New South Wales

# TREASURY

# Crown 2008-09 Annual Report

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## Crown Charter

The Crown manages and reports on service-wide assets, liabilities and transactions that are the overall responsibility of the government rather than individual departments and statutory bodies.

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

This is the third volume of NSW Treasury's Annual Report for 2008-09.

This volume includes details of the agencies and the funds administered by NSW Treasury for the Crown.

- **Consolidated financial statements for the Crown** which includes the Crown Finance Entity and the Consolidated Fund.
- **Financial Statements of the Crown's controlled activities,** comprising the accounts of:
  - **Liability Management Ministerial Corporation**
  - **Electricity Tariff Equalisation Ministerial Corporation**
  - **State Rail Authority Residual Holding Corporation**
  - **NSW Self Insurance Corporation**
  - **Crown Lands Homesites Program**
  - **Land Development Working Account**
  - **Crown Leaseholds Entity**

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

The NSW Self Insurance Corporation also issues its own annual report as required by its founding legislation.

### Administration

The Crown Asset and Liability Management Branch is part of the Budget and Financial Management Directorate of NSW Treasury. The Branch is responsible for the administration of the Crown.

### Contact Details

The Crown Asset and Liability Management Branch is located on:
Level 15,
Governor Macquarie Tower
1 Farrer Place, Sydney

Reception Hours
Monday to Friday
8.30 am to 5.30 pm

Inquiries may be directed to:
The Director,
Crown Asset and Liability Management
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- Unfunded superannuation liability increased by $10,924 million mainly due to a reduction in the discount rate used to value liabilities.
- Borrowings, which represent the other major liability, increase to fund record levels of capital expenditure in the General Government sector and to reduce the Crown short term overdraft.

## Balance Sheet

The increase in net liabilities between 30 June 2008 and 30 June 2009 is primarily explained by the following:

**Statement of Financial Position ($m)**

| | 30 June 2009 | 30 June 2008 |
|---|---|---|
| **Total Liabilities** | 54,582 | 40,279 |
| **Total Assets** | 16,056 | 15,848 |
| **Net Liabilities** | 38,526 | 24,431 |

### Superannuation

Unfunded superannuation liabilities increased by $10,924 million mainly due to:

- Additional year of service provided by current Pooled Fund scheme contributors. This increased gross liabilities by $2,563 million.
- A reduction in the discount rate used to value liabilities from 6.55 per cent in June 2008 to 5.59 per cent in June 2009. The reduction in the discount rate increased gross liabilities by $4,825 million.
- A negative investment return of 10.4 per cent on State Super investments flowing from the global financial crisis.
- The adoption of the preliminary 2009 Mercer review demographic assumptions. Updated demographic forecasts on pensