additional revenue is recognised; and
- all other fines (such as those issued via the Traffic Infringement Bureau) are measured when the cash is received.

##### **Commonwealth Grants**

These Commonwealth funds assist NSW in meeting its expenditure responsibilities. Specific purpose grants are for both recurrent and capital purposes. Commonwealth grants are recognised as revenue when received, unless the receipt is documented by the Commonwealth as a prepayment. The match the Commonwealth's treatment the receipt is recognised as a prepayment in the financial statements.

# CROWN ENTITY

## NOTES TO AND FORMING PART OF THE 2003-04 FINANCIAL STATEMENTS

### Financial Distributions

These comprise dividends, income tax equivalents and sales tax equivalents paid to the Government by certain General Government non-budget dependent, public trading enterprise and public financial enterprise sector agencies. They are recognised in the period they are earned.

For income tax equivalents, many non-budget dependent agencies recognise a future income tax asset and a provision for deferred income tax. Accordingly, the Crown Entity recognises a reciprocal liability for the future income tax benefit of agencies and a receivable for the deferred income tax of agencies.

### ASSETS

#### Cash

Cash assets represent cash at bank. It includes the restricted cash in the balances of Special Deposit Accounts.

#### Investments

Marketable securities and deposits are valued at market valuation or cost. Non-marketable securities are brought to account at cost.

The Crown Entity recognises the NSW Government investment in the Snowy Hydro Limited (SHL) in its role as the residual entity. SHL is co-owned by the Commonwealth (13%), Victoria (29%) and New South Wales (58%) and produces annual accounts for the SHL entity. The Crown Entity uses equity accounting to record the New South Wales share of SHL's operating result.

For non-current investments (excluding those of the LMMC), revaluation increments are credited directly to the asset revaluation reserve. Revaluation decrements are recognised in the Statement of Financial Performance, except where the decrement reverses an increment credited to, and included in the asset revaluation reserve, where it should be debited to the asset revaluation reserve.

For current investments, revaluation increments and decrements are recognised in the Statement of Financial Performance. Interest revenues are recognised as they accrue.

### Valuation/Revaluation of Physical Non-Current Assets

Buildings and improvements, and plant and equipment, are valued on the estimated written down replacement cost of the most appropriate modern equivalent replacement facility, having a similar service potential or future economic benefit to the existing asset. The carrying amount of all assets has been reviewed to determine whether they are in excess of the recoverable amount. If the carrying amount exceeds the recoverable amount then the asset is written down to the lower value. Where assets are revalued upward or downward as a result of a revaluation of a class of non-current assets, the

agency restates separately the gross amount and the related accumulated depreciation of the class of revalued assets.

### Revaluation of Land

Crown land is valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 03-02). This policy adopts fair value in accordance with AASB 1041 from financial years beginning on or after 1 July 2002. There is no substantive difference between the fair value valuation methodology and the previous valuation methodology adopted in the NSW public sector.

#### • Leasehold Land

This land, which is revalued annually, includes perpetual leases, term leases, permissive occupancies and enclosure permits, was independently revalued in June 2002 by the State Valuation Office at fair value in accordance with the requirements of AASB 1041. The basis of valuation is the capitalisation of the income stream, appropriately taking into account the conditions attached to the leases. The method of valuation utilised mass valuation techniques.

As at 30 June 2004, the land has been revalued at the capitalised rental revenue in perpetuity using an interest rate of 4.97% which is the same rate used in the June 2002 valuation as there have been no significant changes to conditions which would result in that rate requiring alteration. The increment/decrement on the annual revaluation of the future rental revenue is credited/debited to the asset revaluation reserve. The balance in this reserve represents an accumulation of various effects, which cannot be individually measured.

- (i) Increase in rentals and annual CPI based rental increases;
- (ii) New leases and licences granted over vacant Crown land and identification of further chargeable occupancies; and
- (iii) Movements in leaseholds occurring upon conversion to freehold.

#### • Vacant Crown Land

Vacant Crown land is all Crown Entity land not included in the leasehold estate. This land, which includes New South Wales land on the continental shelf within the 3 Nautical Mile Zone was independently valued in June 2002 by the State Valuation Office at fair value in accordance with the requirements of AASB 1041.

Vacant Crown land is revalued every five years and with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The last revaluation was completed on 30 June 2002 and was based on an independent assessment.

# CROWN ENTITY

## NOTES TO AND FORMING PART OF THE 2003-04 FINANCIAL STATEMENTS

Vacant Crown Land revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the surplus/deficit, the increment is recognised immediately as revenue in the surplus/deficit.

Vacant Crown Land revaluation decrements are recognised immediately as expenses in the surplus/deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect to that class of assets, they are debited directly to the asset revaluation reserve.

- **Offset of revaluation increments and decrements**

Revaluation increments and decrements are offset against one another within a class of non-current assets.

- **Crown Reserves**

There are approximately 30,000 Crown reserves in New South Wales. Some of these reserves are managed by NSW Government and others by local governments and trusts.

A project has commenced to identify and value Crown reserves controlled by the NSW Government.

The likely value of the reserves controlled by the NSW Government cannot be estimated with any certainty. First estimates, based on preliminary data, are that the total value of these reserves may be between \$1 billion and \$7 billion. However, the total value may even be outside this range. The NSW Government will recognise the value of Crown reserves in future the Crown Entity Accounts once this project is complete.

### **Inventories**

Inventories are at the lower of cost or net realisable value.

Land held for sale comprises the land cost and related development expenses. Inventories include development projects at different stages of completion but not vacant Crown land.

### **Parliamentary Appropriations and Contributions from Other Bodies**

Parliamentary appropriations are generally revenues where the agency obtains control over the assets comprising the appropriations/contributions. Control over appropriations and contributions are normally obtained upon the receipt of cash. The Consolidated Fund recognises Parliamentary appropriations as expenses.

An exception is unspent appropriations at year-end. Where the authority to spend lapses, the unspent amount must generally be repaid to the Consolidated Fund in the following financial year. Hence, the Consolidated Fund accounts for unspent appropriations as receivables rather than expenses and agencies account for unspent appropriations as liabilities rather than revenue.

## **LIABILITIES**

### **Payables**

Liabilities are recognised for amounts to be paid in the future for goods and services received whether or not billed to the Crown Entity.

### **Insurance Claims Liability**

Claims expense and a liability for outstanding claims are recognised in the financial statements. The liability covers claims incurred, but not yet paid or reported. The amount includes the anticipated fund management fees for the management of those claims. Claims outstanding, estimated unreported claims, and settlement costs are assessed by the fund manager in consultation with independent actuaries.

The liability for outstanding claims is measured as the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling the 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, the 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. Discount rates are used based on the estimated long term investment earnings of the insurance asset portfolio.

### **Borrowings**

Borrowings represent funds raised from the following sources:

- domestic and overseas borrowings by New South Wales Treasury Corporation;
- loans by the Commonwealth on behalf of New South Wales under the previous Financial Agreement;
- advances by the Commonwealth for housing and other specific purposes.

Borrowings are carried at current capital value representing face value less unamortised discount or plus unamortised premium. Discount/premiums are treated as finance charges and amortised over the term of the debt. Gains and losses arising from foreign exchange and debt restructuring transactions, are included in the Statement of Financial Performance in the period arisen. Borrowing costs are recognised as expenses in the period incurred.

### **Financial Instruments**

Financial instruments are a financial asset of either the Crown Entity or its counterparty and a financial liability (or equity instrument) of the other party. These include cash at bank, receivables, investments, creditors, borrowings, finance leases, derivative financial instruments (interest rate swap contracts, forward foreign exchange contracts and foreign currency option contracts).



# **CROWN ENTITY**

## **NOTES TO AND FORMING PART OF THE**

### **2003-04 FINANCIAL STATEMENTS**

In accordance with AAS33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 14 on the credit risk and interest rate risk of financial instruments. The specific accounting policy for each class of financial instrument is stated.

Classes of instruments recorded at cost comprise:

- cash;
- receivables;
- borrowings;
- advances; and
- payables.

Revenue, expenses and other cash flows arising from financial instruments are recognised on an accrual basis, except for derivative financial instruments which are recognised when the cash flow arises.

#### **Hedging Policy**

The Crown Entity undertakes hedging for both its debt portfolio and investments. TCorp as the managers of the debt and investment portfolios are mandated to utilise derivative instruments. The derivatives are to be used within an appropriate control environment and within

authorised and clearly defined limits. Derivative contracts are not to be used for speculative purposes and are not hedged.

#### **Long Service Leave**

A liability for long service leave is recognised. Following a review by the Government Actuary in May 2003, the present value methodology as set out in AASB 1028 "Employee Benefits" for measuring the long service leave liability has been adopted. It is used valuing the long service leave liabilities for budget dependent agencies. The review found that the nominal method can continue to be used for the non-budget dependent LSL Pool agencies.

#### **Superannuation**

An unfunded superannuation liability is recognised for the defined benefits schemes. It is the difference between the present value of forecast employees' accrued benefits at balance date and the estimated net market value of the superannuation schemes' assets at that date.

The liability is actuarially assessed annually based on data maintained by Pillar Administration on behalf of the SAS Trustee Corporation. It is calculated based on the latest Triennial Review actuarial economic assumptions.

The present value of accrued benefits is based on expected future payments arising from membership of the fund to balance date of the contributory service of current and past State government employees.

In calculating the unfunded superannuation liability, forecasts are made for expected future wage and salary levels, expected future investment earning rates, the growth rate in the Consumer Price Index, experience of employee departures and the periods of service.

#### ***Changes in Accounting Practice***

A prudential margin of 7.5% (67% probability of adequacy) has been added to the Treasury Managed Fund central estimate of the outstanding claims liability for Liability in 2004. This change has been introduced to recognise the expected volatility of future Liability payments and achieve consistency with the prudential margin that is added to Workers Compensation. The change increases the outstanding claims liability and claims expense by \$139 million.

#### ***Comparative Figures***

Comparative figures have been reclassified and repositioned in the financial statements, where necessary, to conform with the basis of presentation and classification used in the current year.

The only material change to the comparative figures is the presentation of the acquisition of motor vehicles in the cashflow statements. The acquisition was a non-cash financing and investing activity. Details are included in Note 24.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>2. EXPENSES</b>		
<b>(a) Grants and Subsidies</b>		
Natural Disaster Relief	30,778	141,380
Snowy Scheme Reform	30,000	-
Health Capital Grant	12,575	-
Australian Inland Energy - Operating Subsidy	5,300	5,300
Other	5,201	1,930
	<b>83,854</b>	<b>148,610</b>
<b>(b) Borrowing Costs</b>		
<b>Finance Charges Incurred to:</b>		
NSW Treasury Corporation	541,661	584,628
Commonwealth Government	81,834	84,877
NSW Budget-Dependent Agencies	49,276	39,489
Other	49,608	56,865
	<b>722,379</b>	<b>765,859</b>
<b>(c) Insurance Claims</b>		
Claims Paid	632,809	741,340
Increase in Outstanding Claims	443,607	365,535
Management Fees to GIO General Ltd and Legal Expenses	60,273	39,630
Provision for HIH Insurance Claims	24,283	16,418
	<b>1,160,972</b>	<b>1,162,923</b>
<b>(d) Other Expenses</b>		
Head Leases	130,968	121,375
State Bank Post Sale Expenses	-	5,031
Remissions/Refunds Crown Revenue	51,012	48,709
First Home Purchase Discounts	3	36
Bad Debts Write Off	-	6,019
Land Written Off	-	30,460
Outward Reinsurance Expense	22,247	18,144
Audit Fees - Financial Statements (Crown Entity and Total Sector State Account)	669	764
Audit Fees - Performance Audits	1,450	1,400
Provision for Doubtful Debts	-	16,375
Production of Auditor-General's Reports to Parliament	1,310	1,275
Electricity Tariff Equalisation Payments to Generators and Retailers	266,553	290,521
GST Administration Costs	181,238	189,943
Freight Rail Sale Costs	131	1,444
Land Remediation Provision	-	103,987
Stamp Duty and Taxes	14,259	29,176
Other	65,323	92,284
	<b>735,163</b>	<b>956,943</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>3. REVENUE</b>		
<b>(a) State Taxation</b>		
Payroll Tax	4,904,828	4,683,317
Stamp Duties	5,501,965	5,217,173
Petroleum, Tobacco and Liquor Licences	1,806	2,778
Gambling and Betting	1,310,099	1,273,320
Land Tax	1,363,930	1,148,304
Motor Vehicle Taxes and Fees	1,296,541	1,185,222
Debits Tax	1,384	22
Fees and Fines	337,119	282,725
Fire Insurance Levy	286,337	275,775
Other	476,100	537,163
	<b>15,480,109</b>	<b>14,605,799</b>
<b>(b) Commonwealth Grants</b>		
National Competition Payments	203,548	251,834
Revenue Replacement	21,596	2,228
Budget Assistance	68,786	598,710
Specific Purpose -Recurrent	4,536,411	4,363,087
- Capital	841,198	862,777
GST Revenue	9,667,081	9,080,203
	<b>15,338,620</b>	<b>15,158,839</b>
<b>(c) Financial Distributions</b>		
Dividends	962,009	851,840
Income Tax Equivalents	507,692	498,954
Sales Tax Equivalents	485	-
	<b>1,470,186</b>	<b>1,350,794</b>
Tax of agencies in the TER (calculated at 30% for 2003)	587,287	291,350
Tax Effect of Permanent Differences	( 79,595)	207,603
Tax Expense of Agencies in the TER	<b>507,692</b>	<b>498,953</b>
<b>(d) Sales of Goods and Services</b>		
Property Rental	163,338	151,647
Insurance Premium Revenue	921,849	824,537
Reinsurance and Other Recoveries Revenue	4,414	50,682
	<b>1,089,601</b>	<b>1,026,866</b>
<b>(e) Investment Income</b>		
Interest		
- Insurance Ministerial Corporation - earned on its investments	-	175,906
- Health Super Advances	13,108	-
- Advances	79,663	78,525
- Snowy Hydro - Investment Return	10,941	76,369
- Short Term Money Market Deposit	31,145	51,332
- Other	7,059	22,879
Market Value Increment/(Decrement) on Investments	566,948	( 32,858)
	<b>708,864</b>	<b>372,153</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>(f) Other Revenue</b>		
Recognition of Investment in Snowy Hydro Limited	-	4,656
Royalty on Minerals	248,738	235,000
Electricity Tariff Equalisation Contributions from Generators and Retailers	396,594	373,237
Revenue from Crown Leasehold Assets	34,432	44,144
Contribution from Environmental Trust	2,682	5,172
Fire Brigade Levy from Local Government	49,439	48,532
Crown Share of Budget Agency Asset Sales	20,373	22,232
Builders Warranty Premium Revenue	4,352	14,084
BHP Grant for Land Remediation	-	103,987
Repayments of Previous Years Appropriation	88,603	133,511
Long Service Leave Contributions	25,152	17,667
Employers Superannuation Contribution	25,067	25,315
Unclaimed Moneys	20,152	33,655
Bona Vacantia - Public Trustee	7,730	2,905
Motor Vehicle Rental Income	103,568	119,400
Other	49,857	89,016
	<b>1,076,739</b>	<b>1,272,513</b>

**4. GAIN/(LOSS) ON DISPOSAL OF NON -CURRENT ASSETS**

Proceeds from Sale	312,490	284,700
Written Down Value of Property, Plant and Equipment Sold	( 440,282)	( 339,106)
Net Gain/(Loss) on Disposal of Property, Plant and Equipment	<b>( 127,792)</b>	<b>( 54,406)</b>

**5. INVESTMENT IN ASSOCIATES**  
**- SNOWY HYDRO LTD**

Balance 1 July	549,698	468,673
Add: Increase in Recognition of Investment	-	4,656
Add: NSW Share of After Tax Profit	92,140	76,369
Less: Dividends Received	( 81,200)	-
Balance 30 June	<b>560,638</b>	<b>549,698</b>

The investment in Snowy Hydro Limited is a 58% share to New South Wales by the Commonwealth upon corporatisation. The Commonwealth retains 13% and Victoria retains 29%. New South Wales does not control the entity as it has one director on a board of up to nine directors hence, the assets will be consolidated on the basis of equity accounting.

Reconciliation of New South Wales share in Snowy Hydro Limited profits.

<b>Retained Profit - Opening Balance</b>	<b>76,369</b>	<b>-</b>
Dividends received during the year	( 81,200)	-
	-	-
Profit from Ordinary Activities before Income Tax	124,435	105,877
Income tax Expense relating to Ordinary Activities	( 32,295)	( 29,508)
Profit from Ordinary Activities after Income Tax	92,140	76,369
<b>Retained Profit - Closing Balance</b>	<b>87,309</b>	<b>76,369</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>6. OTHER FINANCIAL ASSETS</b>		
<b>Current:</b>		
Short Term Money Market Investment	6,872	2,232,884
Deposits at Call	725,058	181,908
Other	166	3,837
	<b>732,096</b>	<b>2,418,629</b>

<b>Non -Current:</b>		
"Hour Glass" Investments		
- Australian Shares	611,914	609,369
- Indexed Australian Shares	184,845	208,077
- International Shares	648,733	725,547
- Indexed International Shares	255,488	-
- Listed Property	155,165	168,834
Bond Portfolio	4,881,724	1,947,933
Other	3,377	3,535
	<b>6,741,246</b>	<b>3,663,295</b>

**7. ADVANCES REPAYABLE TO THE CROWN**

<b>Current:</b>	<b>137,838</b>	<b>91,194</b>
<b>Non-Current:</b>	1,528,581	1,577,587
Less: Provision for Doubtful Debts	-	( 1,208)
	<b>1,528,581</b>	<b>1,576,379</b>
<b>Total Advances</b>	<b>1,666,419</b>	<b>1,667,573</b>
<b>Represented by:</b>		
Rural Assistance Authority	86,050	82,862
Sydney Water Corporation	43,945	46,066
Commonwealth Housing Advances	1,314,924	1,348,260
Administered Advances	27,725	51,862
Other	193,775	138,523
	<b>1,666,419</b>	<b>1,667,573</b>

**8. INVENTORIES**

<b>Current:</b>		
Developed Land held for Sale-At Cost	13,203	6,602
Land Development Works in Progress-At Cost	9,216	7,718
	<b>22,419</b>	<b>14,320</b>
<b>Non-Current:</b>		
Developed land held for sale-At Cost	3,817	3,677
	<b>3,817</b>	<b>3,677</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

**9. RECEIVABLES**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current:</b>		
Taxes, Fees and Fines	731,169	721,948
Less: Provision for Doubtful Debts	( 47,888)	( 51,351)
	<u>683,281</u>	<u>670,597</u>
Dividends	965,132	691,398
Tax Equivalents	184,593	105,249
Reinsurance and Other Recoveries Receivable	28,211	35,645
Unspent Appropriations	77,203	89,386
Insurance	418	92,306
Other	177,480	54,320
	<u><b>2,116,318</b></u>	<u><b>1,738,901</b></u>
<b>Non-Current:</b>		
Provision for Deferred Income Tax	1,559,288	-
Reinsurance and Other Recoveries Receivable	129,417	158,303
Motor Vehicle Lease Reserve	16,088	27,600
Other	27,190	1,474,153
	<u><b>1,731,983</b></u>	<u><b>1,660,056</b></u>

During the year the fines considered recoverable fell by \$33.8 million. Recoverable fines at the beginning of the year were revised downwards by \$61.3 million based on current recovery rates. Offsetting this was an increase of \$27.5 million in current year recoverable fines. The increase is due to the processing of backlogs at the IPB relating to 2002-03 infringements that were referred to the State Debt Recovery Office for enforcement action.

**10. PROPERTY, PLANT AND EQUIPMENT**

**(A) Property, Plant & Equipment - Finance Lease**

	<b>Land</b>	<b>Building</b>	<b>Leasehold</b>	<b>Motor</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>Land</b>	<b>Vehicle</b>	<b>\$000</b>
			<b>\$000</b>	<b>\$000</b>	
<b>Gross Value</b>					
Opening balance 1 July 2003	15,000	70,000	6,000	665,700	756,700
Add: Acquisition	-	-	-	96,076	96,076
Add : Asset revaluation increment	-	9,000	1,500	-	10,500
Add: Transfer between classes	( 15,000)	15,000	-	-	-
Less: Disposals	-	-	-	( 304,367)	( 304,367)
<b>Closing Balance 30 June 2004</b>	<u>-</u>	<u><b>94,000</b></u>	<u><b>7,500</b></u>	<u><b>457,409</b></u>	<u><b>558,909</b></u>
<b>Accumulated Depreciation/Amortisation</b>					
Opening balance 1 July 2003	-	5,833	882	81,800	88,515
Add: Charge for the year	-	2,467	441	76,460	79,368
Less: Disposals	-	-	( 882)	( 80,914)	( 81,796)
Less: Reversal due to asset revaluation	-	( 5,833)	-	-	( 5,833)
<b>Closing Balance 30 June 2004</b>	<u>-</u>	<u><b>2,467</b></u>	<u><b>441</b></u>	<u><b>77,346</b></u>	<u><b>80,254</b></u>
<b>Written Down Value</b>					
Balance 1 July 2003	15,000	64,167	5,118	583,900	668,185
<b>Balance 30 June 2004</b>	<u>-</u>	<u><b>91,533</b></u>	<u><b>7,059</b></u>	<u><b>380,063</b></u>	<u><b>478,655</b></u>

## 10. PROPERTY, PLANT AND EQUIPMENT

### (B) Property, Plant & Equipment - Owned

	Land \$000	Building \$000	Work in Progress \$000	Leasehold Land \$000	Motor Vehicle \$000	Computer Equipment \$000	Total \$000
<b>Gross Value</b>							
Opening balance 1 July 2003	4,196,367	146,059	3,470	570,314	-	36	4,916,246
Add: Acquisition	48,222	-	7,172	-	-	-	55,394
Less: Disposals	( 200,006)	-	-	( 2,642)	-	-	( 202,648)
Add: Valuation Increments	83,597	17,148	-	37,077	-	-	137,822
Add: Transfer from work in progress	-	10,642	( 10,642)	-	-	-	-
Add: Capitalised Expenditure	-	11,301	-	-	-	-	11,301
Less: Valuation Decrements	( 221)	-	-	-	-	-	( 221)
Less: Transfer to other government agencies	( 4,420)	-	-	-	-	-	( 4,420)
Less: Transfer between classes	( 138,507)	127,026	-	11,481	-	-	-
Less: Asset disposal free of charge	( 1,500)	-	-	-	-	-	( 1,500)
<b>Closing Balance 30 June 2004</b>	<b>3,983,532</b>	<b>312,176</b>	<b>-</b>	<b>616,230</b>	<b>-</b>	<b>36</b>	<b>4,911,974</b>
<b>Accumulated Depreciation/Amortisation</b>							
Opening balance 1 July 2003	-	8,273	-	-	-	12	8,285
Add: Charge for the year	-	2,987	-	-	-	12	2,999
Less: Reversal due to asset revaluation	-	( 8,273)	-	-	-	-	( 8,273)
<b>Closing Balance 30 June 2004</b>	<b>-</b>	<b>2,987</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24</b>	<b>3,011</b>
<b>Written Down Value</b>							
Balance 1 July 2003	4,196,367	137,786	3,470	570,314	-	24	4,907,961
<b>Balance 30 June 2004</b>	<b>3,983,532</b>	<b>309,189</b>	<b>-</b>	<b>616,230</b>	<b>-</b>	<b>12</b>	<b>4,908,963</b>
<b>PROPERTY - TOTAL</b>							
Opening Balance 1 July 2003	4,211,367	201,953	3,470	575,432	583,900	24	5,576,146
<b>Closing Balance 30 June 2004</b>	<b>3,983,532</b>	<b>400,722</b>	<b>-</b>	<b>623,289</b>	<b>380,063</b>	<b>12</b>	<b>5,387,618</b>

CROWN ENTITY  
NOTES TO AND FORMING PART OF THE  
2003-04 FINANCIAL STATEMENTS

Land and Buildings are at Valuation. Other Property assets are at cost.



**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

All owned Land and Buildings, and Finance Lease assets are at valuation. Generally, cyclical revaluation is being done at least every three years. The Department of Commerce considers that the carrying value of all other property assets shown at cost approximate their recoverable amount.

All properties were independently valued on 1 July 2003, on the basis of capitalisation of net income stream. Either the Australian Valuation Office, Landmark White (NSW) Pty Ltd, Herron Todd White (Capital) Pty Ltd or Colliers International Consultancy and Valuation Pty Ltd undertook valuations.

The property acquisitions during the year relate to construction of the government office buildings in Lithgow, NSW.

Details of assets transferred to other State Government Agency and Local Government "free of charge" are as follows:

<b>Particulars</b>	<b>Fair Value \$000</b>
Tempe tip, Tempe NSW - Transferred to Marrickville Council	1,500
Bunnerong rail sidings, Banksmeadow NSW - transferred to NSW Rail Corporation	4,420
	<b>5,920</b>

The Tempe tip was received from the NSW Waste Services and the Bunnerong rail sidings was received from the Pacific Power Corporation during 2002-03.

The finance leases of land and buildings relate to two property leases – McKell Building, Rawson Place, Sydney and Noel Park House, Marius Street, Tamworth. The McKell Building is being written off over the life of the building and Noel Park House is being written off over the life of the lease.

	<b>2004 \$000</b>	<b>2003 \$000</b>
<b>11. PAYABLES</b>		
<b>Current:</b>		
SRA - Workers Compensation	15,970	16,253
Creditors	88,105	57,275
Financial Charges	122,222	129,998
Superannuation Accrued	25,104	1,366
GST Payable to Commonwealth	95,393	91,295
Motor Accident Authority - HIH Liability to Nominal Claimants	58,805	81,303
Accrued ETEF Tariffs	-	77,366
Unearned Revenue	-	211,918
Other	16,919	13,747
	<b>422,518</b>	<b>680,521</b>
<b>Non-Current:</b>		
SRA - Workers Compensation	124,090	108,695
Motor Accident Authority - HIH Liability to Nominal Claimants	105,192	183,590
	<b>229,282</b>	<b>292,285</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>12. INTEREST BEARING LIABILITIES</b>		
<b>Current:</b>	1,361,198	2,455,724
<b>Non-Current:</b>	8,309,178	7,856,004
	<b>9,670,376</b>	<b>10,311,728</b>
<b>Analysed as:</b>		
New South Wales Treasury Corporation	7,493,620	7,803,732
Commonwealth Financial Agreement	97,968	158,778
Commonwealth Specific Purpose Advances	1,574,269	1,616,945
Finance Leases	475,995	679,611
Administered Loans	27,724	51,862
Other	800	800
<b>Total Borrowings at Current Capital Value</b>	<b>9,670,376</b>	<b>10,311,728</b>
<b>Repayment of Borrowings at:</b>		
Not later than one year	1,361,198	2,455,724
Between one and two years	1,446,248	307,661
Between two and five years	1,636,340	2,963,330
Later than five years	5,226,590	4,585,013
	<b>9,670,376</b>	<b>10,311,728</b>

**13. NON-INTEREST BEARING LIABILITIES**

<b>Current:</b>	52,549	57,559
<b>Non-Current:</b>	318,580	289,699
	<b>371,129</b>	<b>347,258</b>
<b>Analysed as:</b>		
New South Wales Treasury Corporation	371,129	347,258
<b>Total Borrowings at Current Capital Value</b>	<b>371,129</b>	<b>347,258</b>
<b>Repayment of Borrowings at:</b>		
Not later than one year	52,549	57,559
Between one and two years	234,885	-
Between two and five years	-	213,439
Later than five years	83,695	76,260
	<b>371,129</b>	<b>347,258</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

**14. FINANCIAL INSTRUMENTS**

**Note:** All government borrowings, whilst government guaranteed, are unsecured as no assets are secured by the borrowings.

**(a) Derivative Financial Instruments**

The Crown Entity's business results in gaps in the maturity of its cashflows and to exposures from possible changes in the repricing of financial positions upon maturity.

New South Wales Treasury Corporation was appointed to manage its debt portfolio and to provide professional treasury management advice. The Crown Entity is involved in derivative financial instruments.

The Crown Entity has entered into interest rate future contracts at a face value of \$278.6 million to hedge against unfavourable interest rate movements and to maintain the portfolio duration within the agreed time band. The contracts had maturity dates to December 2004.

The Crown Entity assumed three interest rate swaps as part of the FreightCorp sale. The contracts are used to manage exposures to interest rate risk by enabling a fixed rate obligation to be swapped into a floating rate obligation. The difference between the two rates, calculated by the notional principal of \$102 million for the three contracts, is exchanged between the Crown Entity and the counterparty. The Crown Entity receives monthly floating interest amounts and pays semi-annually the fixed interest amounts. The swaps have maturity dates to May 2006.

As part of the investment strategy the Crown Entity has entered into forward contracts to purchase bonds. The settlement date of the contracts is in July 2004. The face value of the eight contracts is \$393 million. The Crown Entity has invested in two foreign current bonds. The face value of the bonds is Euro 106.2 million. The policy is that the bonds are fully hedges for both principal and coupon payments.

Realised gains/losses on the contracts have been included in the Crown Entity financial statements.

**Net Exposure**

The market value of the Crown Entity's derivative financial instruments outstanding at year-end:

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>Derivative Financial Instruments Receivable</b>		
Floating Interest Rate Swap	102,002	102,003
Futures Marked to Market	60	6,500
	<b>102,062</b>	<b>108,503</b>
<b>Derivative Financial Instruments Payable</b>		
Fixed Interest Rate Swap	108,985	114,444
Forward Contracts	230	
Futures Marked to Market	-	-
Options Marked to Market	-	239
	<b>109,215</b>	<b>114,683</b>
Net Amount Receivable/(Payable) under Derivative Financial Instruments	<b>( 7,153)</b>	<b>( 6,180)</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

**(b) Interest Rate Risk**

Interest rate risk is due to changes in market interest rate fluctuations of the financial instrument. The Crown Entity's exposure to interest rate risks and effective interest rates of financial assets and liabilities, recognised and unrecognised at the (aggregated) Statement of Financial Position date are:

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount as per Statement of Financial Position	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
	2004 \$000	2004 \$000	2004 \$000	2004 \$000	2004 \$000	2004 \$000	2004 %
<b>(i) Financial Assets</b>							
Cash	381,748	-	-	-	-	381,748	4.99
Investments							
- Hour Glass Facility	1,856,146	-	-	-	-	1,856,146	5.25
- Bond Portfolio	-	162,376	1,729,260	625,987	-	2,517,623	5.68
- Others	6,873	851,358	296,733	2,924,740	867	4,080,571	7.05
Advances Repayable to the Crown							
- Commonwealth Specific Purpose Advances	-	36,710	155,654	1,168,702	-	1,361,066	4.66
- Others	-	79,810	104,037	56,820	36,960	277,627	3.37
- Administered Borrowings	-	7,896	17,176	2,653	-	27,725	6.35
Receivables	-	-	-	-	1,559,391	1,559,391	-
<b>Total Financial Assets</b>	<b>2,244,767</b>	<b>1,138,150</b>	<b>2,302,860</b>	<b>4,778,902</b>	<b>1,597,218</b>	<b>12,061,897</b>	
<b>(ii) Financial Liabilities</b>							
Payables	-	-	-	-	538,533	538,533	-
Bank Overdrafts (1)	2,194,128	-	-	-	-	2,194,128	Note (1)
Interest Bearing Borrowings							
- Finance Leases	-	286,153	183,555	6,287	-	475,995	7.78
- TCorp Borrowings	-	1,022,852	2,653,332	3,817,436	-	7,493,620	6.34
- Commonwealth General Purpose Borrowings	-	20	89,795	8,153	-	97,968	5.97
- Commonwealth Specific Purpose Borrowings	-	44,278	138,730	1,391,261	-	1,574,269	4.56
- Own Name Borrowings	-	-	-	800	-	800	6.82
- Administered Borrowings	-	7,896	17,176	2,653	-	27,725	5.10
Non-Interest Bearing Borrowings							
- TCorp Borrowings	-	52,549	234,885	83,695	-	371,129	-
Other Liabilities	-	-	-	-	55,674	55,674	
<b>Total Financial Liabilities</b>	<b>2,194,128</b>	<b>1,413,748</b>	<b>3,317,473</b>	<b>5,310,285</b>	<b>594,207</b>	<b>12,829,841</b>	
<b>(iii) Off Balance Sheet Financial Instruments</b>							
Derivatives Receivable	102,002		-		60		
Derivatives Payable	-		( 109,215)		-		
<b>Net Derivatives Financial Instrument</b>	<b>102,002</b>	<b>-</b>	<b>( 109,215)</b>	<b>-</b>	<b>60</b>		
<p>Note (1) The bank overdraft is for the Crown Entity. The Crown Entity is part of the Treasury Banking System, TBS, and the amount of the overdraft is set off against the credit balances of individual agencies within the TBS. The overdraft is considered to be insulated from interest rate risk as the TBS has a net surplus position. The net TBS surplus, if applicable, is invested in the short term money market to maximise the investment return. If a net overdraft position occurs, short term funds are borrowed from Treasury Corporation's come and go overdraft facility.</p>							

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount as per Statement of Financial Position	Weighted average effective interest rate
		1 year or less	1 to 5 years	More than 5 years			
	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 %
<b>(i) Financial Assets</b>							
Cash	1,987,516					1,987,516	4.75
Investments							
- Hour Glass Facility	1,711,827					1,711,827	6.59
- Bond Portfolio	-	217,027	833,322	897,584	-	1,947,933	5.44
- Others	2,418,507			552,325	1,030	2,971,862	6.70
Advances Repayable to the Crown							
- Commonwealth Specific Purpose Advances		35,742	152,008	1,209,058		1,396,808	4.65
- Others		30,136	113,403	49,372	25,993	218,904	5.14
- Administered Borrowings		24,859	21,682	5,321		51,862	5.13
Receivables	-				1,291,023	1,291,023	-
<b>Total Financial Assets</b>	<b>6,117,850</b>	<b>307,764</b>	<b>1,120,415</b>	<b>2,713,660</b>	<b>1,318,046</b>	<b>11,577,735</b>	
<b>(ii) Financial Liabilities</b>							
Payables	-	-	-	-	673,404	673,404	-
Bank Overdrafts (1)	3,430,965	-	-	-	-	3,430,965	Note(1)
Interest Bearing Borrowings							
- Finance Leases	-	347,452	321,603	10,556	-	679,611	17.45
- TCorp Borrowings	-	1,979,856	2,659,920	3,163,956	-	7,803,732	6.58
- Commonwealth General Purpose Borrowings	-	60,881	90,035	8,153	-	159,069	5.71
- Commonwealth Specific Purpose Borrowings	-	42,676	178,647	1,395,622	-	1,616,945	4.56
- Own Name Borrowings	-	-	-	800	-	800	6.82
- Administered Borrowings	-	24,859	21,682	5,321	-	51,862	5.02
Non-Interest Bearing Borrowings							
- TCorp Borrowings	-	57,559	213,439	76,260	-	347,258	-
Other Liabilities	-	-	-	-	189,637	189,637	-
<b>Total Financial Liabilities</b>	<b>3,430,965</b>	<b>2,513,283</b>	<b>3,485,326</b>	<b>4,660,668</b>	<b>863,041</b>	<b>14,953,283</b>	
<b>(iii) Off Balance Sheet Financial Instruments</b>							
Derivatives Receivable	102,030		-		6,500		
Derivatives Payable	-		114,444		239		
<b>Net Derivatives Financial Instrument</b>	<b>102,030</b>	<b>-</b>	<b>( 114,444)</b>	<b>-</b>	<b>6,261</b>		

Note (1) The bank overdraft is for the Crown Entity. The Crown Entity is part of the Treasury Banking System, TBS, and the amount of the overdraft is set off against the credit balances of individual agencies within the TBS. The overdraft is considered to be insulated from interest rate risk as the TBS has a net surplus position. The net TBS surplus, if applicable, is invested in the short term money market to maximise the investment return. If a net overdraft position occurs, short term funds are borrowed from Treasury Corporation's come and go overdraft facility.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

**(c) Credit Risk**

Credit risk is the financial loss arising from another party to a contract/financial position failing to discharge a financial obligation. The Crown Entity's maximum exposure to credit risk is the carrying amount of the financial assets in the consolidated Statement of Financial Position. For futures and options hedging interest rate exposure, which are off balance sheet financial instruments, the credit risk is the fair value of the contracts as disclosed in Note 14(d).

Despite the size of the credit risk exposure, the actual risk of financial loss is minimal as the majority of debtors are public sector entities.

**(d) Net Fair Value**

As in Note 1, all financial instruments are carried at cost,

unless otherwise stated. The net fair value of cash and cash equivalents and non-interest bearing financial assets and liabilities of the Crown Entity approximates their carrying value.

The net fair value of other financial assets and liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The net fair value of the interest rate swaps contracts and interest rate futures contract quoted by New South Wales Treasury Corporation to realise or settle the contracts, were determined at 30 June 2004.

The aggregate net fair values of financial assets and liabilities (recognised and unrecognised), carried at the balance date on a basis other than net fair value are:

	<b>Total Amount as per Statement of Financial Position 2004 \$000</b>	<b>Aggregate Net Fair Value 2004 \$000</b>
<b>Financial Assets</b>		
<b>Investments</b>		
-TCorp Hour Glass	1,856,146	1,856,146
-Bond Portfolio	2,517,623	2,517,623
-Others	4,080,571	4,080,571
<b>Advances Repayable to the Crown</b>		
-Funded by Commonwealth Specific Purpose Loans	1,361,066	1,100,543
-Funded by Others	277,627	274,712
-Administered Borrowings	27,725	27,963
<b>Receivables</b>	1,559,391	1,559,391
<b>Total</b>	<b>11,680,149</b>	<b>11,416,949</b>
<b>Financial Liabilities - Unsecured</b>		
<b>Borrowings</b>		
-Finance Leases	475,995	475,995
-TCorp Borrowings	7,864,750	8,066,182
-Commonwealth General Purpose Borrowings	97,968	97,405
-Commonwealth Specific Purpose Borrowings	1,574,269	1,262,371
-Own Name Borrowings	800	853
-Administered Borrowings	27,725	27,937
<b>Future Marked to Market</b>	-	( 60)
<b>Interest Rate Swap</b>	-	6,984
<b>Forward Contracts</b>	-	230
<b>Total</b>	<b>10,041,507</b>	<b>9,937,897</b>

Several financial assets and liabilities are recorded at a carrying value different to their net fair value. It is inappropriate to change their value as these assets and liabilities are loans that are intended to be held to maturity.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	2004 \$000	2003 \$000
<b>15. UNFUNDED SUPERANNUATION LIABILITY</b>		
<b>Current:</b>	32,000	-
<b>Non-Current:</b>	15,208,090	14,427,600
	<b>15,240,090</b>	<b>14,427,600</b>

<b>Movement in Provision:</b>	<b>Unfunded Superannuation \$000</b>
	14,427,600
Less: Employer Contributions	70,000
Plus: Increase in Liability during the year	882,490
Balance 30 June 2004	<b>15,240,090</b>

The Crown Entity's total unfunded superannuation liability is made up of the assets and liabilities of the following schemes:

- 1) State Authorities Non Contributory Superannuation Scheme;
- 2) Police Superannuation Scheme;
- 3) State Authorities Superannuation Scheme;
- 4) State Superannuation Scheme;
- 5) Judges' Pension Scheme; and
- 6) Parliamentary Contributory Superannuation Scheme.

The SAS Trustee Corporation's actuary Mercer Human Resource Consulting, calculated the unfunded liabilities of State Public Sector superannuation schemes for the year ended 30 June 2004.

Unfunded superannuation liabilities increased by \$812 million during 2003-04. This result does not take into account funds held in the non-superannuation investment fund called the General Government Liability Management Fund (GGLMF). The increase is the net effect of an increase in accrued employer liabilities of \$1,438 million and an increase in employer assets of \$626 million.

The increase in accrued liabilities is largely explained by the additional year of service being provided by current Pooled Fund scheme contributors.

The increase in reserves is mainly due to:

- a) positive 13.5 percent investment return on Pooled Fund assets during 2003-04; and
- b) no Crown superannuation employer contributions into the Pooled Fund during 2003-04.

Future Crown employer contributions will continue to be made into the GGLMF, rather than into the Pooled Fund.

The actuarial calculation of unfunded superannuation liabilities as at 30 June 2004 is based on:

- a) superannuation scheme membership data as at 31 March 2004;
- b) demographic assumptions as per the 2003 Triennial Valuation of the Pooled Fund Superannuation Schemes; and
- c) the following assumptions:

	<b>2004-05 and thereafter</b>
Investment return	7.00%
Salary growth rate	4.00%
CPI growth rate	2.50%
Liability discount rate	7.30%

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

The schemes' estimated net unfunded superannuation liabilities are the member and employer gross liabilities and the market value of assets (about 64 percent shares, 13 percent property and 23 percent fixed interest and cash) held by the SAS Trustee Corporation to meet the accrued liabilities, as follows:

	<b>Gross Liabilities 2004 \$000</b>	<b>Total Assets 2004 \$000</b>	<b>Net Unfunded Liabilities 2004 \$000</b>
State Authorities Superannuation Scheme	6,425,472	2,966,700	3,458,772
State Authorities Non Contributory Superannuation Scheme	1,538,300	28,400	1,509,900
State Superannuation Scheme	17,736,198	11,485,900	6,250,298
Police Superannuation Scheme	4,645,600	1,043,000	3,602,600
Judges' Pension Scheme	325,620	-	325,620
Parliamentary Contributory Superannuation Scheme	280,700	187,800	92,900
	<b>30,951,890</b>	<b>15,711,800</b>	<b>15,240,090</b>

	<b>Gross Liabilities 2003 \$000</b>	<b>Total Assets 2003 \$000</b>	<b>Net Unfunded Liabilities 2003 \$000</b>
State Authorities Superannuation Scheme	5,775,600	3,037,100	2,738,500
State Authorities Non Contributory Superannuation Scheme	1,406,900	147,100	1,259,800
State Superannuation Scheme	17,466,600	10,639,100	6,827,500
Police Superannuation Scheme	4,318,100	1,067,100	3,251,000
Judges' Pension Scheme	266,000	-	266,000
Parliamentary Contributory Superannuation Scheme	280,200	195,400	84,800
	<b>29,513,400</b>	<b>15,085,800</b>	<b>14,427,600</b>



**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>16. OTHER EMPLOYEE BENEFITS</b>		
<b>Current:</b>		
<b>Employee Benefits comprise:</b>		
Budget Dependent Long Service Leave and Other Leave Benefits	244,672	231,611
Non-budget Dependent Long Service Leave Pool	9,525	7,657
	<b>254,197</b>	<b>239,268</b>
<b>Non-Current:</b>		
Budget Dependent Long Service Leave and Other Leave Benefits	2,309,111	2,084,663
Non-budget Dependent Long Service Leave Pool	75,602	78,204
	<b>2,384,713</b>	<b>2,162,867</b>
<b>Total Other Employee Benefits</b>	<b>2,638,910</b>	<b>2,402,135</b>
<b>Movement in Major Provisions:</b>		
	<b>Budget Dependent Long Service Leave \$000</b>	<b>Non-Budget Dependent Long Service Leave \$000</b>
Balance 1 July 2003	2,316,274	85,861
Add: Increase in liability during the year	480,254	12,288
Less: Payments	( 242,745)	( 13,022)
<b>Balance 30 June 2004</b>	<b>2,553,783</b>	<b>85,127</b>

**17. PROVISION FOR OUTSTANDING INSURANCE CLAIMS**

The liability for outstanding insurance claims for the Insurance Ministerial Corporation (IMC), is determined by independent actuaries (PricewaterhouseCoopers and Robert Buchanan Consulting) for the NSW Treasury Managed Fund (TMF), Transport Accident Compensation Fund and the Governmental Workers Compensation Account.

Prudential margins are added, where necessary, to the central estimate of the claims liability to increase the probability that the claims provision is adequate. The Manager of the New South Wales Insurance Ministerial Corporation, GIO General Ltd, say the resulting provisions are adequate to cover claims for losses occurred, including future developments on known and unreported claims.

The outstanding claims liability of Pre Managed Fund Reserve (now part of TMF) are from departmental estimates vetted by the TMF Manager.

Movement in outstanding claims is mainly due to:

- (i) Provision – HIH building warranty claims,
- (ii) Public Liability – reduction in discount rates and increase in case estimates for Health large claims,
- (iii) Property – more outstanding large claims in the primary pool, off-set by better claims experience from Health and Education; and
- (iv) Workers Compensation – decline in discount rates and increase in wage inflation assumption.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>Treasury Managed Fund \$000</b>	<b>Government Workers Compensation \$000</b>	<b>TAC Fund \$000</b>	<b>HHH Building Warranty \$000</b>	<b>Total \$000</b>
Expected future claims					
Payments (undiscounted)	6,718,838	145,514	565,301	123,714	7,553,367
Discount to Present Value	(2,571,605)	(67,976)	(348,427)	(18,160)	(3,006,168)
Liability for Outstanding Claims	4,147,233	77,538	216,874	105,554	4,547,199
Current -2003	638,076	9,075	21,973	17,900	687,024
Non Current -2003	3,071,862	69,547	187,505	49,536	3,378,450
	3,709,938	78,622	209,478	67,436	4,065,474
Movements for 2003-04					
Add: Claims Expense	1,068,531	2,154	23,594	66,176	1,160,455
Less: Payments	(631,236)	(3,238)	(16,198)	(28,058)	(678,730)
Current - 2004	667,513	7,685	28,357	25,861	729,416
Non Current -2004	3,479,720	69,853	188,517	79,693	3,817,783
	4,147,233	77,538	216,874	105,554	4,547,199

- (a) The TMF weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 5.7 years (2003 4.9 years).
- (b) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the TMF liability for outstanding claims;

	<b>2004 %</b>	<b>2003 %</b>
<b>Claims Expected to be Paid</b>		
<b>Not later than one year:</b>		
Inflation rate	3.25	3.25
Discount rate	6.60	6.10
<b>Later than one year:</b>		
Inflation rate	3.25	3.25
Discount rate	6.60-7.10	6.00-6.70

Prudential margins added in 2004 and 2003 to the central estimate of the claim liability and the probability of adequacy are:

	<b>Prudential Margin %</b>	<b>Probability of Adequacy %</b>
NSW Treasury Managed Fund (Workers Compensation and Liability for 2004))	7.5	67
Transport Accident Compensation Fund	7.5	60
Government Workers Compensation Fund	5.0	60

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>Accumulated Deficit \$000</b>	<b>Asset Revaluation \$000</b>	<b>Total Equity \$000</b>
<b>18. CHANGES IN EQUITY</b>			
Balance at 1 July 2003	( 17,979,605)	707,187	( 17,272,418)
<b>Changes in equity - transactions with owners as owners</b>			
Asset Revaluation Reserve Transfer In	18	-	18
Cash Transfer In - Admin Restructure	( 4,420)	-	( 4,420)
Employee Entitlement Liability - Admin Restructure	( 241,000)	-	( 241,000)
Capital Restructure	137,000	-	137,000
<b>Total</b>	<b>( 108,402)</b>	<b>-</b>	<b>( 108,402)</b>
<b>Changes in equity - other than transactions with owners as owners</b>			
Surplus/(Deficit) for the year	756,953	-	756,953
Increase in Asset Revaluation Reserve		163,310	163,310
Transfer of realised Revaluation Reserve to accumulated funds on disposal of asset		( 18)	( 18)
<b>Total</b>	<b>756,953</b>	<b>163,292</b>	<b>920,245</b>
Balance at 30 June 2004	<b>( 17,331,054)</b>	<b>870,479</b>	<b>( 16,460,575)</b>

**19. INDIVIDUALLY SIGNIFICANT ITEMS**

During 2003-04 there were four individually significant items. These were:

- 1) Superannuation expense was \$1,417 million (\$3,177 million in 2002-03) due to an increase in accrued employer liabilities of \$1,438 million offset by an increase in employer assets of \$626 million (refer to Note: 15).
- 2) The Crown Finance Entity made a grant of \$1,124 million to the Liability Management Ministerial Corporation (LMMC), (\$1,629 million in 2002-03). The LMMC must, by law, ultimately apply this money to reducing the Crown Entity's Superannuation liability as long as one exists. At 30 June 2004 these funds were invested as per recommendations by the LMMC Investment Committee.
- 3) As a result of the higher than expected 2002-03 budget surplus the Government created the Health Super-Growth Fund. \$420 million was invested in bonds with all monies and investment proceeds to be used for the purpose of funding health capital works and services. In 2003-04 fund receipts were \$13.1 million of which \$12.8 million was paid out.
- 4) A prudential margin of 7.5% (67% probability of adequacy) has been added to the Treasury Managed Fund central estimate of the outstanding claims liability for Liability in 2004. This change has been introduced to recognise the expected volatility of future Liability payments and achieve consistency with the prudential margin that is added to Workers Compensation. The change increases the outstanding claims liability and claims expense by \$139 million.

In addition, during 2002-03 there were the following individually significant items:

- Additional funding of the Treasury Managed Fund to the extent of \$824 million (\$800 million in 2001-02) allowed the full funding of all the Treasury Managed Fund's outstanding claims.
- Following a reassessment of the methodology used to value long service leave liabilities, in accordance with Australian Accounting Standards, a change was made to the method used. This resulted in an increase in the opening balance of the liability of \$278 million and an increase in the expense for 2002-03 of \$26 million.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

- The Department of Commerce's Office of Government Procurement manages the government's motor vehicle fleet on behalf of budget dependent agencies. The vehicles have been funded through a series of leasing arrangements that have historically been recorded as operating leases.

In 2003, Treasury sought additional advice as to the lease's appropriate accounting treatment, in particular, whether they are operating or a finance lease. The advice concluded that the motor vehicles be recorded on the balance sheet of the Crown as finance leases. This treatment reflects the overall substance of the arrangement whereby the Crown ultimately bears the risk of ownership of the motor vehicles throughout their useful life.

The change in accounting treatment has resulted in an initial 1 July 2002 increase in leased assets and finance lease liabilities of \$550 million, an increase in other assets of \$44 million, and a revenue of \$44 million in 2002-03.

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>20. COMMITMENTS FOR EXPENDITURE</b>		
<b>(a) Capital Commitments:</b>		
-not later than one year	12,619	29,772
-later than one year but not later than five years	2,266	7,842
-later than five years	-	-
	<b>14,885</b>	<b>37,614</b>
<b>(b) Operating Lease Commitments:</b>		
-not later than one year	106,748	105,133
-later than one year but not later than five years	270,996	269,416
-later than five years	195,263	227,525
	<b>573,007</b>	<b>602,074</b>
<b>(c) Finance Lease Commitments</b>		
Finance Lease Commitments (exclusive of GST) and Reconciliation to Carrying Amount of Lease Liabilities:		
-not later than one year	300,418	368,352
-later than one year but not later than two years	198,440	248,752
-later than two years but not later than five years	26,728	135,591
-later than five years	15,575	10,556
Minimum Lease Repayments	<b>541,161</b>	<b>763,251</b>
Less: Future Finance Charges	65,166	83,640
Lease Liability	<b>475,995</b>	<b>679,611</b>
<b>Classified as:</b>		
Current	286,153	347,452
Non- Current	189,842	332,159
	<b>475,995</b>	<b>679,611</b>

Note: Commitments as at 30 June 2004 are inclusive of GST. Recoverable input tax credits for Contingent Assets were \$57.9 m for 2004 (GST included) and \$57.9m for 2003.

The Crown Entity, as the reporting entity for Snowy Hydro Limited (SHL), is required to report the New South Wales share of SHL commitments. The NSW share for Capital Expenditure commitments are \$41.1 million (2002-03 \$4.3 million), Lease commitments of \$28.1 million (2002-03 \$28.0 million) and Other commitments of \$0.3 million (2002-03 \$3.2 million).

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

## **21. CONTINGENT LIABILITIES**

### **• Snowy Hydro Limited**

On 28 June 2002 the Commonwealth's Snowy Mountain Hydro-electric Authority and the electricity trading company, Snowy Hydro Trading Pty Ltd were formed into a new public company, Snowy Hydro Limited, owned by NSW, Victoria, and the Commonwealth. NSW owns 58% of the share in the company. The Treasurer of NSW entered into the following guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme.

It is not possible to estimate the amount of exposure at this time for the following five situations.

If under the Environment Protection & Assessment Act or Water Management Act, the SHL is required to modify its structures or lower dam levels to reduce

entitled to receive. The deed concludes when the 75 year Snowy Water licence, its termination, or if NSW sells its shares.

An Indemnity has been provided to each of the 5 initial directors of SHL against the cost of claims arising as the result of liabilities transferred from the operation of the former Snowy Mountains Hydro-electric Authority and, for implementing the corporatisation agreements. The duration of the risk relates to any claim lodged within 5 years of the corporatisation date. Currently, there are no known claims. Directors are required to maintain insurance cover against the risk and there is a back-to-back indemnity from SHL to indemnify the governments for the cost of claims incurred, up to the amount that can lawfully be paid.

In the event that the Snowy Water Licence is changed in a manner that causes adverse financial impact for SHL, compensation for the amount of the impact will be paid to the company. NSW may be able to recover 42% of the compensation due if Victoria and the Commonwealth agree to the water licence changes. No major amendments to the Snowy Licence are currently proposed. The Snowy Water Licence expires in 75 years or when terminated.

If the Water Ministerial Corporation gives an instruction to Snowy Hydro Limited that results in spills or releases from Jindabyne Dam that cause downstream damage to persons or property; SHL will be compensated by the Crown Entity for the proportion of claims incurred by the company. NSW will incur 58% of the cost of the claims against the company, if the Commonwealth and Victoria previously agreed with the instruction issued. No claims exist currently. However, the risk of exposure should be very low for several years while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts while the Snowy Water Licence is terminated or expires in 75 years.

the impact of cold-water releases from the scheme then, for up to 7 years from the corporatisation date, NSW will provide 58% of the amount necessary to maintain financial covenants and credit rating.

The likelihood of such an event occurring will be significantly reduced if the proposed cold-water strategy is implemented by NSW. The strategy sets out that Snowy Hydro will not be required to undertake any modifications to dams or dam levels to mitigate the impact of cold water pollution until the seven year shareholder indemnity expires.

NSW is entitled to receive 58% of the income tax paid by Snowy Hydro Limited under a tax sharing agreement with the Commonwealth Government. If accumulated dividend imputation credits within the company have not been fully distributed to a shareholder government prior to the sale of more than 5% of its shares, the government selling their shares must repay the Commonwealth the value of the undistributed dividend imputation credits it was

### **• Guarantees**

Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of \$27.6 billion (2003 \$27.3 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.

### **• Commonwealth Native Title Act**

Under the provisions of the Commonwealth Native Title Act, claims may be lodged for land currently held as inventories. However, inventories are not offered for sale until such time as Native Title interests are extinguished through compulsory acquisitions or the granting of a non-claimant application by the Native Title Tribunal. The nature and value of possible claims under the provisions of the Native Title Act are complex and are not directly related to the inventory value disclosed in the Financial Statements.

Any future compensation claim which might arise under the Commonwealth Native Title legislation in regard to land disposals is accepted by the Crown rather than the purchaser. Therefore, there is no impact on the value of inventories disclosed in the financial statements. During the year no compensation was paid under the Act (Nil – 2002/2003).

### **• Structured Finance Activities**

Through the Structured Finance Activities (SFA) Special Deposits Account, the State entered into several finance leases for rail stock and electricity assets. There are two contingent liabilities for the SFA:

- a) The Crown Entity indemnity provided for each transaction. The exposure relates to the change of law and administration risk to the covenants given under the lease; and

# CROWN ENTITY

## NOTES TO AND FORMING PART OF THE 2003-04 FINANCIAL STATEMENTS

- b) The Crown Entity has a third party risk in terms of monies being placed on deposit with a counterparty. The counterparty contingent liability is estimated at \$649 million (2003 \$648 million). The amount of the counterparty contingent liability reflects the term nature of the deposits and the valuation of the Australian dollar against the US dollar. NSW Treasury Corporation regularly monitors this risk.

During 2003-2004 there have been no changes in the credit standings, which range from BBB+ to AAA, of the deposit counterparties.

### • State Bank (Privatisation) Act 1994

Pursuant to the State Bank (Privatisation) Act 1994, the State guaranteed all existing and future liabilities of the Bank until 31 December 1997. Thereafter while existing liabilities continue to be guaranteed until maturity, any new liabilities incurred after that date will not be guaranteed by the State. As at 30 June 2004 the total guaranteed liabilities of the Bank amounted to \$500 million (2003 \$1.2 billion).

Additionally, the State provided indemnities in respect of any losses incurred by the Bank as a result of matters existing in the books of the Bank as at 31 December 1994. These are estimated at \$11 million (2003 \$14 million).

### • Government Insurance Act 1927

Under the Government Insurance Act 1927, the State guarantees the liabilities of the GIO in respect of general, life and reinsurance policies issued by it up until 15 July 1992. Actuarial assessment of these liabilities:

	31 Dec 2003	31 Dec 2002
	\$m	\$m
General insurance	225	216
Life insurance	176	209
Inward reinsurance	117	135
	<u>518</u>	<u>560</u>

The guarantee on these policies continues under the terms of the State Government Deed issued for the privatisation of the GIO.

Pursuant to clause 9 of the Deed, AMP merged all capital guaranteed policyholders into the AMP Statutory Fund No1, including capital guaranteed "S" units in savings bonds. Thus the capital guarantee that could have arisen in respect of an option to convert "S" investment-linked units is no longer offered for new policies.

Consequently, the Government guarantee which covered certain unit-linked life insurance policies with investment units convertible to capital guarantee status, will no longer give rise to a policy liability. The maximum potential liability is estimated to be NIL (31 December 2002 \$912 million).

### • TAB

The NSW Government indemnified TAB Ltd against decreases in revenue resulting from reductions in the monitoring fee determined by the Minister for Gaming and Racing. This fee is payable to TAB Ltd by hoteliers and registered clubs for gaming devices connected to the Centralised Monitoring System (CMS)).

The NSW Government also indemnified TAB Ltd against loss during the term of the CMS licence resulting from a redetermination of the monitoring fee. However this excludes redeterminations made in accordance with the methodology and assumptions to derive the rate of return used by the Independent Pricing and Regulatory Tribunal in recommending the monitoring fee to the Minister.

In July 2004, TAB Ltd made a claim of up to \$3.03 million per month following the recent redetermination of the monitoring fee. The NSW Government is disputing this claim.

The NSW Government will also indemnify TAB Ltd against additional costs incurred to comply with amendments to TAB Ltd's CMS licence, but only to the extent that TAB Ltd is not adequately compensated for the additional costs by any increase in the monitoring fee.

### • NSW Treasury Corporation

The NSW Treasury Corporation has issued unconditional payments on behalf of some NSW Government authorities in the national wholesale electricity market to pay to the system administrators any amount up to an aggregate maximum agreed with individual participants.

The Corporation has also issued, on behalf of other NSW Government authorities, for the authorities' performance under contracts with third parties.

Amounts paid under these are recoverable from the NSW Government authority participants. This financial accommodation is Government guaranteed.

At year end the agreed aggregate amounts totalled \$539 million (2003 \$629 million).

### • Sale of Pacific Power International

As a condition of the sale of Pacific Power International the State has an obligation to compensate the trustee of the electricity industry superannuation fund if certain conditions exist at a certain time. The time will be the earlier of:

- Connell Wagner (the purchaser) ceasing to be an employer in the fund; or
- the last benefit is paid; or
- the relevant assets are exhausted

The conditions that must exist are that:

- there is actually a shortfall of assets; and
- the investment return has been less than assumed (7%pa)

# CROWN ENTITY

## NOTES TO AND FORMING PART OF THE 2003-04 FINANCIAL STATEMENTS

The amount of the contribution to be paid if these conditions are met at this time is the lessor of:

- the actual shortfall of the assets; and
- the shortfall in the assets due to lower than assumed investment return.

Based on currently forecast investment returns, the expected liability is zero.

### • **NSW Grains Board**

As a result of the failure of the NSW Grains Board, TCorp lent \$11.291 million to the NSW Grains Corporation so that farmers could be paid for grain they had already delivered. This loan was guaranteed by the State and was to be repaid from a levy on all grain sales over the vesting period.

Due to the extended drought condition it is doubtful that the full amount of the loan will be able to be repaid from the levy. The balance outstanding at 30 June 2004 was \$5.7 million. The expected shortfall on maturity of the loan on 30 September 2005 is \$4.8 million.

### • **Pacific Power – Power Stations**

Pacific Power, through its subsidiary Pacific Power (Subsidiary No.1) Pty Ltd was part of a consortium to construct the Tarong North and Callide C power stations. The engineering procurement and construction contracts required the parent company of each consortium member to provide a guarantee. When Pacific Power was dissolved, the Treasurer issued a guarantee to replace the previous guarantee issued by Pacific Power, and some other Pacific Power guarantees were transferred to the Treasurer. Although these guarantees are enforceable under a range of conditions, they mainly cover the failure of the consortium to meet its obligations under the engineering procurement and construction contracts.

### • **Contracts with Private Sector Parties**

To enable major projects to be undertaken the state has guaranteed the performance of the obligations of various statutory authorities under contracts with private sector parties. The current guarantees outstanding are for the following projects:

- Sydney Harbour Tunnel
- Macarthur Water Filtration Plant
- M2 Motorway
- Olympic Multi-Use Arena
- Olympic Stadium
- Eastern Distributor
- Illawarra and Woronora Water Treatment Plants
- Prospect Water Filtration Plant and Treatment Works
- Cross City Tunnel
- Western Sydney Orbital
- Eastern Creek Waste Treatment Plant
- VISY Mill: Tumut Timber Supply Agreement
- Lane Cove Tunnel.

These guarantees are considered unlikely to ever be exercised.

### • **Superannuation Guarantee Contributions**

An audit of Superannuation Guarantee Contributions (SGC) at the NSW Attorney General's Department by the ATO has deemed arbitrators to be employee for SGC purposes. Information provided by the ATO indicates a potential liability of \$865,235 plus interest. SGC payments are responsibility of the Crown Entity.

### • **British American Tobacco (BAT) Case**

British American Tobacco is currently suing the NSW Government for repayment of tobacco franchise fees. These fees were declared unconstitutional by the High Court in 1997. For NSW to be financially disadvantaged BAT would have to overcome NSW legislation preventing repayment in such cases and Commonwealth windfall gains tax legislation enacted in 1997.

### • **Floating Interest Rate Exposure on Motor Vehicle Financing Arrangements**

The State's motor vehicles are financed under three external leasing arrangements (Tranches 1-3) and one internal leasing arrangement (Tranche 4) managed by StateFleet and funded by TCorp. Two of the external leasing arrangements, Tranches 1 and 2, have expired with no new leases entered into after June 2003. Agencies involved in Tranches 1 and 2 are now obtaining their motor vehicles under Tranche 4.

All four Tranches are funded on a floating rate basis. Effectively there is a having a floating rate principal exposure of \$600 million as at 30 June 2004 (2003 \$584 million).

## 22. CONTINGENT ASSETS

### • **HIH Collapse**

As a result of the HIH collapse the Crown Entity assumed liabilities of approximately \$650 million for building warranty and third party motor insurance.

The liquidators have stated that "it would be reasonable to expect a return of between 10c and 20c in the dollar, spread over seven to ten years." The first interim dividend is not expected until 2005.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>23. CASH AND CASH EQUIVALENTS</b>		
Cash on Hand and at Bank	381,748	1,987,920
Bank Overdraft	( 2,194,128)	( 3,430,965)
	<b>( 1,812,380)</b>	<b>( 1,443,045)</b>

During the financial year the Governor approved a Crown Entity financial accommodation from Treasury Corporation, totalling \$1,500 million (2002-03 \$1,500 million) under the provisions of the *Public Authorities (Financial Arrangements) Act 1987*. The financing facility provided for short term cash requirements caused by seasonal fluctuations in Government receipts.

Of the cash on hand and at Bank, \$97,023,000 is considered restricted cash assets (2002-03 \$1,728,150,000). It is the amount cash held in Special Deposit Accounts and can only be used in accordance with the legislation that established the Special Deposit Account. Details of the Special Deposit Accounts are included in Note 26.

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank, bank overdraft and short terms money market investment. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
Cash on Hand and at Bank	381,748	1,987,516
Bank Overdraft	( 2,194,128)	( 3,430,965)
Short Term Money Market Investments	731,931	2,414,791
	<b>( 1,080,449)</b>	<b>971,342</b>

**24. CASH FLOW INFORMATION**

**(a) Reconciliation of Cash Flows from Operating Activities to the Operating Result**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>Surplus (Deficit) for the Year</b>	756,954	( 1,657,505)
<b>Non Cash Items Added Back</b>		
Share of Equity in Associated Company	( 10,941)	( 81,025)
Writeoff of land	-	4,600
Provision for Land Remediation and Other Costs	-	103,987
Unrealised (gains)/loss on investments	( 129,288)	
Provision for Depreciation	82,367	93,113
Non Cash Finance Costs	12,504	44,508
Loss/(Gain) on Asset Disposals	161,825	71,121
Other	( 36,425)	21,800
Equity Restructure	( 241,000)	
Cashflow from government	-	892
<b>Change in Operating Assets and Liabilities</b>		
Movement in Working Capital	233,415	256,839
Increase/(Decrease) in Other Liabilities	995,162	3,460,210
(Increase)/Decrease in Other Assets	( 129,276)	( 148,138)
<b>Net CashFlow from Operating Activities</b>	<b>1,695,297</b>	<b>2,170,402</b>



# CROWN ENTITY NOTES TO AND FORMING PART OF THE 2003-04 FINANCIAL STATEMENTS

## (b) Non-cash Financing and Investing Activities

During the financial year, Crown Finance Entity acquired motor vehicles with an aggregate fair value of \$96,076,000 (2002-03 \$344,600,000) by means of finance leases. The acquisitions are not reflected in the Statement of Cash Flows.

## 25. TRUST FUNDS

Trust monies are held on behalf of beneficiaries.

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>Funds held by the Crown Entity:</b>		
Olympic Coordination Authority Payables	2,660	5,176
Compensation Deposits re Land Acquisition Fund	150	150
Consumer Affairs Trust	112	112
BHP Land Remediation Trust	5,000	-
Other	142	142
	<b>8,064</b>	<b>5,580</b>

The *Trustee Act 1925* requires that trust funds be held separate from other operating funds of the agency. The Crown Entity does not keep a separate bank account for the trust funds due to the immateriality of the accounts involved.

## 26. SPECIAL DEPOSIT ACCOUNTS

The Crown Entity operates nine accounts within the Special Deposits Account. These accounts are:

### NSW Policyholders Protection Fund

This fund was established by the *Insurance Protection Act 2001* to hold taxes and other monies required to be paid into the Fund to meet claims under home building and third party motor accident insurance policies of declared insolvent insurers. Receipts during 2003-04 were \$100.6 million, of which \$68.5 million (2002-03 \$67.2 million) was collected under the *Insurance Protection Act 2001*.

### Non-Budget Long Service Leave Pool

This pool holds long service leave funds for certain agencies which have moved from being budget dependent to non-budget dependent.

### Structured Finance Activities

This account is used in the management of cross border leases and other structured finance activities arranged by the New South Wales Treasury Corporation.

### Confiscated Proceeds Account

This fund was established by the *Criminal Assets Recovery Act 1990* to hold monies recovered from criminals until these monies are used in accordance with the Act.

### Petroleum Products Subsidy Account

This fund makes payments under the Commonwealth's Petroleum Products Subsidy Scheme before Commonwealth reimbursement.

### Workers Compensation (Bushfire, Emergency and Rescue Services)

This account is for the Workers Compensation (Bushfire, Emergency - Rescue Services) special compensation scheme for bushfire fighters, emergency service workers and rescue association workers.

### Builders Warranty Insurance

This pool is used to manage re-insurance arrangements put in place by the Government to provide stability in the building warranty insurance market.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

**General Government Liability Management Fund**

To manage the General Government Sector's financial position and its net financial liabilities more flexibly by establishing a non-superannuation investment fund, into which employer superannuation contributions would temporarily be diverted.

**Health Super-Growth Fund**

This fund was established by the *Appropriation (Health Super-Growth Fund) Act 2003*, with all monies and investment proceeds used for the purpose of funding public health capital works and services.

Movements in these accounts are:

Accounts	NSW Policy Holders Protection Fund	Non Budget Long Service Leave Pool	Structured Finance Activities	Confiscated Proceeds Account	Petroleum Products Subsidy	Workers Compensation	Building Warranty Insurance	General Government Liability Management Fund	Health Super Growth Fund
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance 1.7.2002	7,373	30,543	268	9,709	50	4,173	-	-	-
Plus Receipts	154,000	8,610	129	17,479	259	4,762	14,404	1,651,372	-
Less Payments	( 154,197)	( 5,258)	( 182)	( 8,032)	( 259)	( 6,096)	( 957)	-	-
<b>Balance 30.6.2003</b>	<b>7,176</b>	<b>33,895</b>	<b>215</b>	<b>19,156</b>	<b>50</b>	<b>2,839</b>	<b>13,447</b>	<b>1,651,372</b>	<b>-</b>
Plus Receipts	100,639	9,050	328	11,142	194	4,588	5,171	1,235,619	433,122
Less Payments	( 88,007)	( 12,222)	( 243)	( 4,793)	( 194)	( 5,094)	( 314)	( 1,289)	( 12,764)
<b>Balance 30.6.2004</b>	<b>19,808</b>	<b>30,723</b>	<b>300</b>	<b>25,505</b>	<b>50</b>	<b>2,333</b>	<b>18,304</b>	<b>2,885,702</b>	<b>420,358</b>

The transactions for these accounts are recognised in the financial statements.

**27. INCENTIVE FROM LESSOR**

A lease incentive payment of \$68m was received from the Superannuation Administration Authority in January 1995 for a twelve year lease on the Governor Macquarie Tower. The lease incentive is progressively reduced over the term of the lease by the transfer to property rental revenue.

The liability is classified as:

	2004 \$000	2003 \$000
<b>Current:</b>	3,818	3,819
<b>Non -Current:</b>	13,805	18,070
	<b>17,623</b>	<b>21,889</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>28. OTHER LIABILITIES</b>		
<b>Current:</b>		
Unearned Revenue	3,337	10,360
Stamp Duty and Tax	50,924	19,246
Budget Balance Assistance Received in advance	247,926	-
Builders Warranty Claim Provision	18,302	13,447
Provision for Land Remediation	2,200	1,365
Rent Received in advance	3,349	7,317
Payable - Income Tax Equivalent Refund	54,746	8,013
Confiscated Drug Proceeds	25,505	19,156
Premium paid in advance	19,640	11,240
Special Deposit and Trust Accounts	5,397	8,420
Other	11,681	5,055
	<b>443,007</b>	<b>103,619</b>
<b>Non-Current:</b>		
Tax Equivalents	350,055	367,968
Provision for Land Remediation	101,628	102,463
Others	278	-
	<b>451,961</b>	<b>470,431</b>

**CROWN ENTITY  
NOTES TO AND FORMING PART OF THE  
2003-04 FINANCIAL STATEMENTS**

**29. SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES**

<b>RECURRENT APPROPRIATIONS</b>	<b>Appropriations 2004 \$000</b>	<b>Expenditure 2004 \$000</b>	<b>Appropriations 2003 \$000</b>	<b>Expenditure 2003 \$000</b>
<b>ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE</b>				
Appropriation Act	2,366,091	2,048,953	2,731,444	2,176,274
Budget Variation Acts (ie Additional Appropriation)	-	-	305,000	305,000
Section 22 - Expenditure for certain works and services	570,025	533,274	667,240	664,481
Section 26 - Increase in Commonwealth SPP	-	-	-	-
Treasurer's Advance	484	484	1,781	979
Section 26 - Supplementation with offsetting savings (section 26 of the Appropriation Act)	( 161,504)	-	( 431,533)	-
Section 16C - Insurance Protection Tax Act 2001	68,083	68,083	67,192	67,192
<b>Total Appropriations/Expenditure (includes transfer payments)</b>	<b>2,843,179</b>	<b>2,650,794</b>	<b>3,341,124</b>	<b>3,213,926</b>
<i>Drawdowns from Treasury</i>		2,667,842		3,227,586
<b>Total Unspent Appropriations</b>		<b>( 17,048)</b>		<b>( 13,660)</b>
<b>CAPITAL APPROPRIATIONS</b>				
Appropriation Act	1,188,492	1,064,529	1,503,828	1,503,828
Budget Variation Acts (ie Additional Appropriation)	420,000	420,000	120,000	120,000
Section 22 - Expenditure for certain works and services	213,000	213,000	766,000	762,896
Section 26 - Supplementation with offsetting savings	( 150)	-	-	-
<b>Total Appropriations/Expenditure (includes transfer of payments)</b>	<b>1,821,342</b>	<b>1,697,529</b>	<b>2,389,828</b>	<b>2,386,724</b>
<i>Drawdowns from Treasury</i>		1,697,529		2,386,724
<b>Total Unspent Appropriations</b>		<b>-</b>		<b>-</b>

**CROWN ENTITY  
NOTES TO AND FORMING PART OF THE  
2003-04 FINANCIAL STATEMENTS**

**30. CONSOLIDATED FUND TRANSACTIONS**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
<b>Cash Flows from Operating Activities</b>		
<b>Receipts</b>		
State Taxation, Fines and Regulatory Fees	15,402,318	14,710,872
Commonwealth Grants	15,338,620	15,158,839
Financial Distributions	1,048,255	1,313,454
Other Operating Revenue	783,470	535,508
<b>Total Receipts</b>	<b>32,572,663</b>	<b>31,718,673</b>
<b>Payments</b>		
Recurrent Appropriations paid to Other Agencies	( 27,183,244)	( 25,354,325)
Recurrent Appropriations paid to CFE	( 2,667,842)	( 3,227,586)
Capital Appropriations paid to Other Agencies	( 2,404,841)	( 2,383,110)
Capital Appropriations paid to CFE	( 1,697,529)	( 2,386,724)
<b>Total Payments</b>	<b>( 33,953,456)</b>	<b>( 33,351,745)</b>
<b>Net Cash Flow from Operating Activities</b>	<b>( 1,380,793)</b>	<b>( 1,633,072)</b>
<b>Cash Flow from Crown Finance Entity</b>		
Proceeds from Borrowing transferred from CFE	2,500	10,627
Investment Income transferred from CFE	-	15,912
Interest Receipts transferred from CFE	114,105	132,604
Advance Repayments transferred from CFE	98,864	127,396
Other Receipts transferred from CFE	43,110	42,901
	<b>258,579</b>	<b>329,440</b>
<b>Net Increase/(Decrease) in Cash</b>	<b>( 1,122,214)</b>	<b>( 1,303,632)</b>
<b>Opening Cash and Cash Equivalents</b>	<b>( 1,185,702)</b>	<b>( 462,070)</b>
Cash Transferred in as a result of Capital Restructuring	<b>137,000</b>	<b>580,000</b>
<b>Closing Cash Balances</b>	<b>( 2,170,916)</b>	<b>( 1,185,702)</b>
<b>Cash and Cash Equivalents</b>		
Investment in Short Term Money Market	6,873	2,232,884
Bank Overdraft	( 2,177,789)	( 3,418,586)
	<b>( 2,170,916)</b>	<b>( 1,185,702)</b>

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

**31.PROGRAM STATEMENT - EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2004**

	<b>Debt Servicing Costs \$000</b>	<b>Refunds and Remissions of Crown Revenue \$000</b>	<b>Other Service- wide Activities* \$000</b>	<b>Natural Disasters Relief \$000</b>	<b>Total Crown Finance Entity \$000</b>
<b>Expense</b>					
Superannuation	-	-	1,417,299	-	1,417,299
Long Service Leave	-	-	498,268	-	498,268
Depreciation/Amortisation	-	-	76,460	-	76,460
Grant and Subsidies	-	-	1,225,103	30,778	1,255,881
Borrowing Costs	621,868	-	125,162	-	747,030
Insurance Claims	-	-	28,635	-	28,635
Other	-	51,012	381,696	-	432,708
Recurrent Appropriations	-	-	-	-	-
Capital Appropriations	-	-	-	-	-
<b>Total Expenses</b>	<b>621,868</b>	<b>51,012</b>	<b>3,752,623</b>	<b>30,778</b>	<b>4,456,281</b>
<b>Revenue</b>					
State Taxation	-	-	-	-	-
Commonwealth Grants	-	-	-	-	-
Financial Distributions	-	-	-	-	-
Sales of Goods and Services	-	-	-	-	-
Investment Income	12	-	210,598	-	210,610
Other	436	-	202,764	-	203,200
Revenue from Government	( 2,500)	-	( 273,127)	-	( 275,627)
<b>Total Revenue</b>	<b>( 2,052)</b>	<b>-</b>	<b>140,235</b>	<b>-</b>	<b>138,183</b>
Gain/(Loss) on Disposal of Non -Current Assets	-	-	( 16,849)	-	( 16,849)
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>( 623,920)</b>	<b>( 51,012)</b>	<b>( 3,629,237)</b>	<b>( 30,778)</b>	<b>( 4,334,947)</b>

\* The name and purpose of each program is summarised in Note 1.

### 31. PROGRAM STATEMENT – EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2004 (Continued)

	Total Crown Finance Entity \$000	Consolidated Fund \$000	Electricity Equalisation* \$000	Insurance Ministerial Corporation* \$000	Crown Leaseholds* \$000	Crown Lands Homesites Programs* \$000	Land Development Working Account* \$000	Crown Property Portfolio* \$000	Liability Management Ministerial Corporation \$000	**Not Attributable \$000	Elimination \$000	Consolidated Total \$000
<b>Expense</b>												
Superannuation	1,417,299	-	-	-	-	-	-	-	-	-	-	1,417,299
Long Service Leave	498,268	-	-	-	-	-	-	-	-	-	( 9,013)	489,255
Depreciation/Amortisation	76,460	-	-	-	-	-	-	5,907	-	-	-	82,367
Grant and Subsidies	1,255,881	-	-	-	-	-	-	-	-	-	( 1,172,027)	83,854
Borrowing Costs	747,030	-	-	-	-	-	-	16,771	1,492	-	( 42,914)	722,379
Insurance Claims	28,635	-	-	1,132,337	-	-	-	-	-	-	-	1,160,972
Other	432,708	10,396	266,635	27,432	4,916	5,797	844	150,703	2	-	( 164,270)	735,163
Recurrent Appropriations	-	29,851,086	-	-	-	-	-	-	-	-	( 2,667,842)	27,183,244
Capital Appropriations	-	4,102,370	-	-	-	-	-	-	-	-	( 1,697,529)	2,404,841
<b>Total Expenses</b>	<b>4,456,281</b>	<b>33,963,852</b>	<b>266,635</b>	<b>1,159,769</b>	<b>4,916</b>	<b>5,797</b>	<b>844</b>	<b>173,381</b>	<b>1,494</b>	<b>-</b>	<b>( 5,753,595)</b>	<b>34,279,374</b>
<b>Revenue</b>												
State Taxation	-	15,606,365	-	-	-	-	-	-	-	-	( 126,256)	15,480,109
Commonwealth Grants	-	15,338,620	-	-	-	-	-	-	-	-	-	15,338,620
Financial Distributions	-	1,487,716	-	-	-	-	-	-	-	-	( 17,530)	1,470,186
Retained Taxes Fees and Fines	-	-	-	-	-	-	-	-	-	-	-	-
Sales of Goods and Services	-	-	-	962,125	-	-	-	163,338	-	-	( 35,862)	1,089,601
Investment Income	210,610	-	-	405,092	2,544	-	-	10,260	111,619	10,941	( 42,202)	708,864
Grants and Contributions	-	-	-	-	-	-	-	-	-	-	-	-
Other	203,200	789,912	396,594	1,795	34,432	224	-	3,824	1,124,000	-	( 1,477,242)	1,076,739
Revenue from Government	( 275,627)	-	-	-	( 42,551)	( 6,184)	( 6,500)	19,995	-	4,365,370	( 4,054,503)	-
<b>Total Revenue</b>	<b>138,183</b>	<b>33,222,613</b>	<b>396,594</b>	<b>1,369,012</b>	<b>( 5,575)</b>	<b>( 5,960)</b>	<b>( 6,500)</b>	<b>197,417</b>	<b>1,235,619</b>	<b>4,376,311</b>	<b>( 5,753,595)</b>	<b>35,164,119</b>
Gain/(Loss) on Disposal of Non -Current Assets	( 16,849)	-	-	-	( 145,938)	27,640	7,345	10	-	-	-	( 127,792)
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>( 4,334,947)</b>	<b>( 741,239)</b>	<b>129,959</b>	<b>209,243</b>	<b>( 156,429)</b>	<b>15,883</b>	<b>1</b>	<b>24,046</b>	<b>1,234,125</b>	<b>4,376,311</b>	<b>-</b>	<b>756,953</b>

\* The name and purpose of each program is summarised in Note 1.

\*\* Appropriations are made on an agency basis and not to individual programs. Hence, government contributions must be included in the "Not Attributable" column.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

### **32. TRANSFER PAYMENTS**

The Crown Entity receives grants from the Commonwealth Government that are transferred to eligible beneficiaries. The beneficiaries are non-government schools which are paid directly by the Crown Entity and Local Government, which is paid to the Department of Local Government.

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Receipts</b>		
Non-Government Schools - Recurrent	1,439,537	1,271,419
Non-Government Schools - Targeted Programs	34,006	56,336
Non-Government Schools - Capital	35,116	34,951
Local Government - Financial Assistance	353,244	346,615
Local Government - Roads	135,048	130,957
	<b>1,996,951</b>	<b>1,840,278</b>
<b>Payments</b>		
Non-Government Schools - Recurrent	( 1,439,537)	( 1,271,419)
Non-Government Schools - Targeted Programs	( 34,006)	( 56,336)
Non-Government Schools - Capital	( 35,116)	( 34,951)
Local Government - Financial Assistance	( 353,244)	( 346,615)
Local Government - Roads	( 135,048)	( 130,957)
	<b>( 1,996,951)</b>	<b>( 1,840,278)</b>

### **33. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Crown Entity will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

The Crown Entity is managing the transition to the new standards by allocating internal resources to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

The following activities are aggregated in the Crown Entity financial statements:

Consolidated Fund  
Crown Finance Entity  
Electricity Tariff Equalisation Ministerial Corporation  
Liability Management Ministerial Corporation  
Insurance Ministerial Corporation  
Crown Property Portfolio  
Crown Lands Homesites Program  
Crown Leaseholds  
Land Development Working Account

The Consolidated Fund, Crown Finance Entity, Electricity Tariff Equalisation Ministerial Corporation, Liability Management Ministerial Corporation and Insurance Ministerial Corporation are managed by Crown Asset and Liability Management Branch. As a result of this exercise, the Crown Entity IAS Committee has taken the following steps to manage the transition to the new standards of these entities:

1. The Crown Entity IAS Committee is overseeing the transition and is responsible for the project.
2. The following phases that need to be undertaken have been identified:
  - Scope and planning
  - Review and impact assessment
  - Design and training
  - Implementation
  - Post implementation review



**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

3. To date, the scope and planning phase has been completed. The remaining phases are estimated to be completed:
  - Review and impact assessment March 2005
  - Design and training June 2005
  - Implementation July 2006
  - Post implementation review December 2006

The Crown Land Homesites Program, Crown Leaseholds and Land Development Working Account are managed by Landcom and Department of Lands respectively. They have taken the following steps to manage the transition to the new standards:

1. The agency's Budget Committee is overseeing the transition. The Director, Financial and Administrative Services is responsible for the project and reports to the Committee on progress against the plan. The Department's Audit Committee also provides input to the process.
2. The following phases that need to be undertaken have been identified:
  - Scope and identify impact of the changes
  - Determine changes to be made to systems, processes, policies
  - Train staff
  - Implement changes and review
3. By the end of June 2004, a preliminary assessment of the impact of the changes for the entities administered for the Crown by the Department of Lands had been undertaken. All other stages, including the requisite changes to systems will be completed by the end of November 2004.

The Crown Property Portfolio has taken the following steps to manage the transition to the new standards:

1. The Portfolio Finance Manager is assigned to manage the transition and reports regularly to the Senior Manager, who is overseeing the transition on the progress against the plan.
2. The following phases that need to be undertaken have been identified:
  - Send the Portfolio Finance Manager (PFM) to seminars on the AIFRS implementation issues and procedures.
  - Review the key differences in accounting policies between the AIFRS and the existing Australian Accounting Standards (AAS)
  - Identify those significant differences in accounting policies that will have an impact to the Portfolio
  - Prepare a report to the Senior Manager on the possible changes required on the accounts and on the Portfolio's accounting policies to comply with AIFRS requirements.
  - Prepare a revised accounts trial balance (ie beginning Balance Sheet) as at 1 July 2005
3. To date, the PFM had attended a seminar on AIFRS implementation issues sponsored by the Australian Institute of Certified Practising Accountants and a presentation on AIFRS presented by the NSW Treasury. The PFM had identified some of the significant key differences in accounting policies arising from adopting AIFRS that will have an impact to the Portfolio's accounts. The PFM also reviews and monitors any new information and developments on AIFRS from the NSW Treasury website.

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

The Crown Entity has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because of AIFRS requirements that are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the Crown Entity of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The Crown Entity's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

## CROWN ENTITY NOTES TO AND FORMING PART OF THE 2003-04 FINANCIAL STATEMENTS

AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

AASB 110 *Events after the balance sheet date* states that only dividends “declared” or appropriately “authorised” before the reporting date can be recognised. This is more restrictive than the current approach which is based on “valid expectations”. However, this change is not expected to impact on dividend recognition as the signing of the Statement of Corporate Intent /Statement of Business Intent before the reporting date to which it relates, “authorises” the dividend and any change in the amount of the dividend after the reporting date constitutes an “adjusting event after the reporting date”.

However, the amount of the dividend may be affected by other AIFRS, such as AASB 139 *Financial Instrument Recognition and Measurement* and AASB 119 *Employee Benefits* (refer below) as these standards may impact on retained earnings (on first adoption) and the amount and volatility of profit/loss.

AASB 116 *Property, Plant and Equipment* requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated.

*For-profit entities* must account for asset revaluation increments and decrements on an individual asset basis, rather than on a class basis. This change may decrease accumulated funds.

AASB 117 *Leases* requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensing in the financial year incurred.

AASB 119 *Employee Benefits* requires the defined benefit obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. This change in discount rate is expected to result in a higher unfunded superannuation liability on the balance sheet. Greater volatility in the income statement and balance sheet is expected as the discount rate is based on market expectations at each reporting date.

AASB 1004 *Contributions* applies to *not-for-profit entities* only. Entities will either continue to apply the current requirements in AASB 1004 where grants are normally recognised on receipt, or alternatively apply the proposals on grants included in ED 125 *Financial Reporting by Local Governments*. If the ED 125 approach is applied, revenue and/or expense recognition will be delayed until the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied.

AASB 123 *Borrowing Costs* provides the option to expense or capitalise borrowing costs. NSW Treasury is likely to mandate expensing of borrowing costs to harmonise with GFS.

AASB 132 *Financial Instrument Disclosure and Presentation* prohibits in-substance defeasance. Agencies can no longer offset financial assets and financial liabilities when financial assets are set aside in trust by a debtor for the purposes of discharging an obligation, without assets having been accepted by the creditor in settlement of the obligation.

AASB 136 *Impairment of Assets* requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles in AASB 136 are already incorporated in Treasury’s policy *Valuation of Physical Non-Current Assets at Fair Value*.

AASB 139 *Financial Instrument Recognition and Measurement* results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit and loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and balance sheet.

The standard also includes stricter rules for the adoption of hedge accounting, and where these are not satisfied, movements in fair value will impact the income statement.

To achieve full harmonisation with GFS, entities would need to designate all financial instruments at fair value through profit and loss. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether NSW Treasury will mandate this option for all agencies.

**CROWN ENTITY**  
**NOTES TO AND FORMING PART OF THE**  
**2003-04 FINANCIAL STATEMENTS**

AASB 140 *Investment Property* requires investment property to be measured at cost or fair value. NSW Treasury is likely to mandate the adoption of fair value. In contrast to current treatment as an asset classified within property, plant and equipment, investment property recognised at fair value is not depreciated and changes in fair value are recognised in the income statement.

NSW Treasury is likely to mandate that any investment property interest held by a lessee under an operating lease should be classified and accounted for as investment property. Previously such operating lease payments were accounted for as an expense over the lease term based on the pattern of benefits.

Based on paragraph 4 of AASB140 *Investment Property*, the government-owned office buildings included in the Crown Property Portfolio and leased to other government agencies are investment properties from the Crown Property Portfolio's perspective.

AASB 1023 General Insurance Contracts requires the outstanding claims liability to include a risk margin to reflect the inherent uncertainty in the central estimate, whereas previously no risk margin was required. The outstanding claims liability must also be discounted for the time value of money using risk free rates, whereas previously the discount rate was based on the expected rates of return on assets. This will likely increase the outstanding claims liability.

Unlike the previous standard, the revised standard applies a liability adequacy test to the unearned premium liability, increases disclosure requirements and requires assets backing general insurance liabilities to be measured at fair value (previously they were generally recognised at net market value).

AASB 137 Provisions, Contingent Liabilities and Contingent Assets includes an Australian Guidance section that accompanies but is not a part of AASB 137. G5 of the Guidance section states that at an individual level where a contract involves the transfer of significant insurance risk from an entity within the group to a captive insurer, it is an insurance contract. However, in the group's consolidated financial statements, the insurance arrangements entered into do not meet the definition of an 'insurance contract'. Accordingly AASB 1023 General Insurance Contracts applies to the Insurance Ministerial Corporation Financial Statements, however, when the Insurance Ministerial Corporation is consolidated into the General Government Financial Statements, AASB 137 applies.

AASB 137 also applies to the Pre Managed Fund, the Governmental Workers Compensation Account and the Transport Accidents Compensation Fund as these arrangements do not meet the definition of an 'insurance contract'.

### **34. POST BALANCE DATE EVENTS**

- There have been no post balance date events of any significance.

**End of Audited Financial Information**



Financial Statements for the year ended 30 June 2004

# New South Wales Insurance Ministerial Corporation



New South Wales  
TREASURY



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### New South Wales Insurance Ministerial Corporation

To Members of the New South Wales Parliament

#### Audit Opinion

In my opinion, the financial report of the New South Wales Insurance Ministerial Corporation:

- (a) presents fairly the Corporation's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

#### The Secretary's Role

The financial report is the responsibility of the Secretary, New South Wales Treasury. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

#### The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Secretary in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Secretary had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

## **Audit Independence**

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



G J Gibson FCPA  
Director of Audit

SYDNEY  
25 October 2004

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

Pursuant to Sections 41C (1B) and (1C) of the Public Finance and Audit Act 1983, I declare that in my opinion:

1. The accompanying financial statements, exhibit a true and fair view of the financial position of the NSW Insurance Ministerial Corporation as at 30 June 2004 and the transactions for the year then ended.
2. The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions.

Further, I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



Kerry Schott  
Acting Secretary, NSW Treasury and  
Manager, NSW Insurance Ministerial Corporation

21-10-2004



**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

**STATEMENT BY FUND MANAGER AND CHIEF FINANCIAL OFFICER**

Pursuant to Section 41C(1B) and (1C) of the Public Finance and Audit Act 1983, we declare that in our opinion, the financial statements and notes attaching thereto of the New South Wales Insurance Ministerial Corporation exhibit a true and fair view of its financial position as at 30 June, 2004 and transactions of the year then ended.

The financial statements of the New South Wales Insurance Ministerial Corporation have been prepared on accrual basis and in accordance with applicable accounting standards, Statements of Accounting Concepts, Urgent Issues Group Consensus Views, industry practices, the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions.

Further, we are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Date at SYDNEY this 31<sup>st</sup> day of August 2004



M. Miliner  
General Manager  
Workers Compensation  
GIO GENERAL LIMITED



A Bailey  
Manager  
General Insurance Accounting  
GIO GENERAL LIMITED

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2004**

	Notes	2004 \$000	2003 \$000
Premium Revenue	3,20	911,984	824,537
Reinsurance & Other Recoveries Revenue	4,20	14,279	50,682
Investment Revenue	5,20	405,092	130,505
Grants from the NSW Government	6,20	35,862	866,320
Other Revenue	7,20	1,795	333
<b>Total Revenue from Ordinary Activities</b>		<b><u>1,369,012</u></b>	<b><u>1,872,377</u></b>
Claims Expense	8,20	(1,108,558)	(1,132,421)
Outward Reinsurance Expense	20	(22,247)	(18,144)
Operating Expenses from Ordinary Activities	9,20	(28,964)	(25,070)
<b>Total Expenses from Ordinary Activities</b>		<b><u>(1,159,769)</u></b>	<b><u>(1,175,635)</u></b>
<b>Net profit from Ordinary Activities</b>		<b><u>209,243</u></b>	<b><u>696,742</u></b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b><u>209,243</u></b>	<b><u>696,742</u></b>

The accompanying notes form an integral part of these financial statements.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2004**

	Notes	2004 \$000	2003 \$000
<b>CURRENT ASSETS</b>			
Cash Assets	21	90,326	80,010
Receivables	10,21	140,863	139,077
Reinsurance & Other Recoveries Receivable	11,21	28,063	35,488
Other Assets	21	988	863
<b>Total Current Assets</b>		<u>260,240</u>	<u>255,438</u>
<b>NON-CURRENT ASSETS</b>			
Receivables	10,21	316,789	344,605
Reinsurance & Other Recoveries Receivable	11,21	129,417	158,303
Investment Securities	12,21	4,373,768	3,659,760
<b>Total Non-Current Assets</b>		<u>4,819,974</u>	<u>4,162,668</u>
<b>TOTAL ASSETS</b>		<u><b>5,080,214</b></u>	<u><b>4,418,106</b></u>
<b>CURRENT LIABILITIES</b>			
Payables	13,21	112,128	100,378
Interest-bearing Liabilities	14,21	16,339	12,379
Unearned Premiums	15,21	220	179
Outstanding Claims	16,21	703,555	669,124
Other Liabilities	17,21	4,568	11,061
<b>Total Current Liabilities</b>		<u>836,810</u>	<u>793,121</u>
<b>NON-CURRENT LIABILITIES</b>			
Outstanding Claims	16,21	3,738,090	3,328,914
<b>Total Non-Current Liabilities</b>		<u>3,738,090</u>	<u>3,328,914</u>
<b>TOTAL LIABILITIES</b>		<u><b>4,574,900</b></u>	<u><b>4,122,035</b></u>
<b>NET ASSETS</b>		<u><b>505,314</b></u>	<u><b>296,071</b></u>
<b>EQUITY</b>			
Contributed Capital	18,21	94,000	94,000
Retained Profits	18,21	411,314	202,071
		<u><b>505,314</b></u>	<u><b>296,071</b></u>

The accompanying notes form an integral part of these financial statements.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2004**

	Notes	2004 Inflow/ (Outflow) \$000	2003 Inflow/ (Outflow) \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium received		1,023,829	898,309
Hindsight adjustment receipts	3	24,434	9,024
Hindsight adjustment payments	3	(49,685)	(5,628)
Interest received		275,579	197,533
Reinsurance & Other Recoveries received		50,724	26,873
GST refunds received		14,953	20,564
Funds received from the Crown		68,290	918,704
Other Revenue		1,893	333
Claims and Expenses paid		(672,706)	(771,191)
Management fees paid		(30,025)	(53,466)
GST paid		(93,931)	(85,113)
Payment of Outward Reinsurance		(22,279)	(18,504)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	19	<u><b>591,076</b></u>	<u><b>1,137,438</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of Investments		(584,720)	(1,175,878)
Proceeds from sale of Investments		-	-
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		<u><b>(584,720)</b></u>	<u><b>(1,175,878)</b></u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>6,356</b>	<b>(38,440)</b>
Cash at the beginning of the Financial Year		67,631	106,071
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	19	<u><b>73,987</b></u>	<u><b>67,631</b></u>

The accompanying notes form an integral part of these financial statements.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES**

The New South Wales Insurance Ministerial Corporation is constituted pursuant to section 24 of the Government Insurance Office (Privatisation) Act 1991. The assets, liabilities, rights and obligations of NSW Treasury Managed Fund, Pre Managed Fund Reserve, Governmental Workers Compensation Account and the Transport Accidents Compensation Fund were part of the business undertaking of GIO Australia Holdings Limited. These were transferred to the New South Wales Insurance Ministerial Corporation on 30 June 1992.

Insurance Funds of the New South Wales Insurance Ministerial Corporation are managed, under separate contracts, by GIO General Limited, a subsidiary of Suncorp Metway Insurance Limited. Management fees are paid to GIO General Limited for the administration of these funds.

**NSW Treasury Managed Fund (TMF)**

The NSW Treasury Managed Fund is a scheme of self insurance introduced by the NSW Government. The scheme protects the insurable assets and exposures of its members. Fund members include all public sector agencies financially dependent on the Consolidated Fund, all public hospitals and a number of statutory authorities.

**Pre Managed Fund Reserve**

NSW Government reserves in the Fire Risks Account, the Fidelity Fund and the Public Liability Fund were transferred to the Pre Managed Fund Reserve. This Reserve has been called upon to fund claims previously met by the NSW Government incurred before 1st July 1989. The Treasurer has also directed the GIO General Limited to meet any other expenses which the Government would have met from the Pre Managed Fund Reserve. Prior to 1st November 1991, the most significant item affecting the Pre Managed Fund Reserve was the funding of the Governmental Workers' Compensation claims occurring prior to 30 June 1989. These claims are now funded directly from the NSW Government's Consolidated Fund. The Treasurer approved the Pre Managed Fund Reserve accounts to be consolidated with NSW Treasury Managed Fund for annual reporting from 2000/01 and beyond.

**Governmental Workers Compensation Account**

The Governmental Workers Compensation Account pays the outstanding Workers Compensation claims liabilities as at 30 June 1989 of the Consolidated Revenue Fund, Public Hospitals and RTA Managed Fund. As from 1 July 1989, insurance for Workers Compensation for the above agencies is handled by the NSW Treasury Managed Fund.

**Transport Accidents Compensation Fund (TAC)**

The Transport Accidents Compensation Fund pays the costs of motor transport accident claims under the common law system which applied until 30 June 1987, as well as the TransCover system which applied from then until 30 June 1989. The TransCover system was retrospectively replaced from its commencement by the Intermediate Claims' provisions of the Motor Accidents Scheme.

Presented below are the principal accounting policies adopted in preparing the financial statements of the New South Wales Insurance Ministerial Corporation for the year ended 30 June 2004. The accounting policies are consistent with last year, except where otherwise stated.

**(a) Basis of Accounting**

These financial statements are a general purpose financial report which have been prepared on an accrual basis in accordance with the historical cost convention except where otherwise stated and in accordance with Australian Accounting Standards, other authoritative announcements of the Australian Accounting Standards Board, Urgent Issues Group Consensus View and the Public Finance and Audit Act 1983.

**(b) Premium Revenue**

Premium revenue comprises amounts charged to the member agencies for insurance cover that commences on 1 July each year. Policy period commences from 31 October, for liability cover for Medically Supervised Injecting Centre.

**(c) Outwards Reinsurance Expense**

Premiums ceded to reinsurers are recognised as an expense in accordance with the indemnity period of the corresponding reinsurance contract.

**(d) Claims Expenses**

Claims expenses and a liability for outstanding claims are recognised in the financial statements. The liability covers claims incurred but not yet paid, incurred but not yet reported and the anticipated fund Management fees in respect of the management of those claims.

The liability for outstanding claims is measured as the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of the settling of claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation".

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

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 discount rates based on investment opportunities available on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in note 16.

**(e) Reinsurance and Other Recoveries Revenue**

Reinsurance recoveries are recognised as revenue for claims incurred. Other recoveries include recoveries of claims paid under sharing agreements, third party recoveries, salvage and subrogation.

**(f) Investments**

Investments are measured at net market value at the reporting date. Net market values are determined as market values less expected costs of disposal in an orderly market. Differences between the net market values of investments at the reporting date and the net market values at the previous reporting date (or cost of acquisition, if acquired during the reporting period) are recognised as revenue or expense in the Statement of Financial Performance.

**(g) Income Tax**

Income from the funds of the New South Wales Insurance Ministerial Corporation is exempt from income tax under S23(d) of the Income Tax Assessment Act 1936.

**(h) Cash Flows**

For the purpose of the Statement of Cash Flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdraft.

**(i) Comparative Figures**

Comparative figures have been adjusted, where necessary, to conform with the basis of presentation and classification used in the current year. In prior years movements in outstanding recoveries were disclosed within claims and expenses paid in the Statement of Cashflows. These movements are now disclosed within Reinsurance and Other Recoveries received. Comparative figures have been adjusted to reflect this change.

**(j) Changes in accounting policies**

A prudential margin of 7.5% (67% probability of adequacy) has been added to the Treasury Managed Fund central estimate of the outstanding claims liability for Liability in 2004. This change has been introduced to recognise the expected volatility of future Liability payments and achieve consistency with the prudential margin that is added to Workers Compensation. The change increases the outstanding claims liability and claims expense by \$139 million.

**(k) GST**

Amounts included in the Statement of Financial Performance are recorded net of goods and services tax. Amounts in the Statement of Financial Position and statement of cash flows are recorded gross of any goods and services tax.

**(l) Rounding**

Amounts shown in the financial statements have been rounded to the nearest thousand dollars.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**2. UNDERWRITING RESULT**

	<b>2004</b> <b>\$000</b>	<b>2003</b> <b>\$000</b>
Premium Revenue	911,984	824,537
Outward Reinsurance Expense	<u>(22,247)</u>	<u>(18,144)</u>
	<u>889,737</u>	<u>806,393</u>
Claims Expense	(1,108,558)	(1,132,421)
Reinsurance & Other Recoveries Revenue	<u>14,279</u>	<u>50,682</u>
Net Claims Incurred	<u>(1,094,279)</u>	<u>(1,081,739)</u>
Other Underwriting Expenses	<u>(23,779)</u>	<u>(20,946)</u>
	<u>(23,779)</u>	<u>(20,946)</u>
	<u><b>(228,321)</b></u>	<u><b>(296,292)</b></u>

**3. PREMIUM REVENUE**

Tariff premium	875,777	765,869
Hindsight Adjustments	(25,251)	3,396
Visiting Medical Officers (VMO)	61,050	55,000
Medically Supervised Injecting Centre (MSIC)	<u>449</u>	<u>367</u>
	912,025	824,632
Movement in MSIC Unearned Premiums	<u>(41)</u>	<u>(95)</u>
	<u>911,984</u>	<u>824,537</u>

TMF normally calculates hindsight premiums each year. However in regard to workers compensation the final hindsight adjustment for the 1997/1998 fund year and an interim adjustment for the 1999/2000 fund year were not calculated until 2003/2004. As a result, the 1998/1999 final and 2000/2001 interim hindsight calculations will be paid in 2004/2005.

The basis for calculating the hindsight premium is undergoing review, and it is expected that the problems experienced will be rectified for future payments.

**4. REINSURANCE & OTHER RECOVERIES REVENUE**

Recoveries revenue	50,110	26,445
Movement in outstanding recoveries	<u>(35,831)</u>	<u>24,237</u>
	<u>14,279</u>	<u>50,682</u>

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**5. INVESTMENT REVENUE**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
Income		
Bond portfolio	137,655	107,102
Interest from Treasury	3,637	3,356
Bank Interest	301	443
Hour-Glass facility	102,519	68,361
Gains/(losses) realised during the year		
Bond portfolio	(12,514)	51,912
Hour-Glass facility	44,206	(33,472)
Net market value change in investments, held at balance date		
Unrealised gains/(losses)		
Bond portfolio	(61,897)	46,762
Hour-Glass facility	191,185	(113,959)
	<u>405,092</u>	<u>130,505</u>

**6. GRANTS FROM THE NSW GOVERNMENT**

Grants received from the Crown Finance Entity	68,290	918,703
Movement in Outstanding Contributions	(32,428)	(52,383)
	<u>35,862</u>	<u>866,320</u>

**7. OTHER REVENUE**

Commission returned from Aon Re	1,717	333
Other revenue	78	-
	<u>1,795</u>	<u>333</u>

An arrangement is in place with Aon Re for the commission to be agreed each year with any commission in excess of the agreed amount returned to TMF. Also, Aon Re is entitled to receive performance and administration fees from the TMF for arranging reinsurance cover. Performance and administration fees paid to Aon Re is shown under Operating expenses from ordinary activities. Comparatives: Commission returned from Aon Re - \$569,437 and performance/administration fees - \$236,250.



**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**8. CLAIMS EXPENSES**

Claims Paid	628,458	727,256
Movement in Outstanding Claims	443,607	365,535
Management fees to GIO General Limited	36,493	39,586
Legal Expenses	-	44
	<u>1,108,558</u>	<u>1,132,421</u>

Current year 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.

<b>Net Claims Incurred</b>	<b>Current Year 1/7/03-30/6/04 \$'000</b>	<b>Prior Years Pre 30/6/03 \$'000</b>	<b>2004 Total \$'000</b>	<b>2003 Total \$'000</b>
Gross claims incurred and related expenses				
-undiscounted	1,454,279	507,828	1,962,107	1,165,137
Reinsurance and other recoveries-undiscounted	<u>45,696</u>	<u>(19,036)</u>	<u>26,660</u>	<u>49,711</u>
Net claims incurred and related expenses				
-undiscounted	<u>1,408,583</u>	<u>533,297</u>	<u>1,935,447</u>	<u>1,115,426</u>
Discount and discount movement				
- gross claims incurred	545,236	460,822	1,006,058	37,233
Discount and discount movement				
- reinsurance and other recoveries	<u>15,480</u>	<u>(3,097)</u>	<u>12,383</u>	<u>(971)</u>
Net discount movement	<u>529,756</u>	<u>463,919</u>	<u>993,675</u>	<u>38,204</u>
Discounted net claims incurred and related Expenses	878,827	62,945	941,772	1,077,222
Prudential margin	<u>51,220</u>	<u>101,287</u>	<u>152,507</u>	<u>4,517</u>
Net Claims Incurred	<u><b>930,047</b></u>	<u><b>164,232</b></u>	<u><b>1,094,279</b></u>	<u><b>1,081,739</b></u>

**Net Claims Incurred – Prior Years**

The increase in the discounted net claims incurred and related expenses on prior years is due to:

- (i) Workers' Compensation – Deterioration in experience due to a higher number of claimants remaining on weekly benefits than expected. This has been offset by:
- (ii) Increase in discount rates, which has had the effect of decreasing the net claims incurred.

The increase in the prudential margin is due to the addition of a margin of 7.5% of the Liability net central estimate.

**Net Claims Incurred by Fund:**

	<b>2004 \$'000</b>	<b>2003 \$'000</b>
NSW Treasury Managed Fund	1,068,531	1,044,065
Governmental Workers Compensation	2,154	532
Transport Accidents Compensation Fund	<u>23,594</u>	<u>37,142</u>
Net Claims Incurred	<u>1,094,279</u>	<u>1,081,739</u>

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**9. OPERATING EXPENSES FROM ORDINARY ACTIVITIES**

	<b>2004 \$000</b>	<b>2003 \$000</b>
Levies paid to:		
– Dust Diseases	3,348	3,011
– WorkCover Authority of NSW	20,431	17,935
Investment management fees	2,493	1,924
Actuarial expenses		
– Pricewaterhouse Coopers	1,310	1,217
– Robert Buchanan	63	57
– Taylor Fry	91	122
– Others	5	24
Storage costs	145	136
Bank charges	85	78
Audit fees – Financial report	125	120
Consultancy – Legal	-	43
Consultancy – NSW Treasury	135	177
Consultancy – Other	-	225
Printing & Stationery	-	1
Performance and administration fees to Aon Re	733	- *
	<u>28,964</u>	<u>25,070</u>

\* Refer to note 7 – Other Revenue

**10. RECEIVABLES**

**Current:**

Crown Finance Entity	42,386	46,771
Other	98,477	92,306
	<u>140,863</u>	<u>139,077</u>

**Non-Current:**

Crown Finance Entity	<u>316,789</u>	<u>344,605</u>
----------------------	----------------	----------------

Amounts owed by the Crown Finance Entity include: \$40.4 million (\$61.8 million in 2003) for liabilities of the Pre Managed Fund Reserve which is part of TMF, \$161.1 million (\$164.0 million in 2003) of the TAC Fund, \$66.3 million (\$74 million in 2003) of the Governmental Workers Compensation Fund, \$89.5 million (\$89.5 million in 2003) loan and \$1.9 million (\$1.7 million in 2003) for interest due on that loan.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**11. REINSURANCE & OTHER RECOVERIES RECEIVABLE**

	<b>2004</b> <b>\$000</b>	<b>2003</b> <b>\$000</b>
Expected future recoveries (undiscounted)	237,935	375,793
Discount to present value	<u>(80,761)</u>	<u>(182,788)</u>
	157,174	193,005
Outstanding reinsurance and other recoveries on paid claims	<u>454</u>	<u>943</u>
Reinsurance and other recoveries receivable	157,628	193,948
Deduct: Provision for doubtful debts	<u>(148)</u>	<u>(157)</u>
	<u>157,480</u>	<u>193,791</u>
<b>Current</b>		
Reinsurance and other recoveries receivable	28,211	35,645
Deduct: Provision for doubtful debts	<u>(148)</u>	<u>(157)</u>
	<u>28,063</u>	<u>35,488</u>
<b>Non-Current:</b>		
Reinsurance and other recoveries receivable	<u>129,417</u>	<u>158,303</u>
	<u>129,417</u>	<u>158,303</u>

**12. INVESTMENT SECURITIES**

**Non-Current:**

Managed by TCorp

Hour-Glass facility

- Australian Shares	611,914	609,369
- Indexed Australian Shares	184,845	208,077
- International Shares	648,733	725,547
- Indexed International Shares	255,488	-
- Listed Property	155,165	168,834

Bond portfolio

<u>2,517,623</u>	<u>1,947,933</u>
<u>4,373,768</u>	<u>3,659,760</u>

**13. PAYABLES**

GST Payable	97,056	91,537
Others	<u>15,072</u>	<u>8,841</u>
	<u>112,128</u>	<u>100,378</u>

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**14. INTEREST-BEARING LIABILITIES**

	<b>2004 \$000</b>	<b>2003 \$000</b>
Bank Overdraft	<u>16,339</u>	<u>12,379</u>

**15. UNEARNED PREMIUMS**

**Current:**

Medically Supervised Injecting Centre	<u>220</u>	<u>179</u>
---------------------------------------	------------	------------

Policy period for MSIC is from 31 October to 30 October. All other policies are annual and commence from 1 July.

**16. OUTSTANDING CLAIMS**

The liability for outstanding claims is determined by the Manager in consultation with independent actuaries (Pricewaterhouse Coopers and Robert Buchanan Consulting) for NSW Treasury Managed Fund, Transport Accident Compensation Fund and Governmental Workers Compensation Account. Prudential margins are added, where necessary, to the central estimate of the claims liability to increase the probability that the claims provision is adequate. The outstanding claim provision is considered adequate to cover claims for losses which have occurred including future developments on known claims, as well as claims yet to be reported.

The outstanding claims liability of Pre Managed Fund Reserve (part of TMF) is determined from estimates provided by the departments. The list of claims estimates provided by the departments are vetted by the NSW Treasury Managed Fund Manager and approved by the NSW Treasury.

The increase in outstanding claims since 30 June 2003 is due to the addition of a new fund year to the pool (2003/04) as well as the following key experience changes:

- (i) Prudential margin – Inclusion of prudential margin of 7.5% of the net central estimate for the Liability portfolio.
- (ii) Workers' Compensation – Deterioration in experience due to a higher number of claimants remaining on weekly benefits than expected. This has been offset by:
- (iii) Liability – Improvements in experience arising as a result of legislative reforms.
- (iv) Discount rates – an increase in discount rates reduced the outstanding claims provision.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

	<b>Treasury Managed Fund \$000</b>	<b>G'mental W/Comp \$000</b>	<b>TAC Fund \$000</b>	<b>Total \$000</b>
Expected future Claims				
Payments (undiscounted)	6,718,838	145,514	565,301	7,429,653
Discount to present value	<u>(2,571,605)</u>	<u>(67,976)</u>	<u>(348,427)</u>	<u>(2,988,008)</u>
Liability for outstanding claims	<u>4,147,233</u>	<u>77,538</u>	<u>216,874</u>	<u>4,441,645</u>
Current – 2004	667,513	7,685	28,357	703,555
Non-Current – 2004	<u>3,479,720</u>	<u>69,853</u>	<u>188,517</u>	<u>3,738,090</u>
	<u>4,147,233</u>	<u>77,538</u>	<u>216,874</u>	<u>4,441,645</u>
Current – 2003	638,076	9,075	21,973	669,124
Non-Current – 2003	<u>3,071,862</u>	<u>69,547</u>	<u>187,505</u>	<u>3,328,914</u>
	<u>3,709,938</u>	<u>78,622</u>	<u>209,478</u>	<u>3,998,038</u>

- (a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 5.7 years (4.9 years) for TMF, 8.58 years (7.25 years) for GWC and 10.25 years (11.67 years) for TAC Fund.
- (b) The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

	<b><u>TMF</u></b>		<b><u>GWC</u></b>		<b><u>TAC</u></b>	
<b>Claims expected to be paid</b>	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Not later than one year						
Inflation rate	3.25	3.25	4.00	4.00	4.00	4.00
Discount rate	6.60	6.10	5.40	4.40	5.38	4.44
Superimposed inflation*	0%-10%	0%-10%	0%-10%	0%-20%	4.5%	4.5%
Later than one year						
Inflation rate	3.25	3.25	4.00	4.00	4.00	4.00
Discount rate	6.60-7.10	6.00-6.70	5.50-6.30	4.40-5.50	5.49-6.29	4.42-5.50
Superimposed inflation*	0%-10%	0%-10%	0%-3.0%	0%-17.5%	4.5%	4.5%

\* Dependent on payment type.

Prudential margins added in 2004 and 2003 to the central estimate of the claim liability and the probability of adequacy are as follows:

	<b>Prudential Margin</b>	<b>Probability of Adequacy</b>
NSW Treasury Managed Fund (Workers Compensation and Liability for 2004)	7.5%	67%
Transport Accidents Compensation Fund	7.5%	60%
Governmental Workers Compensation Account	5.0%	60%

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**17. OTHER LIABILITIES**

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
Premium paid in advance	<u>4,568</u>	<u>11,061</u>

**18. EQUITY**

<u>Contributed Capital</u>		
Balance carried forward	<u>94,000</u>	<u>94,000</u>
<u>Retained Profit/(Loss)</u>		
Balance brought forward	202,071	(494,671)
Current year profit	<u>209,243</u>	<u>696,742</u>
Balance carried forward	<u>411,314</u>	<u>202,071</u>

**19. NOTES TO THE STATEMENT OF CASH FLOWS**

**Reconciliation of Cash**

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash	90,326	80,010
Bank Overdraft	<u>(16,339)</u>	<u>(12,379)</u>
	<u>73,987</u>	<u>67,631</u>

**Reconciliation of Net Cash Provided by Operating Activities to Net Profit/(Loss)**

<b>Net Profit/(Loss) from Ordinary Activities</b>	<b>209,243</b>	<b>696,742</b>
Increase in Outstanding Claims	443,607	365,536
Increase/ (Decrease) in Unearned Premiums	41	95
Increase/ (Decrease) in Payables	11,750	(2,089)
Increase/ (Decrease) in Other Liabilities	(6,493)	(4,085)
(Increase)/ Decrease in Receivables	26,030	40,327
(Increase)/ Decrease in Reinsurance and Other Recoveries		
Receivable	36,311	(25,966)
(Increase)/ Decrease in Other Assets	(125)	(318)
Unrealised (Gains)/ Losses on Investments	<u>(129,288)</u>	<u>67,196</u>
<b>Net Cash Provided by Operating Activities</b>	<u>591,076</u>	<u>1,137,438</u>

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**20. FINANCIAL PERFORMANCE OF FUNDS**

	<b>Treasury Managed Fund \$000</b>	<b>G'mental W/Comp \$000</b>	<b>TAC Fund \$000</b>	<b>2004 Total \$000</b>	<b>2003 Total \$000</b>
Premium Revenue	911,984	-	-	911,984	824,537
Reinsurance & Other Recoveries Revenue	10,329	3,834	116	14,279	50,682
Investment Revenue	403,041	227	1,824	405,092	130,505
Grants from the NSW Government	11,847	1,990	22,025	35,862	866,320
Other Revenue	1,795	-	-	1,795	333
<b>Total Revenue from Ordinary Activities</b>	<b>1,338,996</b>	<b>6,051</b>	<b>23,965</b>	<b>1,369,012</b>	<b>1,872,377</b>
Claims Expense	(1,078,860)	(5,988)	(23,710)	(1,108,558)	(1,132,421)
Outwards Reinsurance Expense	(22,247)	-	-	(22,247)	(18,144)
Operating Expenses from Ordinary Activities	(28,646)	(63)	(255)	(28,964)	(25,070)
<b>Total Expenses from Ordinary Activities</b>	<b>(1,129,753)</b>	<b>(6,051)</b>	<b>(23,965)</b>	<b>(1,159,769)</b>	<b>(1,175,635)</b>
<b>Net Profit from Ordinary Activities</b>	<b>209,243</b>	<b>-</b>	<b>-</b>	<b>209,243</b>	<b>696,742</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>	<b>209,243</b>	<b>-</b>	<b>-</b>	<b>209,243</b>	<b>696,742</b>

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**21. FINANCIAL POSITION OF FUNDS**

	<b>Treasury Managed Fund \$000</b>	<b>G'mental W/Comp \$000</b>	<b>TAC Fund \$000</b>	<b>2004 Total \$000</b>	<b>2003 Total \$000</b>
<b>CURRENT ASSETS</b>					
Cash Assets	27,905	9,417	53,004	90,326	80,010
Receivables	113,257	6,638	20,968	140,863	139,077
Reinsurance & Other Recoveries					
Receivable	27,543	111	409	28,063	35,488
Other Assets	988	-	-	988	863
<b>TOTAL CURRENT ASSETS</b>	<u>169,693</u>	<u>16,166</u>	<u>74,381</u>	<u>260,240</u>	<u>255,438</u>
<b>NON-CURRENT ASSETS</b>					
Receivables	116,956	59,655	140,178	316,789	344,605
Reinsurance & Other Recoveries					
Receivable	125,181	1,795	2,441	129,417	158,303
Investments Securities	4,373,768	-	-	4,373,768	3,659,760
<b>TOTAL NON-CURRENT ASSETS</b>	<u>4,615,905</u>	<u>61,450</u>	<u>142,619</u>	<u>4,819,974</u>	<u>4,162,668</u>
<b>TOTAL ASSETS</b>	<u><b>4,785,598</b></u>	<u><b>77,616</b></u>	<u><b>217,000</b></u>	<u><b>5,080,214</b></u>	<u><b>4,418,106</b></u>
<b>CURRENT LIABILITIES</b>					
Payables	111,924	78	126	112,128	100,378
Interest-bearing Liabilities	16,339	-	-	16,339	12,379
Unearned Premiums	220	-	-	220	179
Outstanding Claims	667,513	7,685	28,357	703,555	669,124
Other Liabilities	4,568	-	-	4,568	11,061
<b>TOTAL CURRENT LIABILITIES</b>	<u>800,564</u>	<u>7,763</u>	<u>28,483</u>	<u>836,810</u>	<u>793,121</u>
<b>NON-CURRENT LIABILITIES</b>					
Outstanding Claims	3,479,720	69,853	188,517	3,738,090	3,328,914
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>3,479,720</u>	<u>69,853</u>	<u>188,517</u>	<u>3,738,090</u>	<u>3,328,914</u>
<b>TOTAL LIABILITIES</b>	<u><b>4,280,284</b></u>	<u><b>77,616</b></u>	<u><b>217,000</b></u>	<u><b>4,574,900</b></u>	<u><b>4,122,035</b></u>
<b>NET ASSETS</b>	<u><b>505,314</b></u>	<u>-</u>	<u>-</u>	<u><b>505,314</b></u>	<u><b>296,071</b></u>
<b>EQUITY</b>					
Contributed Capital	94,000	-	-	94,000	94,000
Accumulated Surplus	411,314	-	-	411,314	202,071
	<u><b>505,314</b></u>	<u>-</u>	<u>-</u>	<u><b>505,314</b></u>	<u><b>296,071</b></u>



**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

## **22. FINANCIAL INSTRUMENTS**

The information pertaining to financial instruments set out below is made in accordance with the provisions of AAS33 "Presentation and Disclosure of Financial Instruments".

For the purpose of these financial statements, a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary instruments (such as receivables, payables and equity securities) and derivative instruments (such as financial options, foreign exchange transactions, forward rate agreements and interest rate and currency swaps).

### **Cash**

Cash comprises bank balances and balances with New South Wales Treasury Corporation ('TCorp'). Interest is earned on daily bank balances in bank accounts and at monthly averages for TCorp 11 am unofficial cash rate adjusted for a management fee.

### **Receivables**

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). No interest is earned on trade debtors. The carrying amount approximates net fair value.

### **Investments**

The NSW Insurance Ministerial Corporation's investments detailed in Note 12 are held with New South Wales Treasury Corporation ('TCorp') in the form of either investments in TCorp Hour-Glass facilities, or direct investment in individual TCorp specialised asset sector facilities.

These investments represent the Corporation's share of the total value of the underlying assets of the facilities, which are stated at net fair value. As such the value of these investments can vary dependent upon market conditions.

### **Interest Rate Risk**

Given that the investments are held in a pooled investment facility it is not meaningful to disclose the contractual repricing or maturity dates of the underlying assets. Investments in these facilities can be withdrawn by notice of up to 7 days (dependent upon the facility).

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

Maturity									2004 \$'000
Financial Instrument	Within one month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Floating rate	Non interest	TOTAL
Receivables								615,132	615,132
Cash at bank									90,326
Interest rate									4.35%
Hour-Glass facility							1,856,146		1,856,146
Interest rate									20.45%
Bond portfolio	76,989	45,849	39,538	300,790	1,428,470	625,987			2,517,623
Interest rate									5.68%
Payables								112,128	112,128
Interest bearing liabilities							16,339		16,339
Interest rate.									10.75%

Maturity									2003 \$'000
Financial Instrument	Within one month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Floating rate	Non interest	TOTAL
Receivables								677,473	677,473
Cash at bank							80,010		80,010
Interest rate									4.15%
Hour-Glass facility							1,711,827		1,711,827
Interest rate									(6.59)%
Bond portfolio	148,097	50,540	18,390	156,018	677,304	897,584			1,947,933
Interest rate									5.44%
Payables								100,378	100,378
Interest bearing liabilities							12,379		12,379
Interest rate.									10.25%

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**Credit Risk**

The maximum credit risk exposure is best represented by the net fair value of the interest in the individual facilities. The nature of the structure of the Hour-Glass and specialised sector facilities is such that a wide spread of risks is achieved by engaging a spread of funds managers in a specific asset sector. TCorp contracts with these managers and requires in their mandates a series of controls over concentration of assets.

For all financial instruments, the maximum credit risk is equal to the market value at balance date, which is:

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
Bond portfolio	2,517,623	1,947,933
Hour-Glass facility: - Investments	1,856,145	1,711,827
Hour-Glass facility: - Cash	89,343	78,963
Total	4,463,111	3,738,723

For the Bond portfolio the credit risk is spread across the following counterparties

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
International, Federal and State Governments	1,446,762	1,364,204
Banks	686,591	303,851
Corporates and Others	384,270	279,878
Total	2,517,623	1,947,933

**Currency Risk**

Investments in the TCorp Bond Portfolio facility may be denominated in currencies other than Australian Dollars. The agreement between the Corporation and TCorp requires the manager to effectively hedge that currency exposure fully as and when it arises. Investments in the TCorp Specialised Sector International Shares Facility are substantially denominated in currencies other than Australian Dollars. In order to achieve a diversification of investment returns, it has been specifically agreed that those exposures will not be hedged into Australian Dollars.

All other investments are denominated in Australian Dollars and do not give rise to a currency exposure.

**Derivatives**

Managers of certain of the TCorp Hour-Glass facilities and the Bond Portfolio facilities are mandated by TCorp to utilise derivative instruments within an appropriate control environment. Derivative contracts are not used for speculative purposes and are not leveraged. The use of derivative instruments is undertaken within authorised and clearly defined limits.

**Bank Overdraft**

Bank overdraft in the financial report represent the unpresented cheques at balance date.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**Trade Creditors and Accruals**

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment. No interest was awarded during the year.

**23. SEGMENT REPORTING**

The funds of the New South Wales Insurance Ministerial Corporation operate in one geographical segment (New South Wales). The Statement of Financial Performance and the Statement of Financial Position of the Funds as at 30 June 2004 are included in Notes 20 and 21.

**24. CAPITAL COMMITMENTS**

There are no capital expenditure commitments at the reporting date.

**25. CONTINGENT LIABILITIES**

There are no known contingent liabilities at balanced date.

**26. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The IMC will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

The IMC is managing the transition to the new standards by allocating internal resources to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result of this exercise, the IMC has taken the following steps to manage the transition to the new standards:

The IMC IAS Committee is overseeing the transition and is responsible for the project.

The following phases that need to be undertaken have been identified:

- Scope and planning
- Review and impact assessment
- Design and training
- Implementation
- Post implementation review

To date, the scope and planning phase has been completed. The remaining phases are estimated to be completed:

- Review and impact assessment March 2005
- Design and training June 2005
- Implementation July 2006
- Post implementation review December 2006

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

The IMC has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because of AIFRS requirements that are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the IMC of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The IMC's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB108 Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

AASB 139 Financial Instrument Recognition and Measurement results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit and loss or equity, respectively. Investment assets of the IMC are already valued at market prices.

To achieve full harmonisation with GFS, entities would need to designate all financial instruments at fair value through profit and loss. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether NSW Treasury will mandate this option for all agencies.

AASB 1023 General Insurance Contracts requires the outstanding claims liability to include a risk margin to reflect the inherent uncertainty in the central estimate, whereas previously no risk margin was required. The outstanding claims liability must also be discounted for the time value of money using risk free rates, whereas previously the discount rate was based on the expected rates of return on assets. This will likely increase the outstanding claims liability.

Unlike the previous standard, the revised standard applies a liability adequacy test to the unearned premium liability, increases disclosure requirements and requires assets backing general insurance liabilities to be measured at fair value (previously they were generally recognised at net market value).

AASB 137 Provisions, Contingent Liabilities and Contingent Assets includes an Australian Guidance section that accompanies but is not a part of AASB 137. G5 of the Guidance section states that at an individual level where a contract involves the transfer of significant insurance risk from an entity within the group to a captive insurer, it is an insurance contract. However, in the group's consolidated financial statements, the insurance arrangements entered into do not meet the definition of an 'insurance contract'. Accordingly AASB 1023 General Insurance Contracts applies to the IMC Financial Statements, however, when the IMC is consolidated into the General Government Financial Statements, AASB 137 applies.

AASB 137 also applies to the Pre Managed Fund, the Governmental Workers Compensation Account and the Transport Accidents Compensation Fund as these arrangements do not meet the definition of an 'insurance contract'.

**End of Audited Financial Statements**



Financial Statements for the year ended 30 June 2004

# Liability Management Ministerial Corporation



New South Wales  
TREASURY



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### LIABILITY MANAGEMENT MINISTERIAL CORPORATION

To Members of the New South Wales Parliament

#### Audit Opinion

In my opinion, the financial report of the Liability Management Ministerial Corporation (Corporation):

- (a) presents fairly the Corporation's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

#### The Secretary's Role

The financial report is the responsibility of the Secretary of the Treasury. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

#### The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Secretary in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Secretary had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.



## **Audit Independence**

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



P G Thomas CA  
Assistant Auditor-General

SYDNEY  
28 October 2004



## **LIABILITY MANAGEMENT MINISTERIAL CORPORATION FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

- (a) The accompanying financial statements exhibit a true and fair view of the financial position of the Liability Management Ministerial Corporation for the year ended 30 June 2004 and the transactions for the year then ended
- (b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000*, the Treasurer's Direction, Australian Accounting Standards and the Urgent Issues Group Consensus Views.

Further I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Kerry Schott  
Acting Secretary  
28 October 2004

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**for the year ended 30 June 2004**

	Notes	2004 \$000	2003 \$000
<b>Expenses</b>			
Finance Expenses		1,492	–
Other	2	2	–
<b>Total Expenses</b>		<u>1,494</u>	<u>–</u>
<b>Revenue</b>			
Contributions from the Crown Entity	3 a)	1,124,000	1,629,000
Investment Income	3 b)	111,619	22,372
<b>Total Revenue</b>		<u>1,235,619</u>	<u>1,651,372</u>
 <b>OPERATING SURPLUS FOR THE YEAR</b>		 <u>1,234,125</u>	 <u>1,651,372</u>
 <b>TOTAL REVENUE, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY</b>		 <u>–</u>	 <u>–</u>
 <b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>	9	 <u>1,234,125</u>	 <u>1,651,372</u>

The accompanying notes form an integral part of these financial statements.

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**for the year ended 30 June 2004**

	Notes	2004 \$000	2003 \$000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash at Bank	4	–	1,651,372
Receivables	5	34,385	–
Other Financial Assets	6	487,216	–
<b>Total Current Assets</b>		<u>521,601</u>	<u>1,651,372</u>
<b>Non-Current Assets</b>			
Investments	7	2,364,101	–
<b>Total Non-Current Assets</b>		<u>2,364,101</u>	<u>–</u>
<b>TOTAL ASSETS</b>		<u>2,885,702</u>	<u>1,651,372</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	8	205	–
<b>Total Current Liabilities</b>		<u>205</u>	<u>–</u>
<b>Non-Current Liabilities</b>			
		–	–
<b>TOTAL LIABILITIES</b>		<u>205</u>	<u>–</u>
<b>NET ASSETS</b>		<u>2,885,497</u>	<u>1,651,372</u>
<b>EQUITY</b>			
Accumulated Funds	9	2,885,497	1,651,372
<b>TOTAL EQUITY</b>		<u>2,885,497</u>	<u>1,651,372</u>

The accompanying notes form an integral part of these financial statements.

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**for the year ended 30 June 2004**

	Notes	2004 \$000	2003 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Payments</b>			
Other		1,289	—
<b>Total Payments</b>		<u>1,289</u>	<u>—</u>
<b>Receipts</b>			
Contributions from Crown		1,124,000	1,629,000
Interest Received		75,434	22,372
Valuation Gains		530	—
<b>Total Receipts</b>		<u>1,199,964</u>	<u>1,651,372</u>
<b>CASH INFLOWS FROM OPERATING ACTIVITIES</b>	13	<u>1,198,675</u>	<u>1,651,372</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Investments		(2,362,831)	—
<b>CASH INFLOWS FROM INVESTING ACTIVITIES</b>		<u>(2,362,831)</u>	<u>—</u>
<b>CASH INFLOWS FROM FINANCING ACTIVITIES</b>		<u>—</u>	<u>—</u>
<b>DECREASE IN CASH HELD</b>		<b>(1,164,156)</b>	<b>1,651,372</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>		1,651,372	—
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	12	<u>487,216</u>	<u>1,651,372</u>

The accompanying notes form an integral part of these financial statements.

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Liability Management Ministerial Corporation (LMMC) has been established to manage the General Government Liability Management Fund, through which accumulated Crown funds are invested pending the payment of employer contributions to the STC superannuation fund.

The following summary explains the significant policies that have been adopted in the preparation of the financial statements.

**Basis of Accounting**

The financial statements are general purpose financial reports which have been prepared on an accruals basis in accordance with applicable Australian Accounting Standards and the Urgent Issues Group Consensus Views, the requirements of the *Public Finance and Audit Act 1983* and Regulations and Treasury Accounting Policy Statements.

**EXPENSES**

**Goods and Services Tax**

The amount of GST incurred is not recoverable from the Australian Taxation Office and as a result is recognised as part of an item of expense.

**REVENUE**

**Investment Income**

Investment income is recognised as it accrues.

**ASSETS**

**Investments**

Consists of investments in bonds which are managed by the custodian New South Wales Treasury Corporation. All investments are measured at current capital value, held to maturity and reinvested until paid to the Super Trustee.

All investments with a term to maturity of up to 12 months must have an issuer short term credit rating as

assessed by Standard & Poor's of A1+ or better or equivalents as assessed by other recognised ratings agencies.

All long term securities in the portfolio must have a long term credit rating as assessed by Standards & Poor's of AA- or better or equivalent as assessed by other recognised ratings agencies.

There will be no transfers out of the fund during 2004-05.

**FINANCIAL INSTRUMENTS**

Financial instruments give rise to positions that are a financial asset of either the LMMC or its counterparty and a financial liability of the other party. For the LMMC these include investments and payables.

In accordance with AAS33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 11, in respect of the interest rate risk of financial instruments. The specific accounting policy in respect of each class of such financial instruments is stated hereunder.

Payables are recorded at cost and other financial assets are carried at net fair value.

Revenue, expenses and other cash flows arising from financial instruments are recognised on an accrual basis.

Revenues and expenses arising from derivative financial instruments are not recognised in the statements. The unrealised values of the derivatives are disclosed in Note 14.

**Comparatives**

Comparative figures have been reclassified and repositioned in the financial statements, where necessary, to conform with the basis of presentation and classification used in the current year.

2003 figures are for the period 1 October 2002 to 30 June 2003.

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2004**

	<b>2004</b> <b>\$000</b>	<b>2003</b> <b>\$000</b>
<b>2. EXPENSES</b>		
<b>Other</b>		
Audit fees	<u>2</u>	<u>—</u>
	<u>2</u>	<u>—</u>
The audit fee was \$1,870 and was accrued as at 30 June 2004		
<b>3. REVENUE</b>		
<b>a) Contributions from the Crown Finance Entity</b>		
Money transferred to the Fund by the Crown Finance Entity	<u>1,124,000</u>	<u>1,629,000</u>
	<u><b>1,124,000</b></u>	<u><b>1,629,000</b></u>
<b>b) Investment Income</b>		
Interest on cash holdings	27,025	22,372
Valuation gains (net)	1,800	—
Interest on TCorp investments	48,409	—
Interest on TCorp investments accrued	<u>34,385</u>	<u>—</u>
	<u><b>111,619</b></u>	<u><b>22,372</b></u>
<b>4. CASH</b>		
Cash at bank and on hand	<u>—</u>	<u>1,651,372</u>
	<u>—</u>	<u><b>1,651,372</b></u>
<b>5. RECEIVABLES</b>		
<b>Current</b>		
Interest	<u>34,385</u>	<u>—</u>
	<u><b>34,385</b></u>	<u>—</u>
<b>6. OTHER FINANCIAL ASSETS</b>		
Short term money market investment at TCorp	<u>487,216</u>	<u>—</u>
	<u><b>487,216</b></u>	<u>—</u>
<b>7. INVESTMENTS</b>		
Portfolio at TCorp	<u>2,364,101</u>	<u>—</u>
	<u><b>2,364,101</b></u>	<u>—</u>
<b>8. PAYABLES</b>		
Audit fees	2	—
Management fees	<u>203</u>	<u>—</u>
	<u><b>205</b></u>	<u>—</u>

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2004**

	<b>2004</b> <b>\$000</b>	<b>2003</b> <b>\$000</b>
<b>9. CHANGES IN EQUITY</b>		
Balance at the beginning of the financial year	1,651,372	–
Changes in equity other than transactions with owners as owners		
Surplus for the year	1,234,125	1,651,372
Balance at the end of the financial year	<u><b>2,885,497</b></u>	<u><b>1,651,372</b></u>

**10. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

There are no contingent assets or contingent liabilities as at 30 June 2004.

**11. INVESTMENT PERFORMANCE**

For the year ended 30 June 2004, the Liability Management Ministerial Corporation earned 4.92% annualised return on investments.

Together with the SAS Trustees Corporation (STC) Pooled funds, the combined investment return for the year was:

<b>Pooled Fund</b>			<b>LMC</b>			<b>Combined</b>		
<b>Assets</b>	<b>Revenue</b>	<b>Return</b>	<b>Assets</b>	<b>Revenue</b>	<b>Return</b>	<b>Assets</b>	<b>Revenue</b>	<b>Return</b>
<b>2004</b> <b>\$'000</b>	<b>2004</b> <b>\$'000</b>	<b>2004</b>	<b>2004</b> <b>\$'000</b>	<b>2004</b> <b>\$'000</b>	<b>2004</b>	<b>2004</b> <b>\$'000</b>	<b>2004</b> <b>\$'000</b>	<b>2004</b>
\$24,582,600	\$3,185,100	13.50%	\$2,885,497	\$111,619	4.92%	\$27,468,097	\$3,296,719	12.75%

**12. CASH AND CASH EQUIVALENTS**

For the purposes of the Statement of Cash Flows, cash includes investments in money market instruments. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	<b>2004</b> <b>\$000</b>	<b>2003</b> <b>\$000</b>
Cash	–	1,651,372
Other financial assets	487,216	–
	<u><b>487,216</b></u>	<u><b>1,651,372</b></u>

**13. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO THE OPERATING RESULT**

Surplus for the year	1,234,125	1,651,372
Non cash items added back		
Valuation Gains	(1,270)	
Change in operating assets and liabilities		
Increase/(Decrease) in Payables	205	–
(Increase)/Decrease in Receivables	(34,385)	–
Cash Flows from operating activities	<u><b>1,198,675</b></u>	<u><b>1,651,372</b></u>



**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2004**

**14. FINANCIAL INSTRUMENTS**

Financial Instruments give rise to positions that are financial assets of the Liability Management Ministerial Corporation or of the other party. All such amounts are carried at net fair value unless otherwise stated.

**(a) Derivative Financial Instruments**

New South Wales Treasury Corporation has been appointed to manage the investments of the LMMC, and is authorised to invest assets of the portfolio in derivative instruments provided that the portfolio is not geared and a net short position for the portfolio not created.

Derivatives which may be used are:

- Exchange traded interest rate futures contracts
- Exchange traded interest rate options
- OTC options on Commonwealth and TCorp bonds
- Swaps

The LMMC has two types of derivatives as at 30 June 2004.

1. Forward Contracts: Eight contracts to purchase bonds with settlement dates in July were entered into on or before 30 June 2004. The total face value of the forward contracts is \$393 million. As at 30 June 2004 the forward contracts have unrealised losses of \$230,192.
2. Foreign Exchange Contracts: As at 30 June 2004 there are two foreign currency bonds in the investment portfolio. The policy is that all foreign currency bonds are fully hedged for both principal and coupon payments. Details are:

Underlying Bond Value	48.8 Million Euro	57.4 Million Euro
Maturity Date of Bond	31 March 2006	15 December 2006
Coupon Type Receivable	Fixed	Floating
Payable Leg of Swap:		
Coupon Type Payable	Fixed	Floating
Principal (AUD)	48.8 Million Euro	57.4 Million Euro
Receivable Leg of Swap:		
Coupon Rate	5.50%	5.78%
Coupon Type Receivable	Fixed	Fixed
Principal (AUD)	\$80 Million AUD	\$100 Million AUD

The foreign exchange contracts have no net market value as all flows associated with the bonds are fully hedged. The payment part of the swap equals the amounts received from the underlying physical bond.

**(b) Interest Rate Risk**

Interest rate risk is the risk that the value of the instruments will fluctuate due to changes in market interest rates. The entity's exposure to interest rate risk and the effective interest rates of financial assets at the balance date are as follows:

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2004**

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 Years			
	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2004 %
<b>(i) Financial Assets</b>							
Investments	—	11,812	2,352,289	—	—	2,364,101	3.79%
Other Financial Assets	487,216	—	—	—	—	487,216	5.25%
Receivables	—	—	—	—	34,385	34,385	—
<b>Total financial assets</b>	<b>487,216</b>	<b>11,812</b>	<b>2,352,289</b>	<b>—</b>	<b>34,385</b>	<b>2,885,702</b>	
<b>(ii) Financial Liabilities</b>							
Payables	—	—	—	—	205	205	—
<b>Total financial liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>205</b>	<b>205</b>	
Off Balance Sheet Liability - Forward Contracts	—	—	230	—	—	—	

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 Years			
	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000	2003 %
<b>(i) Financial Assets</b>							
Cash	1,651,372					1,651,372	4.75%
<b>Total financial assets</b>	<b>1,651,372</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,651,372</b>	

**(c) Credit Risk**

Credit risk is the risk of financial loss arising from another party to a contract/or financial position failing to discharge a financial obligation there under. The Entity's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Statement of Financial Position.

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2004**

**15. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Liability Management Ministerial Corporation (LMMC) will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

The LMMC is managing the transition to the new standards by allocating internal resources to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result of this exercise, the LMMC has taken the following steps to manage the transition to the new standards:

1. The LMMC IAS Committee is overseeing the transition and is responsible for the project.
2. The following phases that need to be undertaken have been identified:
  - Scope and planning
  - Review and impact assessment
  - Design and training
  - Implementation
  - Post implementation review
3. To date, the scope and planning phase has been completed. The remaining phases are estimated to be completed:
  - Review and impact assessment – March 2005
  - Design and training – June 2005
  - Implementation – July 2006
  - Post implementation review – December 2006

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

The LMMC has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because of AIFRS requirements that are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the LMMC of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The LMMC's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

**LIABILITY MANAGEMENT MINISTERIAL CORPORATION**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2004**

AASB 1004 *Contributions* applies to *not-for-profit entities* only. Entities will either continue to apply the current requirements in AASB 1004 where grants are normally recognised on receipt, or alternatively apply the proposals on grants included in ED 125 *Financial Reporting by Local Governments*. If the ED 125 approach is applied, revenue and/or expense recognition will be delayed until the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied.

AASB 139 *Financial Instrument Recognition and Measurement* results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit and loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and balance sheet.

To achieve full harmonisation with GFS, entities would need to designate all financial instruments at fair value through profit and loss. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether NSW Treasury will mandate this option for all agencies

#### **16. POST BALANCE DATE EVENTS**

There are no events subsequent to reporting date requiring disclosure

Financial Statements for the year ended 30 June 2004

# Electricity Tariff Equalisation Ministerial Corporation



New South Wales  
TREASURY



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

To Members of the New South Wales Parliament

#### Audit Opinion

In my opinion, the financial report of the Electricity Tariff Equalisation Ministerial Corporation (Corporation):

- (a) presents fairly the Corporation's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

#### The Fund Administrator's Role

The financial report is the responsibility of the Fund Administrator. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

#### The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Fund Administrator in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Fund Administrator had not fulfilled its reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

### **Audit Independence**

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



L I White FCA  
Assistant Auditor-General

SYDNEY  
25 October 2004

## **ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION**

### **FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

- (a) The accompanying financial statements exhibit a true and fair view of the financial position of the Electricity Tariff Equalisation Ministerial Corporation for the year ended 30 June 2004 and the transactions for the year then ended;
- (b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000* and the Treasurer's Directions, all applicable Australian Accounting Standards and the Urgent Issues Group Consensus Views.

Further I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



Ian Neale  
Fund Administrator  
21 October 2004



# ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

## STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2004

	Notes	2004 \$000	2003 \$000
<b>Expenses</b>			
Tariffs to Retailers		266,380	260,861
Tariffs to Generators		-	29,615
Other	2	255	96
<b>Total Expenses</b>		<u><b>266,635</b></u>	<u><b>290,572</b></u>
<b>Revenue</b>			
Tariffs from Retailers		385,411	340,937
Tariffs from Generators		-	29,615
Investment income	3	11,183	2,685
<b>Total Revenues</b>		<u><b>396,594</b></u>	<u><b>373,237</b></u>
<b>OPERATING SURPLUS FOR THE YEAR</b>		<u><b>129,959</b></u>	<u><b>82,665</b></u>
<b>TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY</b>		-	-
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>	7	<u><b>129,959</b></u>	<u><b>82,665</b></u>

The accompanying notes form an integral part of these financial statements

# ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

## STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2004

	Notes	2004 \$000	2003 \$000
<b>ASSETS</b>			
<b>Current Assets</b>			
Receivables	4	20,192	23,523
Other Financial Assets	5	237,842	181,908
<b>Total Current Assets</b>		<u>258,034</u>	<u>205,431</u>
<b>Total Non-Current Assets</b>		-	-
<b>Total Assets</b>		<u>258,034</u>	<u>205,431</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	6	43	77,399
<b>Total Current Liabilities</b>		<u>43</u>	<u>77,399</u>
<b>Total Non-Current Liabilities</b>		-	-
<b>Total Liabilities</b>		<u>43</u>	<u>77,399</u>
<b>Net Assets</b>		<u>257,991</u>	<u>128,032</u>
<b>EQUITY</b>			
Accumulated Funds	7	257,991	128,032
<b>Total Equity</b>		<u>257,991</u>	<u>128,032</u>

The accompanying notes form an integral part of these financial statements

# ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

## STATEMENT OF CASH FLOWS for the year ended 30 June 2004

	Notes	2004 \$000	2003 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Payments</b>			
Payments to Retailers		343,750	360,442
Payments to Generators		-	29,615
GST Paid		22	9
Management Fee		167	53
Consultant Costs		12	18
Other		67	28
<b>Total Payments</b>		<u><b>344,018</b></u>	<u><b>390,165</b></u>
<b>Receipts</b>			
Payments from Retailers		388,746	322,741
Payments from Generators		-	29,615
GST Recouped		23	30
Interest received		11,183	2,685
<b>Total Receipts</b>		<u><b>399,952</b></u>	<u><b>355,071</b></u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	10	<u><b>55,934</b></u>	<u><b>(35,094)</b></u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<u><b>-</b></u>	<u><b>-</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings and advances		-	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<u><b>-</b></u>	<u><b>-</b></u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<u><b>55,934</b></u>	<u><b>(35,094)</b></u>
Opening cash and cash equivalents		181,908	217,002
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	9	<u><b>237,842</b></u>	<u><b>181,908</b></u>

The accompanying notes form an integral part of these financial statements

# ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electricity Tariff Equalisation Ministerial Corporation ("ETEMC") is established under s43EM of the *Electricity Supply Act 1995* ("the Act") and administers the Electricity Tariff Equalisation Fund ("ETEF"). The purpose of the ETEF is to manage purchase cost risks for electricity retail suppliers of small retail customers in New South Wales. The Act sets out rules for payment to and from the ETEF. Tariffs are paid and collected from retailers and/or generators based on usage figures supplied by the retailers.

Section 43ES of the Act states that the ETEF is to cease operation on 30 June 2004. A regulation to extend the operation of the ETEF to 30 June 2007 was gazetted on 19 September 2003.

The following summary explains the significant policies that have been adopted in the preparation of the financial statements.

#### ***Basis of Accounting***

The financial statements are a general purpose financial report which has been prepared based on returns from retailers and generators and in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group (UIG) Consensus Views, the requirements of the *Public Finance and Audit Act 1983* and Regulations and Treasury Accounting Policy Statements.

Legislative provisions prevail where there are inconsistencies between the requirements.

In the absence of a specific Accounting Standard, other authoritative pronouncements of the AASB or UIG Consensus View, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.

The accounts have been prepared on the basis of historical costs except for cash and cash equivalents that are at valuation.

All amounts are rounded to the nearest one thousand dollars and are in Australian currency.

#### **Policy on tariff to/from retailers**

The weekly tariff settlements which make up tariffs to and from retailers consist of both final and revision settlements. Under the ETEF payment rules, final settlements are completed 20 business days after the conclusion of the trading week. Revisions are conducted 20 and 30 weeks respectively using data generated when required after the conclusion of the trading week.

### **EXPENSES**

#### **Employee Entitlements**

The ETEMC has no employees and therefore no provision is needed for employee entitlements. All the work and services are provided by staff of NSW Treasury. The value of these services are not reliably measurable and no fee is charged for the work and services.

# **ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2004**

### **Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an item expense;
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the Australian Taxation Office is included as part of receivables or payables.

No GST is payable or receivable on tariffs between the ETEF and electricity businesses as the ETEMC is listed in the 4<sup>th</sup> Division 81 Commonwealth GST Determination gazetted on 20 June 2001.

### **REVENUE**

#### **Investment Income**

Investment income is recognised as it accrues.

### **ASSETS**

#### **Other Financial Assets**

Consist of short term money market investments held at New South Wales Treasury Corporation with maturity less than 90 days, which are measured at market value.

### **FINANCIAL INSTRUMENTS**

Financial instruments give rise to positions that are a financial asset of either the ETEMC or its counterparty and a financial liability of

the other party. For the ETEMC these include other financial assets, receivables and payables.

In accordance with AAS33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 11, in respect of the interest rate risk of financial instruments. The specific accounting policy in respect of each class of such financial instruments is stated hereunder.

Payables are recorded at cost and other financial assets are carried at net fair value.

Revenue, expenses and other cash flows arising from financial instruments are recognised on an accrual basis.

There are no contracts between either the standard retail suppliers and the ETEF or electricity generators and the ETEF. Liabilities and assets arising from payments from and to the ETEF are created as a result of a statutory requirement (namely the payment rules made under s 43EO of the *Act*) imposed by the NSW Government. The arrangements between standard retail suppliers and electricity generators and the ETEF are not classed as financial instruments for the purposes of AAS33 "Presentation and Disclosure of Financial Instruments" because Clause 7.1.8 of the Standard regards liabilities and assets that are not contractual in nature, that are created as a result of a statutory requirement imposed by government, not to be financial liabilities or financial assets.

#### **Comparatives**

Comparatives figures have been reclassified and repositioned in the financial statements, where necessary, to conform with the basis of presentation and classification used in the current year

# ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2004

	2004 \$000	2003 \$000
<b>2. EXPENSES</b>		
<b>Other</b>		
Audit Fees	24	21
Consultants Costs	13	18
Management Fee	172	45
Other	46	12
	<u>255</u>	<u>96</u>

The Audit fee was \$24,000 and was accrued as at 30 June 2004.

### 3. REVENUE

#### Investment Income

Interest on short term money market investment at TCorp	11,183	2,685
---	--------	-------

### 4. RECEIVABLES

#### Current

Payments from retailers/generators	20,185	23,519
GST receivable	7	4
	<u>20,192</u>	<u>23,523</u>

### 5. OTHER FINANCIAL ASSETS

Short term money market investment at TCorp	237,842	181,908
---	---------	---------

### 6. PAYABLES

Payments to retailers/generators	-	77,366
Audit Fees	27	22
Management Fee	16	11
	<u>43</u>	<u>77,399</u>

# ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2004

### 7. CHANGES IN EQUITY

	<b>Accumulated Funds</b>	
	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
Balance at the beginning of the financial year	128,032	45,367
<b>Changes in equity-other than transactions with owners as owners</b>		
Surplus for the year	129,959	82,665
Balance at the end of the financial year	<b>257,991</b>	<b>128,032</b>

### 8. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities and contingent assets.

	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>

### 9. CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash includes investments in money market instruments. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

Other financial assets	237,842	181,908
------------------------	---------	---------

### 10. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO THE OPERATING RESULT

Surplus for the year after abnormal items	129,959	82,665
Change in operating assets and liabilities		
Decrease /(Increase) in Receivables	3,334	(18,195)
Increase /(Decrease) in Payables	(77,356)	(99,585)
(Increase)/Decrease in GST Receivable	(3)	21
Increase/(Decrease) in Other Liabilities	-	-
Cash flow from operating activities	<b>55,934</b>	<b>(35,094)</b>

# ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2004

### 11. FINANCIAL INSTRUMENTS

The ETEMC has appointed New South Wales Treasury Corporation to actively manage its asset portfolio and to provide professional treasury management advice. As a result of the activity the ETEMC is involved in derivative financial instruments.

#### (a) Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The ETEMC's exposure to interest rate risks and the effective interest rates of financial assets and liabilities, both recognised and unrecognised at the balance sheet date as follows:

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
	2004 \$000	2004 \$000	2004 \$000	2004 \$000	2004 \$000	2004 \$000	2004 %
<i>(i) Financial Assets</i>							
Other Financial Assets	237,842	-	-	-	-	237,842	5.0663
Receivables	-	-	-	-	20,185	20,185	-
<b>Total financial assets</b>	<b>237,842</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,185</b>	<b>258,027</b>	
<i>(ii) Financial Liabilities</i>							
Payables	-	-	-	-	43	43	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43</b>	<b>43</b>	

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 %
<i>(i) Financial Assets</i>							
Other Financial Assets	181,908	-	-	-	-	181,908	4.6057
Receivables	-	-	-	-	23,519	23,519	-
<b>Total financial assets</b>	<b>181,908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,519</b>	<b>205,427</b>	
<i>(ii) Financial Liabilities</i>							
Payables	-	-	-	-	77,399	77,399	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,399</b>	<b>77,399</b>	



# **ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2004**

### **(b) Credit Risk**

Credit risk is the risk of financial loss arising from another party to a contractor/or financial position failing to discharge a financial obligation. The ETEMC's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Statement of Financial Position.

### **(c) Net Fair Value**

As stated in note 1, all financial instruments are carried at cost, unless stated otherwise. The net fair value of non-interest bearing monetary financial assets and financial liabilities of the ETEMC approximates their carrying value.

## **12. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The ETEMC will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

The ETEMC is managing the transition to the new standards by allocating internal resources to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result of this exercise, the ETEMC has taken the following steps to manage the transition to the new standards:

1. The ETEMC IAS Committee is overseeing the transition and is responsible for the project.
2. The following phases that need to be undertaken have been identified:
  - Scope and planning
  - Review and impact assessment
  - Design and training
  - Implementation
  - Post implementation review
3. To date, the scope and planning phase has been completed. The remaining phases are estimated to be completed:
  - Review and impact assessment March 2005
  - Design and training June 2005
  - Implementation July 2006
  - Post implementation review December 2006

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

The ETEMC has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because of AIFRS requirements that are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the ETEMC of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The ETEMC's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

*AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, *AASB108 Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

*AASB 132 Financial Instrument Disclosure and Presentation* prohibits in-substance defeasance. Agencies can no longer offset financial assets and financial liabilities when financial assets are set aside in trust by a debtor for the purposes of discharging an obligation, without assets having been accepted by the creditor in settlement of the obligation.

*AASB 139 Financial Instrument Recognition and Measurement* results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit and loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and balance sheet.

The standard also includes stricter rules for the adoption of hedge accounting, and where these are not satisfied, movements in fair value will impact the income statement.

To achieve full harmonisation with GFS, entities would need to designate all financial instruments at fair value through profit and loss. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether NSW Treasury will mandate this option for all agencies.

### **13. POST BALANCE DATE EVENTS**

There are no events subsequent to reporting date requiring disclosure.

### **End of Audited Financial Information**

Financial Statements for the year ended 30 June 2004

# Crown Property Portfolio



New South Wales  
TREASURY



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### Crown Property Portfolio

To Members of the New South Wales Parliament

#### Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matter referred to in the first qualification paragraph and the effect of such adjustments, if any, as might have been determined to be necessary had the limitation discussed in the second qualification paragraph not existed, the financial report of the Crown Property Portfolio:

- (a) presents fairly the Portfolio's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

#### Qualifications:

##### 1. Finance Lease

In 1993, a contractual arrangement for the use of a portion of the Colonial State Bank Centre was assigned to the Crown Property Portfolio. As indicated at Note 13 (a), the Crown Property Portfolio recognises this arrangement as an operating lease. The payment for the right to use the floor space, together with the Portfolio's other contractual obligations, effectively transfers to it substantially the risks and benefits incident to ownership of the entire property. In my opinion the substance of the contractual arrangement, consistent with the principles in Australian Accounting Standard AAS 17 "Accounting for Leases", requires recognition of the present obligation and related asset. I estimate the value of this obligation to be \$185 million (\$186 million at 30 June 2003), but am unable to quantify the value of the unrecognised related asset and the effect that this may have on the operating result. Adoption of this accounting treatment would require reversal of the recognition of the liability of \$7.2 million (\$11.2 million at 30 June 2003), being the difference between the head lease and the sub lease for the Colonial State Bank Centre. My opinion for the year ended 30 June 2003 was similarly qualified.

##### 2. Provision for Land Remediation and Other Costs

The Acting Secretary, New South Wales Treasury (on behalf of the Crown Property Portfolio), has not provided me with the latest cost estimate for the remediation of the BHP main steel works site because it is subject to Cabinet approval. As well, the Acting Secretary has not prepared an estimate for remediation costs for the Kooragang Island Waste Emplacement site. Accordingly, I am unable to express an opinion about the value of the provision of \$103.8 million for "land remediation and other costs". My opinion for the year ended 30 June 2003 also included a qualification on this matter.

#### The Acting Secretary's Role

The financial report is the responsibility of the Acting Secretary of the New South Wales Treasury. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

## The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Acting Secretary in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Acting Secretary had not fulfilled her reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Crown Property Portfolio,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

## Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



R J Sendt  
Auditor-General  
SYDNEY  
25 October 2004

# CROWN PROPERTY PORTFOLIO

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

Certificate under Section 41C (1B) & (1C) of the *Public Finance and Audit Act, 1983* and Clause 14 (1) of the Public Finance and Audit Regulation, 2000

The accompanying financial statements have been prepared in accordance with the *Public Finance and Audit Act, 1983*, the Public Finance and Audit Regulations, 2000 and the Treasurer's Directions as they related to the preparation of those Accounts and with the requirements of applicable Australian Accounting Standards and the Urgent Issues Group Consensus Views.

In my opinion, the statements exhibit a true and fair view of the financial position and transactions of the Crown Property Portfolio. Further, I am not aware of any circumstances, as at the date of this certificate, which would render any particulars included in the financial statements misleading or inaccurate.



Acting Secretary  
NSW Treasury

21 October 2004

## **CROWN PROPERTY PORTFOLIO**

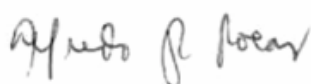
### **ADOPTION OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**

We have prepared the financial statements and all the necessary disclosure notes of the Crown Property Portfolio for the year ended 30 June 2004. The preparation of these statements was done consistent with the previous year having regard with the accounting policies being adopted by the Crown Property Portfolio. Any changes to the accounting policies have been adequately disclosed in the financial report. In our opinion, adequate systems of internal control exist to ensure that all material transactions are recorded in the accounting records underlying the financial report and no irregularities have occurred which could have material effect on the accounts.

We declare that:

- (1). The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Property Portfolio, as at 30 June 2004 and the results of its operation for the year then ended.
- (2). The statements have been prepared in accordance with the provision of the Public Finance and Audit Act, 1983, the Public Finance and Audit Act (General) Regulation, 1995, the Treasurer's Directions as they relate to the preparation of those Accounts and with the requirements of applicable Australian Accounting Standards and the Urgent Issues Group Consensus Views

Further, we are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.



Alfredo Roxas  
Portfolio Finance Manager - Corporate Real Estate  
(State Property)  
Department of Commerce (NSW)



Trevor Seymour-Jones  
Senior Manager – Corporate Real Estate  
(State Property)  
Department of Commerce (NSW)

**CROWN PROPERTY PORTFOLIO**  
**Statement of Financial Performance**  
**for the financial year ended 30 June 2004**

	Notes	2004 \$'000	2003 \$'000
<b><i>Revenues from ordinary activities</i></b>			
Property rental income	2, 9	167,156	159,105
Contribution received for land remediation	4	-	103,987
Interest income	5	9,788	-
Other revenues	6	5	362
<i>Contribution from the Crown Entity</i>	7	25,124	21,424
<b>Total revenues</b>		<u>202,073</u>	<u>284,878</u>
<b><i>Expenses from ordinary activities</i></b>			
Loss on disposal of property	3	35	15
Depreciation	1(f), 16	2,999	5,527
Amortisation	1(g), 16	2,908	2,686
Borrowing costs – finance leases	1(e)	16,771	16,660
Head leases expenses	1(e), 8	124,555	122,110
Property expenses	9	10,597	11,710
Refurbishment expenses		5,197	5,598
Management Fee		7,512	8,958
Assets disposed of free of charge	10	1,500	16,160
Correction of a prior year error	19	-	25,860
Provision for land remediation	13 (b)	-	103,987
Provision for doubtful debts	15	219	40
Other		605	296
<b>Total expenses</b>		<u>172,898</u>	<u>319,607</u>
<b><i>Operating surplus/(deficit) from ordinary activities</i></b>	21	29,175	(34,729)
<b>Total revenue, expenses and valuation adjustments recognised directly in equity</b>			
Increase in asset revaluation reserve	21	<u>87,765</u>	<u>-</u>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>	21	<u><b>116,940</b></u>	<u><b>(34,729)</b></u>

The above Statement of Financial Performance is to be read in conjunction with the accompanying notes.



**CROWN PROPERTY PORTFOLIO**  
**Statement of Financial Position**  
**as at 30 June 2004**

	Notes	2004 \$'000	2003 \$'000
<b>Current assets</b>			
Cash	14 (a)	119,800	121,798
Receivables	15	<u>19,333</u>	<u>5,829</u>
<b>Total current assets</b>		<u>139,133</u>	<u>127,627</u>
<b>Non-current assets</b>			
Property, plant and equipment	16	<u>543,594</u>	<u>449,823</u>
<b>Total non-current assets</b>		<u>543,594</u>	<u>449,823</u>
<b>Total Assets</b>		<u>682,727</u>	<u>577,450</u>
<b>Current liabilities</b>			
Payables	18	10,206	8,351
Interest bearing liabilities	22 ( b )	17,869	16,852
Provisions			
-Sub-lease income shortfall	13 (a)	4,345	4,050
-Land remediation and other costs	13 (b)	2,200	1,365
Other			
-Rent received in advance		3,349	3,267
-Deferred income	20	<u>3,819</u>	<u>3,819</u>
<b>Total current liabilities</b>		<u>41,788</u>	<u>37,704</u>
<b>Non-current liabilities</b>			
Interest bearing liabilities	22 ( b )	77,763	78,860
Provisions			
-Sub-lease income shortfall	13 (a)	8,078	8,524
-Land remediation and other costs	13 (b)	101,628	102,463
Other			
-Deferred income	20	<u>5,727</u>	<u>9,546</u>
<b>Total non-current liabilities</b>		<u>193,196</u>	<u>199,393</u>
<b>Total Liabilities</b>		<u>234,984</u>	<u>237,097</u>
<b>Net Assets</b>		<u><b>447,743</b></u>	<u><b>340,353</b></u>
<b>Equity</b>			
Asset revaluation reserve	21	207,911	120,164
Accumulated funds	21	<u>239,832</u>	<u>220,189</u>
<b>Total Equity</b>		<u><b>447,743</b></u>	<u><b>340,353</b></u>

The above Statement of Financial Position is to be read in conjunction with the accompanying notes.

**CROWN PROPERTY PORTFOLIO**  
**Statement of Cash Flows**  
**for the financial year ended 30 June 2004**

	Notes	2004 \$'000	2003 \$'000
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rental income		160,323	153,428
Goods and services tax received		21,019	26,769
Contributions for land remediation and other received		-	103,987
Other		5	5,079
<b>Total Receipts</b>		<u>181,347</u>	<u>289,263</u>
<b>Payments</b>			
Operating head leases		(122,954)	(114,190)
Property and refurbishment expenses		(16,797)	(20,709)
Borrowing cost - finance leases		(16,852)	(15,895)
Goods and services tax paid		(21,356)	(26,190)
Management fee		(7,512)	(9,117)
		<u>(185,471)</u>	<u>(186,101)</u>
<b>Cash flows from government</b>			
Contribution from the Crown Entity		25,124	21,424
Asset sale proceeds transferred to the Crown Entity		(605)	(83,542)
Contribution to the Crown Entity		(4,525)	(4,100)
		<u>19,994</u>	<u>(66,218)</u>
<b>Net cash provided by operating activities</b>	14 ( b )	<u>15,870</u>	<u>36,944</u>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(18,473)	(12,026)
Proceeds from disposal of property		650	83,565
Property disposal costs		(45)	(14)
<b>Net cash provided by/ (used in) investing activities</b>		<u>(17,868)</u>	<u>71,525</u>
<b>Net increase/ (decrease) in cash held</b>		(1,998)	108,469
Cash at the beginning of the financial year		<u>121,798</u>	<u>13,329</u>
<b>Cash at the end of the financial year</b>	14 ( a )	<u><u>119,800</u></u>	<u><u>121,798</u></u>

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.

# CROWN PROPERTY PORTFOLIO

## Notes to and Forming Part of the Financial Statements For the year ended 30 June 2004

### STATEMENT OF PRINCIPAL ACTIVITIES

The Crown Property Portfolio (CPP), a budget dependent entity, comprises 6 property portfolios. The main activity of Portfolios 1-4 is the collection of rent and management of multi-occupancy buildings owned or leased by the New South Wales Government. Portfolios 5 and 6 generate a rental income stream from a number of diverse properties, including properties held for disposal, strategic properties and other properties received by the Portfolio that are surplus to Government requirements. The NSW Department of Commerce manage these properties on an agency basis under a Management Agreement between the Department and the NSW Treasury.

The CPP is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) *Basis of Financial Reporting*

On 1 July 1996 the Crown Property Portfolio became a budget dependent agency. The Treasury has, however, determined that it continue reporting its operations as if it was a statutory body and therefore comply with all the disclosure requirements of a statutory body.

#### (b) *Basis of Preparation of the Accounts*

These accounts, which are a general-purpose financial report, have been prepared in accordance with applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, Industry Practice, Treasurer's Directions and the requirements of the Public Finance and Audit Act, 1983 and Public Finance and Audit Regulation, 2000.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

The accounts have been prepared on the basis of historical costs except for properties that are at valuation.

The Statement of Financial Position and Statement of Financial Performance have been prepared on an accrual basis. The Statement of Cash Flows has been prepared on a cash basis using the direct method, and includes all receipts and payments made during the year.

All amounts are expressed in Australian dollars and, unless otherwise stated, rounded to the nearest one thousand dollars.

#### (c) *Employee Entitlements*

The Crown Property Portfolio has no employees and therefore no provision is needed for employee entitlements. Staff of the NSW Department of Commerce undertake all work under a signed Management Agreement between the NSW Treasury and the Department.

#### (d) *Insurance*

Properties owned or managed by or on behalf of the Crown Property Portfolio are insured for their replacement value under the Treasury Managed Fund administered by GIO Australia. The Crown Property Portfolio carries a comprehensive range of insurances through the Treasury Managed Fund covering property, public liability and other contingencies.

Management ensures that all insurance covers are current and adequate.

#### (e) *Leased Assets*

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets and operating leases under which the lessor effectively retains all such risks and benefits.

##### (i) Finance leases

Finance leases are recognised as assets and liabilities at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

##### (ii) Operating Leases

Operating lease expenditure is expensed in the period in which the benefit is received and lease income is recognised as earned. Expenditure is recorded under the Head Leases line item in the Statement of Financial Performance and income is included in Property Rental Income. Head Lease Expenses include the minimum lease payments, contingent rentals and rental expenses arising from sub-leases. (Note 8)

In accordance with Abstract 1 of the Urgent Issues Group "Lessee accounting for surplus leased space under a non-cancellable operating lease", where necessary, a provision is made for the cost of future surplus leased space from which no economic benefit will be derived and a provision is made for the present value of the difference between lease costs associated with the Head Leases and Sub Leases. (Note 13 (a))

## CROWN PROPERTY PORTFOLIO

### Notes to and Forming Part of the Financial Statements For the year ended 30 June 2004

**(f) Depreciation**

Depreciation is provided on a straight-line basis for all depreciable non-current assets to allocate their depreciable amounts over their estimated useful lives. These rates are reviewed on an annual basis. Depreciation on Buildings is at 2.5% pa, Fixtures and Fittings at 20% pa and Computer Equipment at 33.33%

**(g) Amortisation**

Leased assets are amortised over the period of the lease or the life of the asset whichever is the greater.

**(h) Non - current assets**

Acquisition of property is recognised upon exchange of contract. The cost method of accounting is used for the initial recording of all acquisitions. Cost is determined as the fair value of the assets given as consideration plus the costs incidental to the acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in arm's length transaction. Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair values at the date of acquisition.

Computer equipment and furniture and fixtures with short useful lives are measured at depreciated historical cost, as a surrogate to fair value.

Plant and equipment costing \$5,000 and above individually are capitalised.

Physical non-current assets are valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 03-02). This policy adopts fair value in accordance with AASB 1041 from financial years beginning on or after 1 July 2002.

Where available, fair value is determined having regard to the highest and best use of the asset on the basis of current market selling prices for the same or similar assets. Where market selling price is not available, the asset's fair value is measured as its market buying price, (ie. the replacement cost of the asset's remaining future economic benefits).

Non-current assets are revalued on a cyclical basis, at least every three years and on this basis are considered at fair values. Most revaluations are based on capitalisation of net income stream or existing use.

On revaluation, revaluation increments and decrements are offset against one another within the same class of non-current assets.

Net revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement of that class of asset previously recognised as expense in the surplus/deficit, the increment is recognised immediately as revenue in the surplus/deficit.

Net revaluation decrements are recognised immediately as expenses in the surplus/deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve for the same class of assets, they are debited directly to the asset revaluation reserve.

Where an asset that has previously been revalued is disposed of, the balance remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

**(i) Comparative Figures**

Where necessary, previous year figures have been reclassified to facilitate comparison.

**(j) Taxation**

The activities of the Crown Property Portfolio are exempt from income tax.

**(k) Contributions to Treasury**

Contributions consist of surplus funds forwarded to Treasury from the leasing of property and from the proceeds of the sale of property.

**(l) Revenue Recognition**

Rental revenue is recognised on a basis representative of the services rendered through the provision of property to clients, whether or not cash is received.

All property sales are recognised on the date of exchange of contract.

Contributions from Treasury (Note 7) are recognised as revenues when the Portfolio obtains control over the assets comprising the contributions. Control over contributions is normally obtained upon the receipt of cash.

Lease incentives are recognised as revenue over the term of the lease. (Note 20).

## CROWN PROPERTY PORTFOLIO

### Notes to and Forming Part of the Financial Statements For the year ended 30 June 2004

#### (m) *Financial Instruments*

Financial instruments give rise to positions that are financial assets or liabilities of either the Crown Property Portfolio or its counterparties. These include Cash at Bank, Receivables and Payables. Classes of instruments are recorded at cost and are carried at net fair value.

##### (i) Cash

Cash comprises cash on hand and balances at banks.

##### (ii) Receivables

All receivables are recognised as amounts receivable at balance date. Collectibility of receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). The carrying amount approximates net fair value. Services are made on 30-day terms.

##### (iii) Payables

The liabilities are recognised for amounts due to be paid in the future for goods and services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment. No interest was applied during the year.

##### (iv) Financial Lease Liability

The liabilities in respect of these leases are carried at their net fair value. The interest rate in connection with the leases is disclosed in Note 22 (b).

#### (n) *Capitalised Expenditure*

Property expenditure that gives rise to an effective and material increase in the future economic benefits to the Portfolio is capitalised. The amount capitalised to Building asset during the year was \$11.3M (2002/ 03, \$4.75M). (Note 16)

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

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

(i) The amount of GST incurred by the CPP as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

(ii) Receivables and payables are stated with the amount of GST included.

#### (p) *Equity Transfers*

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs/ functions and part thereof between NSW public sector agencies are designated as a contribution by owners by NSWTC 01/ 11 and are recognised as an adjustment to "Accumulated Funds". This treatment is consistent with Urgent Issues Group Abstract UIG 38 "Contributions by Owners Made to Wholly Owned Public Sector Entities".

All other equity transfers are recognised at fair value.

#### (q) *Provisions*

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

## 2. PROPERTY RENTAL INCOME

	2004 \$'000	2003 \$'000
Owned property	36,145	35,423
Leased property	131,011	123,682
	<u>167,156</u>	<u>159,105</u>

Rental income from leased property includes \$3.819M amortisation of Deferred Income referred to in Note 20.

## 3. PROFIT FROM/ (LOSS ON) DISPOSAL OF PROPERTY

	2004 \$'000	2003 \$'000
Proceeds from disposal of property	650	93
Less:		
Property disposal expenses	45	17
Written down value of assets disposed	640	91
	<u>(35)</u>	<u>(15)</u>

## 4. CONTRIBUTION RECEIVED FOR LAND REMEDIATION

An amount of \$108.987M (exclusive of GST) was paid to the Crown by BHP Billiton to compensate for the total estimated cost of remediation and other works in the former BHP main steelworks site and the Kooragang Islands waste emplacement site which were acquired from BHP by the Crown in June 2002. Included in the amount is \$5M held 'on trust' by the Crown in relation to the funding proposal for the implementation of the Revised Heritage Interpretation Strategy on behalf of the Newcastle City Council and the University of Newcastle. The \$5M is shown as Liability under Payables line item in the Statement of Financial Position.

## 5. INTEREST INCOME

This refers to the interest earned from 31 July 2002 to 30 June 2004 of the \$108.987M contribution received for land remediation from BHP Biliton (Note 4).

	\$'000
Total interest earned from 31 July 2002 to 30 June 2004	10,260
Less:	
Interest attributed to the \$5M held in trust on behalf of the Newcastle University and Newcastle City Council (Notes 4, 14 , 15 & 18)	472
	<u>9,788</u>

## 6. OTHER REVENUES

	2004 \$'000	2003 \$'000
Telephone rebate	2	-
Interest	-	80
Bad debts recovered (Refer to Note 15)	3	282
	<u>5</u>	<u>362</u>

## 7. CONTRIBUTION FROM THE CROWN ENTITY

	2004 \$'000	2003 \$'000
Contributions for costs of capital works, asset acquisitions and property refurbishments	23,027	18,661
Contributions for Management fee paid to NSW Department of Commerce re Accommodation Strategic Alliance	2,097	2,763
	<u>25,124</u>	<u>21,424</u>

The contribution was received from the Crown Entity and includes the costs for the construction of new government office building in Lithgow, major works of the Chief Secretary Building in Sydney and refurbishments works in other buildings.

## 8. HEAD LEASE EXPENSES

	2004 \$'000	2003 \$'000
Minimum lease payments	92,101	92,473
Contingent rentals	16,925	11,374
Rental expenses arising from sub-lease	15,529	18,263
	<u>124,555</u>	<u>122,110</u>

Head leased office accommodation properties are sub-leased to government agencies.

The terms of the operating head leases ranged from 3 to 10 years with the option of renewal of further terms. The lease agreements allow Lessors the right to review rents on specified dates. The expenditure for recurrent outgoings (including repairs and maintenance, electricity, cleaning, expenses for common areas and public risk insurance), subject to exclusion of repairs and maintenance of a structural or capital nature, is the responsibility of the Lessee (the CPP).

Contingent rentals are variations due to market reviews and changes to Consumer Price Index between the actual lease and the amounts of minimum lease payments determined at the inception of the lease.

## 9. PROPERTY EXPENSES

These expenses include maintenance of building, electricity, telephone, security, cleaning, gardening and sundry charges incurred in multiple occupancy buildings owned by the CPP. These expenses are recoverable from the tenants and are reflected in Property Rental Income.

## 10. ASSETS DISPOSED OF FREE OF CHARGE

The assets disposed of free of charge were comprised of:

Particulars	2004 \$'000	2003 \$'000
Tempe tip	1,500	-
Grazing land at Glen Davis, NSW	-	53
Residual foreshore at Gloucester Boulevard, Port Kembla	-	20
Former Coal & Allied site at Ball Head Road, Waverton, NSW	-	4,987
Former Caltex site at Ball Head Road, Waverton, NSW	-	1,700
Former BP Australia oil terminal at Waverton, NSW	-	9,400
	<u>1,500</u>	<u>16,160</u>

The Tempe tip was transferred to Marrickville Council

The lands at Waverton, NSW were transferred to the Waverton Peninsula Reserve Trust for the benefit of the public.

## 11. AUDIT FEES

	2004 \$'000	2003 \$'000
Fee for the audit of current year's annual accounts	54	52
Special fee for the audit of the transactions relating to the acquisition of former BHP sites during 2002-03	7	
	<u>61</u>	<u>52</u>

The Auditor did not receive nor is the Auditor due to receive any other benefit.

## 12. CONSULTANTS

Expenditure on consultants during the year totalled \$0.21M (2002/ 03, \$0.18M).

## 13 PROVISIONS

### (a) Provision for sub-lease income shortfall

	2004 \$'000	2003 \$'000
Carrying balance at the beginning of year	12,574	9,285
Additional provisions recognised, including increases to existing provisions	5,224	3,289
Reductions in provisions from payments and other sacrifices	(4,066)	-
Reductions in provisions from re-measurements or settlement without cost	(1,309)	-
Carrying balance at the end of year	<u>12,423</u>	<u>12,574</u>
Current liability	4,345	4,050
Non current liability	8,078	8,524

The Provision for Sub-lease Income Shortfall is for the CPP head leases on Colonial State Bank Centre, Martin Place, Sydney and Pacific Power Building, Sydney. The provision is the net present value of the excess of the head lease commitments over the estimated sub-lease rentals over the expected period of the shortfall. The appropriate discounting factor of 8.46% over 8 years was used for Colonial State Bank. The level of the provision is reviewed at the end of each year and an adjustment made to the Statement of Financial Performance.

The CPP recognises the head lease on Colonial State Bank as an operating lease. However there is disagreement with The Audit Office of New South Wales over the economic substance of the lease.

### (b) Provision for land remediation and other costs

	2004 \$'000	2003 \$'000
Carrying balance at the beginning of year	103,828	-
Additional provisions recognised, including increases to existing provisions	-	103,987
Reductions in provisions from payments and other sacrifices	-	(159)
Reductions in provisions from re-measurements or settlement without cost	-	-
Carrying balance at the end of year	<u>103,828</u>	<u>103,828</u>
Current liability	2,200	1,365
Non current liability	101,628	102,463

The Crown acquired the former BHP main steel works site, including another three parcels of lands in Newcastle, in June 2002. These lands will need remediation works to remove various contaminations associated with steel making. The Crown negotiated, as part of land acquisition package consideration, for BHP Billiton to pay an amount to compensate for the total estimated cost of land remediation and other works.

At the time the purchase was being negotiated, the Government sought advice on the estimated remediation costs for the main steel site and the Kooragang Island waste emplacement site. In providing this assessment, a number of assumptions as to the nature of future development and the method of remediating the sites were made.

BHP Billiton Ltd agreed to pay \$108.987M, including \$5M for Heritage Interpretation Funding Proposal which was received by the Crown 'on trust' (Note 4) based the total negotiated estimated costs of remediation and other works as shown in the Environmental Deed dated 31 July 2002 between the BHP Billiton Ltd and the Crown, ie.

Works Particulars	\$'000
Environmental remediation of steel works main site and Kooragang Islands waste emplacement site	100,000
Environmental monitoring of main site over 10 years	1,700
Heritage interpretation funding proposal	5,000
Relocation of the railway line to OneSteel (Moorandoo Crossing)	2,287
	<u>108,987</u>



Whilst the nature and type of remediation to be undertaken will be controlled by how the sites are to be reused or redeveloped and to what extent the ground will be disturbed, it is considered prudent to recognise the present obligation. The Government established a special subsidiary corporation, the Regional Management Land Corporation (Note 17), which will provide its recommendations to the Government on the best possible use of the sites.

## 14. STATEMENT OF CASH FLOWS

### (a) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, the cash balance is considered to include cash on hand and cash at bank.

	<b>2004</b> <b>\$'000</b>	<b>2003</b> <b>\$'000</b>
Cash at bank	119,800	121,798

Included in the Cash balance is \$108.827M received by the Crown from BHP Billiton. Out of this amount is \$5M which is held 'on trust' on behalf of the Newcastle Council and the University of Newcastle in relation to the funding proposal for the implementation of the Revised Heritage Interpretation Strategy (Notes 4, 5, 15 & 18).

### (b) Reconciliation of the Operating Surplus/ (Deficit) to the Net Cash Provided by Operating Activities:

	<b>2004</b> <b>\$'000</b>	<b>2003</b> <b>\$'000</b>
Operating surplus/ (deficit)	29,175	(34,729)
Lease incentive	(3,819)	(3,819)
Loss from disposal of property	35	15
Assets disposed of free of charge	1,500	16,160
Depreciation	2,999	5,527
Amortisation	2,908	2,686
Provisions for land remediation and other costs	-	103,987
Provision for doubtful debts	219	40
Bad debts written off	-	(162)
Bad debts recovered	(3)	(282)
Increase/ (Decrease) in Provisions for sub-lease income shortfall	(152)	3,289
Asset sales proceeds transferred to the Crown Entity	(605)	(83,542)
Contributions to the Crown Entity	(4,525)	(4,100)
Decrement in asset value	-	25,860
Increase/ (Decrease) in Interest bearing liabilities	(80)	765
(Decrease)/ Increase in Provisions for land remediation	-	(159)
Decrease/ (Increase) in operating Receivables	(14,103)	644
Decrease/ (Increase) in Other assets	384	140
Increase in Payables	1,855	3,151
Increase/ (Decrease) in Rent in advance	82	1,473
Net cash provided by operating activities	15,870	36,944

## 15. RECEIVABLES

	<b>2004</b> <b>\$'000</b>	<b>2003</b> <b>\$'000</b>
<b>Trade Receivables</b>	5,809	2,740
Provision for doubtful debts	(305)	(89)
	5,504	2,651
<b>Other Receivables</b>		
GST receivable	892	147
Other	12,937	3,031
	19,333	5,829

Included in the other receivable is \$10.260M accrued interest earned as at 30 June 2004 of the \$108.987M received from BHP Billiton on 31 July 2002 (Note4). Of the \$10.260M, \$9.788M is included in Interest Income and \$0.472M is included in Payables (Note 18).

## Movement in the provision for doubtful debts

	2004 \$'000	2003 \$'000
Balance at the beginning of year	(89)	(493)
Increase in provision	(219)	(40)
Debts written off	-	162
Bad debts recovered	3	282
<b>Balance at the end of year</b>	<b>(305)</b>	<b>(89)</b>

## 16. PROPERTY, PLANT AND EQUIPMENT

	2004 \$'000	2003 \$'000
<b>Unimproved Land – at fair value</b>	<b>135,802</b>	<b>97,232</b>
<b>Land and buildings – at fair value</b>		
Land and buildings	312,176	273,085
Work in progress	-	3,470
	<b>312,176</b>	<b>276,555</b>
Less: Accumulated depreciation	(2,988)	(8,272)
	<b>309,188</b>	<b>268,283</b>
<b>Finance lease – at fair value</b>		
Land and buildings	101,500	91,000
Less: Accumulated depreciation	(2,908)	(6,716)
	<b>98,592</b>	<b>84,284</b>
<b>Computer equipment – at fair value</b>	<b>36</b>	<b>36</b>
Less: Accumulated depreciation	(24)	(12)
	<b>12</b>	<b>24</b>
<b>Total Property, plant and equipment – Net book value</b>	<b>543,594</b>	<b>449,823</b>

### (A) Property - Owned

	Unimproved Land \$'000	Land and Building \$'000	Work in Progress \$'000	Computer Equipment \$'000	Total \$'000
<b>Gross Value</b>					
Opening balance 1 July 2003	97,232	273,085	3,470	36	373,823
Add: Acquisitions			7,172		7,172
Add: Capitalised expenditure-Note 1 (n)		11,301			11,301
Add: Transfers from work in progress		10,642	(10,642)		-
Add: Asset revaluation increment	45,130	17,148			62,278
Less: Disposals	(640)				(640)
Less: Assets transferred to other government agency	(4,420)				(4,420)
Less: Assets disposed of free of charge (Note 10)	(1,500)				(1,500)
<b>Closing Balance 30 June 2004</b>	<b>135,802</b>	<b>312,176</b>	<b>-</b>	<b>36</b>	<b>448,014</b>
<b>Accumulated Depreciation</b>					
Opening balance 1 July 2003	-	8,273	-	12	8,285
Add: Charge for the year		2,987		12	2,999
Less: Reversal due to asset revaluations		(8,272)			(8,272)
<b>Closing Balance 30 June 2004</b>		<b>2,988</b>		<b>24</b>	<b>3,012</b>
<b>Written Down Value</b>					
Balance 1 July 2003	97,232	264,812	3,470	24	365,538
<b>Balance 30 June 2004</b>	<b>135,802</b>	<b>309,188</b>	<b>-</b>	<b>12</b>	<b>445,002</b>

**(B) Property – Finance Lease**

	<b>Unimproved Land \$'000</b>	<b>Land and Building \$'000</b>	<b>Leasehold \$'000</b>	<b>Total \$'000</b>
<b>Gross Value</b>				
Opening balance 1 July 2003	-	85,000	6,000	<b>91,000</b>
Add: Asset revaluation increment	-	9,000	1,500	<b>10,500</b>
<b>Closing Balance 30 June 2004</b>	-	<b>94,000</b>	<b>7,500</b>	<b>101,500</b>
<b>Accumulated Amortisation</b>				
Opening balance 1 July 2003	-	5,833	882	<b>6,715</b>
Add: Charge for the year	-	2,467	441	<b>2,908</b>
Less: Reversal due to asset revaluations		(5,833)	(882)	<b>(6,715)</b>
<b>Closing Balance 30 June 2004</b>	-	<b>2,467</b>	<b>441</b>	<b>2,908</b>
<b>Written Down Value</b>				
Balance 1 July 2003	-	79,167	5,118	84,285
<b>Balance 30 June 2004</b>	-	<b>91,533</b>	<b>7,059</b>	<b>98,592</b>

<b>Total Owned and Leased Assets</b>	<b>Unimproved Land \$'000</b>	<b>Land and Building \$'000</b>	<b>Work in Progress \$'000</b>	<b>Leasehold \$'000</b>	<b>Computer Equipment \$'000</b>	<b>Total \$'000</b>
Opening balance 1 July 2003	97,232	343,979	3,470	5,118	24	449,823
<b>Closing Balance 30 June 2004</b>	<b>135,802</b>	<b>400,721</b>	<b>-</b>	<b>7,059</b>	<b>12</b>	<b>543,594</b>

All owned Land and Buildings, and Finance Lease assets are at valuation. Generally, cyclical revaluation is being done at least every three years.

All properties were independently revalued on 1 July 2003. Either the Australian Valuation Office, Landmark White (NSW) Pty Ltd, Herron Todd White (Capital) Pty Ltd or Colliers International Consultancy and Valuation Pty Ltd undertook valuations.

The property acquisitions during the year relate to construction of the government office building in Lithgow, NSW.

Details of assets transferred to other State Government agency and Local Government 'free of charge':

<b>Particulars</b>	<b>Fair value \$'000</b>
Tempe tip, at Tempe NSW – transferred to Marrickville Council	1,500
Bunnerong rail sidings, Banksmeadow – transferred to NSW Rail Corporation	4,420
	<u>5,920</u>

The Tempe tip was received from the NSW Waste Services and the Bunnerong rail sidings was received from the Pacific Power Corporation during 2002-03.

The finance leases relate to two property leases - McKell Building, Rawson Place, Sydney and Noel Park House, Marius Street, Tamworth. The McKell Building is being amortised over the life of the building and Noel Park House is being amortised over the life of the lease.

## 17. TRANSFER OF FUNCTIONS

Effective 1 April 2003, the management of properties at the Lower Hunter Region, Newcastle, including the former BHP main steel site and another 3 parcels of land acquired from BHP and the Kooragang Islands industrial estates, were transferred to the Regional Lands Management Corporation (RLMC), a special purpose subsidiary established by the NSW State Government and Hunter Water Corporation (a State Owned Corporation) to assume interim management of these properties. From 1 April 2003, all revenues generated from rental and all expenses associated with the interim management of these properties accrue to the RLMC.

However, these properties with a total estimated fair value of \$54.8M are still remaining in the CPP pending the transfer of titles to RLMC and subject to further instructions from NSW Treasury.

No assets or liabilities were transferred.

## 18. PAYABLES

	2004 \$'000	2003 \$'000
Property expenses	4,701	3,315
Monies held 'on trust' (Notes 4 , 5 & 14)	5,472	5,000
Audit fees	33	36
	<u>10,206</u>	<u>8,351</u>

Monies held 'on trust' comprised \$5M original amount received on behalf of Newcastle University and Newcastle City Council plus the interest earned, \$0.472M, from 31 July 2002 to 30 June 2004 (Notes 4 & 5)

## 19. CORRECTION OF PRIOR YEAR ERROR

In June 2002, the former BHP main steel site, the Kooragang Island waste emplacement site, the West Wallsend site and the Belmont Sands were acquired from BHP for \$34.360M. This amount represented the estimated value at remediated state of the main steel site based on the advice received by the Crown at that time. The other 3 parcels of land were acquired at nil consideration as part of the acquisition package.

Since the main steel site and the Kooragang Island waste emplacement site will require remediation works (refer to Notes 4 & 13 (b)), these properties are recognised at nil value.

The remaining parcels of land were valued by Colliers International. The valuation results on 'As Is' basis are shown below.

	Fair value "As Is basis" \$'000
West Wallsend site	5,500
Belmont Sands	3,000
	<u>8,500</u>

The asset value of the former BHP sites has been adjusted to \$8.5M. This required a correction of \$25.86M (ie. \$34.36M less \$8.5M), being a correction to a prior year error. This has been recognised in the Statement of Financial Performance during 2002-03.

## 20. DEFERRED INCOME - INCENTIVE FROM LESSOR

A lease incentive payment of \$68M was received from the former SAS Trustee Corporation in January 1995 and relates to a twelve-year lease on the Governor Macquarie Tower. The lease incentive is progressively reduced over the term of the lease on a straight-line basis by the transfer to Property Rental Income.

During 2003/ 04, an amount of \$3.819M (2002/ 03, \$3.819M) was credited to Property Rental Income. From the remaining balance of \$9.546M as at 30 June 2004, \$3.819M (2002/ 03, \$3.819M) is classified as a current liability and \$5.727M (2002/ 03, \$9.546M) is classified as a non-current liability.

## 21. TOTAL EQUITY

	Accumulated Funds		Asset Revaluation Reserve		Total Equity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Balance at the beginning of financial year	220,189	324,614	120,164	130,771	340,353	455,385
<u>Changes in equity – transactions with owners as owners</u>						
Increase/ (Decrease) in net assets						
– Asset sale proceeds transferred to the Crown Entity	(605)	(83,568)	-	-	(605)	(83,568)
– Contributions to the Crown Entity	(4,525)	(4,100)	-	-	(4,525)	(4,100)
– Transfer of assets to other government departments	(4,420)	-	-	-	(4,420)	-
– Transfer of assets from other government agency	-	7,365	-	-	-	7,365
<u>Total</u>	(9,550)	(80,303)	-	-	(9,550)	(80,303)
<u>Changes in equity – other than transactions with owners as owners</u>						
Surplus/ (Deficit) for the year	29,175	(34,729)	-	-	29,175	(34,729)
Asset revaluation increment	-	-	87,765	-	87,765	-
Transfer of realised revaluation reserve to accumulated funds on disposal of asset	18	10,607	(18)	(10,607)	-	-
<u>Total</u>	29,193	(24,122)	87,747	(10,607)	116,940	(34,729)
<b>Balance at the end of financial year</b>	<b>239,832</b>	<b>220,189</b>	<b>207,911</b>	<b>120,164</b>	<b>447,743</b>	<b>340,353</b>

The Asset Revaluation Reserve is used to record increments and decrements on the revaluation of non-current assets. This accords with the CPP's policy on the revaluation of non-current assets as disclosed in Note 1 (h).

The total asset revaluation reserve is attributable to the following classes of non-current assets

	2004 \$'000	2003 \$'000
Land (owned)	63,344	18,226
Land and buildings (owned)	97,194	71,780
Land and buildings (finance lease)	47,374	30,158
	<u>207,911</u>	<u>120,164</u>

Funds transferred to the Crown Entity were derived from:

	2004 \$'000	2003 \$'000
Surplus from rental operations	4,525	4,100
Proceeds from sale of property	605	83,568
	<u>5,130</u>	<u>87,668</u>

## 22. EXPENDITURE COMMITMENTS

### (a) Capital Expenditure Commitments

	2004 \$'000	2003 \$'000
Capital expenditure contracted at balance date but not provided for:		
Payable within one year	9,650	20,764
Payable later than one year but not later than five years	2,266	7,842
Payable later than five years	-	-
	<u>11,916</u>	<u>28,606</u>

Capital expenditure commitments as at 30 June 2004 are inclusive of GST, including GST Recoverable Input Tax Credits of \$1.08M (2002/03, \$2.36M)

## (b) Lease Expenditure Commitments

### Operating Leases

	2004 \$'000	2003 \$'000
Operating lease expenditure contracted at balance date but not provided for:		
Payable within one year	106,748	105,123
Payable later than one year but not later than five years	270,996	269,416
Payable later than five years	195,263	227,525
	<u>573,007</u>	<u>602,064</u>

Operating lease commitments as at 30 June 2004 are inclusive of GST.

Operating lease commitments as at 30 June 2004 include GST Recoverable Input Tax Credits of \$52.092M (2002/03, \$54.733M)

### Finance Leases

Finance lease commitments (exclusive of GST) and reconciliation to carrying amount of lease liabilities:

	2004 \$'000 Minimum Lease Payments	2004 \$'000 Lease Liability	2003 \$'000 Minimum Lease Payments	2003 \$'000 Lease Liability
<b>Lease liability as at 30 June:</b>				
Current		17,869		16,852
Non Current		<u>77,763</u>		<u>78,860</u>
Total		<u>95,632</u>		<u>95,712</u>
Payable within one year	17,869	1,159	16,852	80
Payable later than one year but not later than five years	20,971	2,610	37,644	3,172
Payable later than five years	9,361	6,863	10,556	7,460
Total	<u>48,201</u>	<u>10,632</u>	<u>65,052</u>	<u>10,712</u>
Liability at end of lease		<u>85,000</u>		<u>85,000</u>

Finance leases refer to leases on McKell Building and Noel Park House. The McKell Building lease has a lease term of 15 years with the option to purchase the asset at the completion of the lease term in 2006 for \$85M. The Noel Park House lease has a lease term of 25 years with no option to purchase the asset at the completion of the lease term in 2017. The discount rates implicit in the leases are 18.6% pa and 8.31% pa for McKell Building and Noel Park House, respectively.

## 23. CONTINGENT ASSETS AND LIABILITIES

Neither the NSW Treasury nor the NSW Department of Commerce are aware of any event or action that could give rise to a contingent asset or liability.

## 24. SEGMENT INFORMATION

Business segments	Leasing -Owned Properties		Sub Leasing -Leased Properties		Leasing -Surplus & Strategic Properties		Consolidated	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Revenue</b>								
Revenue from external customers								
Rental Income	29,802	26,960	131,011	123,682	6,343	8,463	167,156	159,105
Proceeds from sale of assets	-	-	-	-	650	93	650	93
Interest income	-	-	-	-	9,788	-	9,788	-
Other revenues								
External customers	-	216	3	56	2	90	5	362
Contribution from the Crown Entity	21,257	16,040	680	1,292	1,090	1,329	23,027	18,661
<b>Total segment revenue</b>	<b>51,059</b>	<b>43,216</b>	<b>131,694</b>	<b>125,030</b>	<b>17,873</b>	<b>9,975</b>	<b>200,626</b>	<b>178,221</b>
<b>Operating Result</b>								
Segment result	34,316	24,368	(17,142)	(17,870)	13,349	4,082	30,523	10,580
Unallocated corporate revenue:								
Contribution from the Crown Entity for Strategic Alliance management							2,097	2,763
Contribution for land remediation and other works							-	103,987
Unallocated corporate expenses:								
Strategic alliance management fee-NSW Department of Commerce							(2,097)	(2,763)
Provision for land remediation and other works							-	103,987
Consolidated operating surplus/ (loss) from ordinary activities							30,523	10,580
Significant items								
Assets disposed of 'free of charge'							(1,500)	(16,160)
Correction of prior year error (Note 18)							-	(25,860)
Adjustment on provision on shortfall in sub lease income							152	(3,289)
<b>Net Profit/ (Loss)</b>							<b>29,175</b>	<b>(34,729)</b>
Segment assets	230,821	206,370	98,807	84,287	333,054	267,994	662,682	558,651
Unallocated corporate assets							20,045	18,799
Consolidated total assets							<b>682,727</b>	<b>557,450</b>
Segment liabilities	-	-	117,601	121,651	109,300	108,828	226,901	230,479
Unallocated corporate liabilities							8,083	6,618
Consolidated total liabilities							<b>234,984</b>	<b>237,097</b>
Acquisition of property, plant and equipment	18,473	12,002	-	4	-	20	18,473	12,026
Depreciation	2,752	5,124	1	1	246	402	2,999	5,527
Amortisation	-	-	2,908	2,686	-	-	2,908	2,686
Other non-cash expenses	32	-	187	42	-	(2)	219	40

## 25. SYDNEY OPERA HOUSE CAR PARK LEASE

The Sydney Opera House Car Park is leased by the Crown to a private consortium on a 50-year ground lease, which commenced on 13 March 1993. The lessee has constructed at its own expense a subterranean car park with a design life of 50 years. At the expiration of the lease term the Government has the right to receive the car park. Rental income from the lease is reflected in the Statement of Financial Performance. The value of the Car Park land and emerging value of the structures are recognised as Property. (Note 16A)

## **26. AASB 1047 DISCLOSING THE IMPACTS OF ADOPTING AUSTRALIAN ACCOUNTING EQUIVALENTS TO INTERNATIONAL ACCOUNTING STANDARDS**

The Crown Property Portfolio will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

### **(a) Explanation of how the transition to AIFRS is being managed**

The Portfolio is managing the transition to the new standards by allocating internal resources to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result of this exercise, the Portfolio has taken the following steps to manage the transition to the new standards:

The Portfolio Finance Manager is assigned to manage the transition and reports regularly to the Senior Manager, who is overseeing the transition on the progress against the plan.

The following phases that need to be undertaken have been identified:

- Send the Portfolio Finance Manager (PFM) to seminars on the AIFRS implementation issues and procedures.
- Review the key differences in accounting policies between the AIFRS and the existing Australian Accounting Standards (AAS)
- Identify those significant differences in accounting policies that will have an impact to the Portfolio
- Prepare a report to the Senior Manager on the possible changes required on the accounts and on the Portfolio's accounting policies to comply with AIFRS requirements.
- Prepare a revised accounts trial balance (ie beginning Balance Sheet) as at 1 July 2005
- To date, the PFM had attended a seminar on AIFRS implementation issues sponsored by the Australian Institute of Certified Practising Accountants and a presentation on AIFRS presented by the NSW Treasury. The PFM had identified some of the significant key differences in accounting policies arising from adopting AIFRS that will have an impact to the Portfolio's accounts. The PFM also reviews and monitors any new information and developments on AIFRS from the NSW Treasury website.

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

### **(b) Key differences in Accounting policies**

Bases on the current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- AASB 116 'Property, Plant and Equipment' requires that 'for profit entities' must account for asset revaluation increments and decrements on an individual asset basis, rather than on a class basis. This change may decrease accumulated funds.
- AASB 117 'Leases' requires operating lease contingent rentals to be recognised as an expense on straight-line basis over the lease term rather than expensing in the financial year incurred.
- AASB 136 'Impairment of Assets' requires an entity to assess at each reporting date whether there is any indication that an asset is impaired and if such indication exists, the entity must conduct a current market valuation
- AASB 140 'Investment Property' requires investment property to be measured at cost or fair value. NSW Treasury is likely to mandate the adoption of fair value. In contrast to current treatment as an asset classified within property, plant and equipment, investment property recognised at fair value is not depreciated and changes in fair value are recognised in the income statement.

Based on paragraph 15 of AASB 140, the government-owned office buildings included in the portfolio and leased to other government agencies are investment properties from the Crown Property Portfolio's perspective.

## **27. POST BALANCE DATE EVENT**

There are no events subsequent to balance date which would affect the financial reports.

### **End of Audited Financial Statements**



Financial Statements for the year ended 30 June 2004

# Crown Lands Homesites Program



New South Wales  
TREASURY



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### CROWN LANDS HOMESITES PROGRAM

To Members of the New South Wales Parliament

#### Audit Opinion

In my opinion, the financial report of the Crown Lands Homesites Program:

- (a) presents fairly the Program's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report,

#### The Secretary of the Treasury's Role

The financial report is the responsibility of the Secretary of the Treasury. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

#### The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that Board members had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Crown Lands Homesites Program,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

### **Audit Independence**

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



L I White FCA  
Assistant Auditor-General

SYDNEY  
22 October 2004

# CROWN LANDS HOMESITES PROGRAM

## STATEMENT BY THE SECRETARY OF THE NEW SOUTH WALES TREASURY ON ADOPTION OF

### FINANCIAL STATEMENTS FOR THE YEAR ENDED

30 JUNE 2004

Certificate Under the provisions of the *Public Finance and Audit Act, 1983*.

Pursuant to the provisions of the *Public Finance and Act, 1983* and in my capacity as Acting Secretary of the Treasury, I declare that in my opinion:

1. The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Lands Homesites Program as at 30 June 2004 and transactions for the year then ended.
2. The statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act, 1983*, the Public Finance and Audit Regulation, 2000, and the Treasurer's Directions.

Further, I am not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.



Acting Secretary  
21 October 2004

# CROWN LANDS HOMESITES PROGRAM

---

## ADOPTION OF FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2004

The attached financial report of Crown Lands Homesites Program have been prepared in accordance with the statutory provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, and the Treasurer's Directions.

Pursuant to the Public Finance and Audit Act, 1983, it is recommended that:

The financial report for the year ended 30 June 2004 be adopted and the Secretary of the Treasury provide a statement to the effect that in his opinion the accompanying financial report exhibits a true and fair view of the financial position and transactions of Crown Lands Homesites Program and that such report have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, and the Treasurer's Directions, and further, that he is not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

We declare that to the best of our knowledge and belief, the Crown Lands Homesites Program is able to pay its debts as and when they become due and payable.



G. SOUTH  
General Manager, Corporate and Finance  
LANDCOM



S. O'TOOLE  
Managing Director  
LANDCOM

**CROWN LANDS HOMESITES PROGRAM  
STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2004**

	Notes	2004 \$'000	2003 \$'000
Sales revenue	2	38,529	36,433
Cost of sales		<u>(10,889)</u>	<u>(6,493)</u>
<b>Gross Profit</b>		<b>27,640</b>	<b>29,940</b>
Other revenue from ordinary activities	2	224	923
Marketing expenses	3	(2,300)	(1,596)
Other expenses from ordinary activities	4	<u>(3,211)</u>	<u>(1,773)</u>
Expenses from ordinary activities		<b>(5,511)</b>	<b>(3,369)</b>
<b>Profit from Ordinary Activities</b>		<b><u>22,353</u></b>	<b><u>27,494</u></b>
<b>Total Changes in Equity other than Resulting from Transactions with Owners as Owners</b>	10	<b><u>22,353</u></b>	<b><u>27,494</u></b>

The above Statement of Financial Performance is to be read in conjunction with the attached notes.

**CROWN LANDS HOMESITES PROGRAM**  
**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004**

	Notes	2004 \$'000	2003 \$'000
<b>Current Assets</b>			
Cash	11,12	12,549	4,861
Receivables	5	627	2
Inventories	6	<u>19,025</u>	<u>9,960</u>
<b>Total Current Assets</b>		<b>32,201</b>	<b>14,823</b>
<b>Non-Current Assets</b>			
Inventories	6	<u>22,132</u>	<u>22,213</u>
<b>Total Non-Current Assets</b>		<b>22,132</b>	<b>22,213</b>
<b>Total Assets</b>		<b><u>54,333</u></b>	<b><u>37,036</u></b>
<b>Current Liabilities</b>			
Payables	7	8,290	10,529
Provisions	8	<u>1,764</u>	<u>19</u>
<b>Total Current Liabilities</b>		<b>10,054</b>	<b>10,548</b>
<b>Non-Current Liabilities</b>			
Payables	9	12,387	11,345
Provisions	8	<u>580</u>	<u>0</u>
<b>Total Non-Current Liabilities</b>		<b>12,967</b>	<b>11,345</b>
<b>Total Liabilities</b>		<b><u>23,021</u></b>	<b><u>21,893</u></b>
<b>Net Assets</b>		<b><u>31,312</u></b>	<b><u>15,143</u></b>
<b>Equity</b>			
Retained Profits	10	<u>31,312</u>	<u>15,143</u>
<b>Total Equity</b>		<b><u>31,312</u></b>	<b><u>15,143</u></b>

The above Statement of Financial Position is to be read in conjunction with the attached notes.

**CROWN LANDS HOMESITES PROGRAM  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2004**

	Notes	2004 \$'000 Inflows/ (Outflows)	2003 \$'000 Inflows/ (Outflows)
<b>Cash Flows from Operating Activities</b>			
<b>Receipts</b>			
Receipts from Customers		41,243	38,732
Interest Received		206	921
<b>Payments</b>			
Payments to Suppliers		(24,930)	(8,338)
GST Payments		<u>(22)</u>	<u>(1,265)</u>
<b>Net Cash Flows from Operating Activities</b>	11(b)	<b>16,497</b>	<b>30,050</b>
<b>Cash Flows from Financing Activities</b>			
Short term loan from NSW Treasury		6,000	-
Repayment of borrowing from NSW Treasury		(6,000)	-
Distribution to NSW Treasury		<u>(8,809)</u>	<u>(39,384)</u>
<b>Net Cash Used in Financing Activities</b>		<b>(8,809)</b>	<b>(39,384)</b>
<b>Net Increase/(Decrease) in Cash Held</b>		<b>7,688</b>	<b>(9,334)</b>
<b>Cash at the Beginning Of the Year</b>		<b>4,861</b>	<b>14,195</b>
<b>Cash at the End of the Year</b>	11(a)	<u><b>12,549</b></u>	<u><b>4,861</b></u>

The above Statement of Cash Flows is to be read in conjunction with the attached notes.



# **CROWN LANDS HOMESITES PROGRAM**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 30 JUNE 2004**

The Crown Lands Homesites Program (CLHP) is a commercial activity of the Crown Entity. This activity encompasses the development and sale of residential Crown lands homesites. Landcom conducts this activity on behalf of the Crown Entity.

#### **1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, PRACTICES AND DISCLOSURES**

##### **(a) Basis of Preparation of the Accounts**

The Financial Statements of the Crown Lands Homesites Program are a general purpose financial report and have been prepared, except where otherwise stated, on an accrual basis at historical cost and in accordance with applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group (UIG) Consensus Views, the requirements of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000 and the Treasurer's Directions.

In the absence of a specific Accounting Standard, other authoritative pronouncement of the AASB or UIG consensus view, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.

The following is a summary of the material accounting policies adopted by the Crown Lands Homesites Program in the preparation of the financial reports. The accounting policies have been consistently applied, unless stated otherwise. All amounts are rounded to the nearest one thousand dollars and expressed in Australian currency.

##### **(b) Revenue Recognition**

Revenue has been brought to account in accordance with generally accepted accounting principles and Treasurer's Directions and comprises:

- Land sales recognised on settlement of a legally binding contract and receipt of the agreed settlement price.
- Interest recognised in accordance with the set terms and conditions as it occurs.
- Other income based on the general principle that there is a right to be compensated for services rendered and it is probable that economic benefits will result and the revenue can be reliably measured.

##### **(c) Cost of Sales**

The cost of sales includes costs of land and development costs incurred in bringing the raw land to "Developed Land".

##### **(d) Administration and Marketing Charges**

Administration and marketing expenses are reimbursed to Landcom under a management agreement with the New South Wales Treasury. Administration charge assessment is based on apportionment of total operating expenditure incurred by Landcom during the year on the ratio of number of lots developed and released for sale by both Landcom and Crown Lands Homesites Program.

Marketing charges are based on direct expenses except for shared advertising and promotion, which are based on the sales ratio apportionment between Crown Lands Homesites Program and Landcom.

##### **(e) Employee Entitlements**

The Crown Lands Homesites Program has no employees and therefore no provision is required nor reported for employee entitlement.

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

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i where the amount of GST incurred is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an expense item;
- ii for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from or payable to the Australian Taxation Office is included as part of receivables or payables.

**CROWN LANDS HOMESITES PROGRAM  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, PRACTICES AND DISCLOSURES (Continued)**

**(g) Inventories**

Inventories comprise Developed Land for Sale, Work in Progress (Land under Development) and Undeveloped Land.

Developed land is land which has been subdivided and registered on completion of all development activity.

Work in Progress (Land under Development) represents land that has been subdivided into precincts and where development activity relating to the precinct has commenced.

Developed Land and Work in Progress is expected to be sold within the next twelve months.

Undeveloped land consists of land holdings where no development has taken place and land holdings where estate major work activity has been undertaken. It excludes precincts on which development activity has commenced.

Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of land and related development expenses. All direct and indirect expenditure on development are included in the relevant precincts.

**(h) Financial Instruments**

Financial instruments give rise to positions that are a financial asset of Crown Lands Homesites Program and a financial liability (or equity instrument) of the other party. For Crown Lands Homesites Program these include cash, receivables and payables.

In accordance with AAS 33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 12, in respect of the credit risk and interest rate risk of financial instruments. All such amounts are carried in the accounts at net fair value unless otherwise stated. The specific accounting policy in respect of each class of such financial instrument is stated hereunder.

**Cash**

Cash comprises cash on hand and at the bank. Interest is earned on daily bank balances and investment balances. Interest is paid directly to the Treasury.

**Receivables**

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). The carrying amount approximates the net fair value. Sales are made on varying terms, but generally on a 30 day exchange and 30 day settlement basis. Interest is charged on overdue settlement monies where agreed settlement dates are not met. The rate of interest applied during the year was 10.95%.

**CROWN LANDS HOMESITES PROGRAM  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, PRACTICES AND DISCLOSURES (Continued)**

**(h) Financial Instrument**

**Payables**

All trade payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers are settled in accordance with the policy set out in the Treasurer's Direction. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or statement is received. The Treasurer's Direction allows the Minister to award interest for late payment. No interest for late payment was made during the year.

The Crown Lands Homesites Program also holds monies in trust paid by prospective buyers of land, as either holding deposits or on exchange of contracts pending settlement.

**(i) Distribution to NSW Treasury**

Crown Lands Homesites Program is required to return funds that are in excess of working capital to the Consolidated fund of NSW Treasury. During the year ended 30 June 2004 Crown Lands Homesites returned \$6.184 million to Consolidated Fund.

**(j) Reclassification of Comparatives**

No changes in accounting standards have required comparative amounts to be represented or reclassified to ensure comparability with the current reporting period.

**(k) Provisions**

The provision for cost to complete captures all unpaid development costs, which were included in the original land development schedule. These are committed costs at the time the land is ready for sale, however, due to the nature of the expenditure the timing is not known.

A provision for rebates is recognised when a lot is sold. As part of the condition of sale, the Crown Lands Homesites Program is committed to make a payment to the purchaser provided certain design criteria are met and applied for within specified period by the purchaser, usually between 18-24 months. This payment represents reimbursement for additional costs incurred by the purchasers in complying with the design criteria set by the Crown Lands Homesites Program.

**(l) Australian Equivalents to International Financial Reporting Standards (AIFRS) Disclosure**

**(i) Explanation of how the transition to AIFRS is being managed**

The Crown Lands Homesites Program will apply the AIFRS from the reporting period beginning 1 July 2005.

The agency is managing the transition to the new standards by allocating internal resources and has engaged Chartered accountants to analyse both the issued and pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result of this exercise, the Crown Lands Homesites Program has taken the following steps to manage the transition to the new standards:

Landcom's Audit and Risk Management Committee (a Board sub-committee) is overseeing the transition. The Manager Finance is responsible for the project and reports quarterly to the Committee on progress against the plan.

The following phases that need to be undertaken have been identified:

Phase 1 Conduct an IFRS diagnostic (completed)

Phase 2 Design and planning (in progress)

Phase 3 Solution development

# **CROWN LANDS HOMESITES PROGRAM**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 30 JUNE 2004**

#### Phase 4 Implementation

#### Phase 5 Post implementation review

To date, Phase 1 - Diagnostic has been completed which entailed a review of current accounting policies and the likely impact on IFRS conversion on the business.

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

#### **(ii) Key differences in accounting policies**

Landcom's Audit and Risk Management Committee has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised Crown Lands Homesites Program of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

Crown Lands Homesites Program accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.
- *AASB 132 Financial Instrument Disclosure and Presentation* prohibits in-substance defeasance. Agencies can no longer offset financial assets and financial liabilities when financial assets are set aside in trust by a debtor for the purposes of discharging an obligation, without assets having been accepted by the creditor in settlement of the obligation. This will have the effect of increasing both assets and liabilities but will have no net impact on equity.
- *AASB 139 Financial Instrument Recognition and Measurement* results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit or loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and balance sheet.

The standard also includes stricter rules for the adoption of hedge accounting, and where these are not satisfied, movements in fair value will impact the income statement.

To achieve full harmonisation with GFS, Crown Lands Homesites Program would need to designate all financial instruments at fair value through profit or loss. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether Treasury will mandate this option for all agencies.

AASB 139 requires entities to separate embedded derivatives from the host contract and to account for them separately. Crown Lands Homesites Program will need to conduct a further investigation to ensure that no embedded derivatives exist.

**CROWN LANDS HOMESITES PROGRAM**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2004**

	2004 \$'000	2003 \$'000
<b>2 REVENUE FROM ORDINARY ACTIVITY</b>		
Sale of Land	38,529	36,433
Forfeited Sales Deposits	18	1
Interest	206	921
Other	-	1
	<u>224</u>	<u>923</u>
	<b><u>38,753</u></b>	<b><u>37,356</u></b>
<b>3 MARKETING EXPENSES</b>		
Agents' Commission	1,093	1,053
Advertising and Promotion	1,207	543
	<b><u>2,300</u></b>	<b><u>1,596</u></b>
<b>4 OTHER EXPENSES FROM ORDINARY ACTIVITY</b>		
Estate maintenance	75	33
Management/Support fee	3,034	1,694
Project cost adjustments	52	1
The Auditor-General's fee for auditing the financial reports	16	15
Other contractors	14	14
Rates	5	9
Miscellaneous	15	7
	<b><u>3,211</u></b>	<b><u>1,773</u></b>

Management fees represent charges by Landcom for the cost of professional and corporate support services.

Project cost adjustments represent items of expense where expenditure incurred on projects was written off as land did not proceed to appropriation.

**CROWN LANDS HOMESITES PROGRAM**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2004**

	2004 \$'000	2003 \$'000
<b>5 RECEIVABLES</b>		
<b>Current</b>		
Prepayments	-	2
Development bonds	128	-
Debtors	499	-
	<u>627</u>	<u>2</u>
<b>6 INVENTORIES</b>		
<b>Current</b>		
Works in Progress (at cost)	9,216	7,718
Developed Land (at cost)	9,809	2,242
	<u>19,025</u>	<u>9,960</u>
<b>Non Current</b>		
Developed Land (at cost)	275	135
Undeveloped Land (at cost)	21,857	22,078
	<u>22,132</u>	<u>22,213</u>
<b>Total Land Held for Resale</b>	<u>41,157</u>	<u>32,173</u>
<b>Details are:</b>		
Cost of acquisition	18,042	20,978
Development expenses capitalised	23,115	11,195
Carrying Amount of the Land	<u>41,157</u>	<u>32,173</u>
<b>7 PAYABLES</b>		
<b>Current</b>		
Treasury - Crown Core (Note 9)	5,395	9,366
Trade Creditors - Crown Core	304	-
Trade Creditors	243	860
GST payable	908	118
Retention Monies	18	8
Trust Monies	296	132
Accrued Expenses and Development Costs	1,126	45
	<u>8,290</u>	<u>10,529</u>
<b>8 PROVISIONS</b>		
<b>Current</b>		
Estimated Future Costs	1,764	19
	<u>1,764</u>	<u>19</u>
<b>Non Current</b>		
Provision for Rebates	580	-
	<u>580</u>	<u>0</u>
<b>Total Provisions</b>	<u>2,344</u>	<u>19</u>

**CROWN LANDS HOMESITES PROGRAM  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

	2004 \$'000	2003 \$'000
<b>9 PAYABLES - TREASURY CROWN CORE CREDITORS ACCOUNT</b>		
<b>At 1 July:</b>		
Current Liability	9,366	3,209
Non Current Liability	11,345	18,395
	<u>20,711</u>	<u>21,604</u>
 Payments to Treasury	(2,625)	(893)
Payable to Treasury	(304)	-
	<u>17,782</u>	<u>20,711</u>
<b>At 30 June:</b>		
Current Liability	5,395	9,366
Non Current Liability	12,387	11,345
	<u>17,782</u>	<u>20,711</u>

The total liability represents the cost of Crown Lands acquired at valuation by the Crown Land Homesites Program. The current liability represents land expected to be sold within the next 12 months. An amount is payable to NSW Treasury on the sale of land which represents the land value component of the cost of sales.

**10 EQUITY**

<b>Retained Profits</b>		
Balance at the beginning of the financial year	15,143	17,738
Profits for the financial year	22,353	27,494
	<u>37,496</u>	<u>45,232</u>
<b>Transaction with Owners as Owners :</b>		
Distribution paid to NSW Treasury	(6,184)	(30,089)
Balance at the end of the financial year	<u>31,312</u>	<u>15,143</u>

**11 CASH FLOW INFORMATION**

- (a) For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash	12,549	4,861
Total Cash	<u>12,549</u>	<u>4,861</u>

- (b) Reconciliation of Net Cash Flows from Operating Activities to Profit

<b>Profit from Ordinary Activities</b>	22,353	27,494
Write Down Project Costs	52	1
<b>Change in Assets and Liabilities</b>		
(Increase)/Decrease in Receivables	(625)	935
(Increase)/Decrease in Inventory	(9,035)	2,172
Increase/(Decrease) in Provisions	2,325	(4)
Increase/(Decrease) in Payables	1,427	(548)
<b>Net Cash Provided by Operating Activities</b>	<u>16,497</u>	<u>30,050</u>

**CROWN LANDS HOMESITES PROGRAM**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2004**

**12 FINANCIAL INSTRUMENTS**

(This note is to be read in conjunction with Note 1(h))

**(a) Interest Rate Risk**

Interest rate risk, is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates. Crown lands Homesites Program exposure to interest rate risks and the effective interest rates of financial assets and liabilities, both recognised and unrecognised at the balance date is minimal.

2004 Fixed interest rate maturing in:								
Financial Instrument	Notes	Floating Interest Rate	1 Year or less	Over 1, but not later than 2 years	Over 2, but not later than 5 years	More than 5 years	Non Interest Bearing	Carrying Amount as per the Statement of Financial Position \$'000
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Financial Assets</b>								
Cash	11	12,549						12,549
Receivables	5						627	627
<b>Total Financial Assets</b>		<b>12,549</b>					<b>627</b>	<b>13,176</b>
Weighted Average Interest Rate		3.06%						
<b>Financial Liabilities</b>								
Payables	7, 9						20,373	20,373
<b>Total Financial Liabilities</b>							<b>20,373</b>	<b>20,373</b>
<b>Net Financial Assets/(Liabilities)</b>		<b>12,549</b>					<b>(19,746)</b>	<b>(7,197)</b>

2003 Fixed interest rate maturing in:								
Financial Instrument	Notes	Floating Interest Rate	1 Year or less	Over 1, but not later than 2 years	Over 2, but not later than 5 years	More than 5 years	Non Interest Bearing	Carrying Amount as per the Statement of Financial Position \$'000
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Financial Assets</b>								
Cash	11	4,861						4,861
Receivables	5						2	2
<b>Total Financial Assets</b>		<b>4,861</b>					<b>2</b>	<b>4,863</b>
Weighted Average Interest Rate		4.07%						
<b>Financial Liabilities</b>								
Payables	7, 9						21,874	21,874
<b>Total Financial Liabilities</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21,874</b>	<b>21,874</b>
<b>Net Financial Assets/(Liabilities)</b>		<b>4,861</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(21,872)</b>	<b>(17,011)</b>

**b) Credit Risk**

Credit risk is the risk of financial loss arising from another party to a contract/or financial position failing to discharge a financial obligation thereunder. Crown Lands Homesites Program's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the financial position.

There is no significant concentration of credit risk arising in respect of receivables.

**c) Net Fair Value**

All financial instruments are carried at Net Fair Value, unless stated otherwise.



**CROWN LANDS HOMESITES PROGRAM  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004**

**13 SEGMENT REPORTING**

Crown Lands Homesites Program operates in the land development industry in New South Wales.

	2004 \$'000	2003 \$'000
<b>14 EXPENDITURE COMMITMENTS</b>		
Aggregate capital expenditure commitment for land development contracted for at balance date but not provided for:		
Not later than one year	2,969	9,018
Total (including GST)	<u>2,969</u>	<u>9,018</u>

The total capital commitments above includes input tax credits of \$270,000 (\$820,000 for 2002/03) that are expected to be recoverable from the ATO.

The Crown Lands Homesites Program does not have any operating lease commitments.

**15 CONTINGENT LIABILITIES**

Currently Crown Lands Homesites Program together with other developers is seeking a Declaratory Judgement from the Land and Environment Court regarding Sutherland Shire Council's right to charge the developers an Access Road levy. If an unfavourable ruling occurs, Crown Lands Homesites Program is expected to pay approximately \$1.7 million (1.5 million for 2002/03). Also, there may be potential unquantifiable liabilities under Native Title and Aboriginal Land Rights legislation, which result from actions taken in the development and sale of Crown land.

**16 RELATED PARTY TRANSACTION**

Any transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

**END OF AUDITED FINANCIAL STATEMENTS**



Financial Statements for the year ended 30 June 2004

# Land Development Working Account



New South Wales  
TREASURY



GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### The Crown Commercial Entity - Activities Conducted by the Department of Lands (Land Development Working Account)

To Members of the New South Wales Parliament

#### Audit Opinion

In my opinion, the financial report of the Crown Commercial Entity's - Activities Conducted by the Department of Lands (Land Development Working Account):

- (a) presents fairly the Entity's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

#### The Secretary's Role

The financial report is the responsibility of the Secretary of the New South Wales Treasury. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

#### The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Secretary in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Secretary had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Entity,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

## **Audit Independence**

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



G J Gibson FCPA  
Director of Audit

SYDNEY  
22 October 2004

**THE CROWN COMMERCIAL ENTITY  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS**

**Financial Statements**

**For the year ended 30 June 2004**

Pursuant to section 41C (1B) of the *Public Finance and Audit 1983* and the Public Finance and Audit Regulation 2000, I state that:

- (a) the accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit 1983*, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions as they related to the preparation of accounts:
- (b) the statements exhibit a true and fair view of the financial position and transactions of the reporting entity; and
- (c) there are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate



Acting Secretary  
NSW Treasury

21 October 2004

**CROWN COMMERCIAL ENTITY  
(LAND DEVELOPMENT WORKING ACCOUNT)  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004-09-06  
STATEMENT BY  
THE FINANCIAL ACCOUNTANT AND CHIEF FINANCIAL OFFICER**

Pursuant to Section 41C(1B) and (1C) of the Public Finance and Audit Act 1983, we declare that in our opinion, the financial statements and notes attaching thereto of the Crown Commercial Entity exhibit a true and fair view of its financial position as at 30 June 2004 and transactions of the year then ended.

The financial statements of the Crown Commercial Entity have been prepared on accrual basis and in accordance with applicable accounting standards, Statements of Accounting Concepts, Urgent Issues Group Consensus Views, industry practices, the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions.

Further, we are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Date at SYDNEY this Sixth day of September 2004



L Scambler  
Director  
Financial Services  
Department of Lands



H Tan  
Financial Accountant  
Financial Services  
Department of Lands

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Statement of Financial Performance  
For the year ended 30 June 2004**

	Notes	2004 \$000	2003 \$000
Sales Revenue	3	10,639	10,223
Cost of sales	4(a)	3,428	5,537
<b>Gross Profit</b>		<b><u>7,211</u></b>	<b><u>4,686</u></b>
<b>Expenses from Ordinary Activities</b>			
Administration Expenses		609	486
Marketing Expenses		23	4
Other Expenses		<u>212</u>	<u>305</u>
	4(b)	<u>844</u>	<u>795</u>
<b>Profit from Ordinary Activities</b>		<b><u>6,367</u></b>	<b><u>3,891</u></b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>	12	<b><u>6,367</u></b>	<b><u>3,891</u></b>

The accompanying notes form part of these financial statements.



**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Statement of Financial Position  
As at 30 June 2004**

	Notes	2004 \$'000	2003 \$'000
<b>Current Assets</b>			
Cash Asset	5	16,616	12,087
Receivables		3,420	474
Inventories	6	3,260	4,360
<b>Total Current Assets</b>		<b>23,296</b>	<b>16,921</b>
<b>Non-Current Assets</b>			
Inventories	6	3,542	3,542
<b>Total Non-Current Assets</b>		<b>3,542</b>	<b>3,542</b>
<b>Total Assets</b>		<b>26,838</b>	<b>20,463</b>
<b>Current Liabilities</b>			
Payables	8	2,595	1,316
Provisions	9	6,500	3,000
Other	10	9,591	7,862
<b>Total Current Liabilities</b>		<b>18,686</b>	<b>12,178</b>
<b>Non Current Liabilities</b>			
Other	11	3,000	3,000
<b>Total Non Current Liabilities</b>		<b>3,000</b>	<b>3,000</b>
<b>Total Liabilities</b>		<b>21,686</b>	<b>15,178</b>
<b>Net Assets</b>		<b>5,152</b>	<b>5,285</b>
<b>Equity</b>			
Retained profits	12	5,152	5,285
<b>Total Equity</b>		<b>5,152</b>	<b>5,285</b>

The accompanying notes form part of these financial statements.

**THE CROWN COMMERCIAL ENTITY – ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Statement of Cash Flows  
For the year ended 30 June 2004**

	Notes	2004 \$000	2003 \$000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		12,355	12,455
Payments to suppliers		(4,826)	(6,386)
<b>Net Cash Provided by Operating Activities</b>	13(b)	<u><b>7,529</b></u>	<u><b>6,069</b></u>
<b>Cash Flows from Financing Activities</b>			
Distribution to Treasury		(3,000)	(1,000)
<b>Net Cash used in Financing Activities</b>		<u><b>(3,000)</b></u>	<u><b>(1,000)</b></u>
<b>Net Increase Cash held</b>		4,529	5,069
Cash at the beginning of the Financial Year		12,087	7,018
<b>Cash at the end of the Financial Year</b>	13(a)	<u><b>16,616</b></u>	<u><b>12,087</b></u>

The accompanying notes form part of these financial statements.

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Notes to and forming Part of the Financial Statements  
For the year ended 30 June 2004**

**1. THE REPORTING ENTITY**

The Land Development Working Account comprises the Crown commercial activities, mainly the development and sale of land for commercial and residential purposes in country New South Wales. All Crown land sold by the Entity either as vacant or developed lots is deemed to have been acquired initially by the Entity from the Crown Entity. The entity operates in New South Wales, Australia. The office is located at Level 4, 1 Prince Albert Road, Queens Square, Sydney, NSW 2000. Activities managed by the Department of Lands on behalf of the Crown Entity are reported separately from the Department's operational activities in accordance with Treasury policy.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared as a general purpose financial report and in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group (UIG) Consensus Views and the requirements of the Public Finance and Audit Act 1983.

In the absence of applicable Accounting Standards, the hierarchy of the pronouncements as mentioned in AAS 6 'Accounting Policies' is considered.

The Statement of Financial Performance and Statement of Financial Position are prepared on an accruals basis and in accordance with the historical cost convention. The Statement of Cash Flows is prepared on a cash basis using the "direct" method. All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

**(a) Revenue from sale of land**

Revenue from sale of land is recognised on settlement.

**(b) Sale of surplus land controlled by other Departments**

The Crown Commercial Entity acts as an agent for other Departments in regard to the sale of surplus Crown land. After deducting departmental selling expenses the proceeds from the sale are remitted to the selling department which is responsible for transferring any Crown share of proceeds to the Consolidated Fund. These proceeds are therefore not recognised as revenue in these financial statements.

**(c) Cost of sales**

The cost of sales includes the cost of land and direct development expenses.

**(d) Employee related expenses**

The Entity has no employees. All the Entity's human resources are provided by the Department of Lands on a fee for services rendered basis. This fee includes employee related costs (salaries, superannuation, leave entitlement, payroll tax, and workers' compensation insurance) and an administration oncost.

**(e) Depreciation**

Depreciation is provided for on a straight line basis against all depreciable assets so as to write off the depreciable amount of each depreciable asset as it is consumed over its useful life to the entity. Computer equipment has a useful life of 4 years.

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Notes to and forming Part of the Financial Statements  
For the year ended 30 June 2004**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Inventories - property held for resale**

Inventories are stated at the lower of cost or net realisable value. Cost comprises cost of land and related development expenses. All direct expenditures and appropriate overhead on development are charged to the relevant projects. Inventories include development projects at different stages of completion but not vacant Crown land.

Crown land transferred to the entity is currently accounted for as follows:

- **Land acquired by the Entity for sale as vacant land**

The acquisition cost of vacant land is recognised as a cost of sales expense with a corresponding liability to the Crown Leaseholds Entity. The value of the land equals the cost of acquisition from the Crown Entity. Payment of the liability owing to the Crown Leaseholds Entity occurs at time of settlement.

- **Land acquired by the Entity for sale as developed land**

The acquisition cost of land is recognised as a cost of inventory with a corresponding liability to the Crown Leaseholds Entity. The value of the land is determined by departmental registered valuers. Recognition occurs at the time the decision is made to develop the land.

**(g) Cash**

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation 11am unofficial cash rate adjusted for a management fee to Treasury. Interest is not reported in the financial statements as it is paid direct to the Treasury.

**(h) Receivables**

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). No interest is earned on trade debtors. The carrying amount approximates net fair value. Sales are made on fifteen days terms.

**(i) Payables**

The liabilities are recognised for amounts due to be paid in the future for goods or services received whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made not later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment. The carrying amount approximates the net fair value.

**(j) Accounting for the Goods and Services Tax (GST)**

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

- the amount of GST incurred by the Entity as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or part of an item of expense.
- receivables and payables are stated with the amount of GST included.

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Notes to and forming Part of the Financial Statements  
For the year ended 30 June 2004**

**3. SALES REVENUE**

	<b>2004 \$000</b>	<b>2003 \$000</b>
Revenue from sale of land (Note 2(a))	11,460	12,053
<b>Less:</b>		
Land sold on behalf of other Departments (Note 2(b))	(821)	(1,830)
<b>Net revenue received</b>	<b>10,639</b>	<b>10,223</b>
Analysed as follows:		
Developed land	3,825	6,794
Vacant land	2,186	2,256
Land sold to NSW Government Agencies	4,353	946
Other revenue	275	227
	<b>10,639</b>	<b>10,223</b>

**4. COST OF SALES**

**4(a) Cost of Sales (Note 2 (c))**

Cost of land	1,801	2,545
Development costs	1,627	2,992
	<b>3,428</b>	<b>5,537</b>

**4(b) Operating Expenses**

**Administration Expenses**

Auditor's remuneration – audit of the financial report	13	9
Fees for services rendered (including departmental management fee (Note 2(d)))	596	477
	609	486

**Marketing Expenses**

Stores	12	2
Travelling and motor running expenses	11	2
	23	4

**Other Expenses**

Other	212	305
	212	305
	<b>844</b>	<b>795</b>

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Notes to and forming Part of the Financial Statements  
For the year ended 30 June 2004**

**5. CASH**

	<b>2004 \$'000</b>	<b>2003 \$'000</b>
Cash at bank	16,616	12,087
	<u><b>16,616</b></u>	<u><b>12,087</b></u>

**6. INVENTORIES**

**Land held for resale – At Cost**

Current	3,260	4,360
Non-current	3,542	3,542
	<u><b>6,802</b></u>	<u><b>7,902</b></u>

**Land held for resale – At Cost**

Acquisition Cost	5,036	5,424
Direct Development expenses capitalised	1,766	2,478
<b>Carrying amount of the land</b>	<u><b>6,802</b></u>	<u><b>7,902</b></u>

The basis of inventory valuation is set out in note 2(f).

**7 PLANT AND EQUIPMENT**

Computers – at cost	7	7
<b>Less: Accumulated Depreciation</b>	<u>7</u>	<u>7</u>
	<u><b>-</b></u>	<u><b>-</b></u>

**8. PAYABLES**

Due to other Government Departments (Note 2b)	1,063	834
Creditors	150	10
Prepaid Income	1,382	472
	<u><b>2,595</b></u>	<u><b>1,316</b></u>

**9. PROVISIONS**

Payments to Treasury		
At 1 July	3,000	1,000
Payments	(3,000)	(1,000)
Provisions	6,500	3,000
	<u><b>6,500</b></u>	<u><b>3,000</b></u>

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Notes to and forming Part of the Financial Statements  
For the year ended 30 June 2004**

**10. OTHER – CURRENT LIABILITIES**

	<b>2004 \$'000</b>	<b>2003 \$'000</b>
Amount due to the Crown Leasehold		
Balance at 1 July	7,862	5,990
Value of land transferred in	4,167	3,079
Value of land transferred out	-	(106)
Payments made during the year	(2,438)	(1,101)
Balance at 30 June	<u>9,591</u>	<u>7,862</u>

**11. OTHER – NON-CURRENT LIABILITIES**

Treasury Advance		
Interest-free working capital advance	<u>3,000</u>	<u>3,000</u>

**12. EQUITY**

At 1 July	5,285	4,394
Total changes in equity recognised in the statement of financial performance	6,367	3,891
Transactions with owners as owners	(6,500)	(3,000)
At 30 June	<u>5,152</u>	<u>5,285</u>

**13. NOTES TO THE STATEMENT OF CASH FLOWS**

**13 (a) Reconciliation of Cash**

For the purposes of the Statement of Cash Flow, cash includes cash held in bank. Cash at the end of the financial year as shown in the Statement of Cash Flow is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	<u>16,616</u>	<u>12,087</u>
--------------	---------------	---------------

**13 (b) Reconciliation of net cash flows in operating activities to the net profit from Ordinary Activities**

<b>Profit from Ordinary Activities</b>	6,367	3,891
<b>Add/(Less):</b>		
<b>Movement in assets and liabilities</b>		
(Increase) in Receivables	(2,946)	(92)
Decrease in Inventories	1,100	401
Increase/(Decrease) in Payables	1,279	(4)
Increase in Other	1,729	1,873
	<u><b>7,529</b></u>	<u><b>6,069</b></u>

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Notes to and forming Part of the Financial Statements  
For the year ended 30 June 2004**

**14 CONTINGENT LIABILITIES AND COMMITMENTS**

In March 2004 the Land and Environment Court directed the Minister Assisting the Minister for Natural Resources (Lands) to acquire a parcel of land owned by Nedoni Pty Ltd. The land is located at Byron Bay. It is intended that the Minister for Lands will acquire the parcel of land on behalf of the Crown. The potential liability to the entity could be up to \$3 million, being the land value and other cost of acquisition. Due to unresolved issues concerning the amount of land to be acquired, a reliable land valuation estimate could not be determined at this stage and a liability has therefore not been recognized.

**15. NATIVE TITLE**

Under the provisions of the Commonwealth Native Title Act claims may be lodged in respect of land currently held as inventories. However, inventories are not offered for sale until such time as Native Title interests are extinguished through compulsory acquisitions or the granting of a non-claimant application by the Native Title Tribunal. The nature and value of possible claims under the provisions of the Native Title Act are complex and are not directly related to the inventory value disclosed in the financial statements. Any future compensation claim which might arise under the Commonwealth Native Title legislation in regard to land disposals is accepted by the Crown rather than the purchaser. Therefore, there is no impact on the value of inventories disclosed in the financial statements.

**16. FINANCIAL INSTRUMENTS**

Financial instruments give rise to positions that are a financial asset of the Crown Commercial Entity (or equity instrument) of the other party. For the Entity, these include cash, receivables, payables and others. All such amounts are carried at net fair value unless otherwise stated.

**(a) Interest rate Risk**

Interest rate risk is the risk that the value of the instruments will fluctuate due to changes in market interest rates. The entity's exposure to interest rate risk and the effective interest rates of financial assets and liabilities at the balance date are as follows:



**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Notes to and forming Part of the Financial Statements  
For the year ended 30 June 2004**

	<b>Weighted average effective interest rate %</b>	<b>Floating Interest rate \$000</b>	<b>Non-interest Bearing \$000</b>	<b>Total carrying Amount \$000</b>
<b>30 June 2004</b>				
<i><b>Financial Assets</b></i>				
Cash	4.18	16,616	-	16,616
Receivables		-	666	666
<b>Total</b>		<b>16,616</b>	<b>666</b>	<b>17,282</b>
<i><b>Financial Liabilities</b></i>				
Payables		-	2,595	2,595
Other – Amount due to Crown Entity			9,591	9,591
Other – Treasury advance			3,000	3,000
<b>Total</b>			<b>15,186</b>	<b>15,186</b>
<b>30 June 2003</b>				
<i><b>Financial Assets</b></i>				
Cash	3.75	12,087	-	12,087
Receivables		-	474	474
<b>Total</b>		<b>12,087</b>	<b>474</b>	<b>12,561</b>
<i><b>Financial Liabilities</b></i>				
Payables		-	1,315	1,315
Other - Amount due to Crown Entity		-	7,862	7,862
Other - Treasury advance		-	3,000	3,000
<b>Total</b>			<b>12,177</b>	<b>12,177</b>

**(b) Credit Risk**

Credit risk is the risk of financial loss arising from another party to a contract/or financial position failing to discharge a financial obligation thereunder. The Entity's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Statement of Financial Positio

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY  
THE DEPARTMENT OF LANDS  
(LAND DEVELOPMENT WORKING ACCOUNT)**

**Notes to and forming Part of the Financial Statements  
For the year ended 30 June 2004**

**17 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**(a) Explanation of how the transition to AIFRS is being managed.**

The Department will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005. The Department is managing the transition to the new standards by allocating internal resources to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition. Where necessary the Department will also engage legal or accounting professional resources to provide expert advice.

As a result of this exercise, the agency has taken the following steps to manage the transition to the new standards:

- The agency's Budget Committee is overseeing the transition. The Director, Financial and Administrative Services is responsible for the project and reports to the Committee on progress against the plan. The Department's Audit Committee also provides input to the process. .
- The following phases that need to be undertaken have been identified:
  - Scope and identify impact of the changes
  - Determine changes to be made to systems, processes, policies.
  - Train staff
  - Implement changes and review

By the end of June 2004, a preliminary assessment of the impact of the changes for the entities administered for the Crown by the Department of Lands had been undertaken. All other stages, including the requisite changes to systems will be completed by the end of November 2004.

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

**(b) Key Differences in Accounting Policies**

The agency has identified a number of significant differences in accounting policies that will arise from adopting AIFRS.. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the Department of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The agency's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

□ AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions.

**End of Audited Financial Statements**



New South Wales  

---

TREASURY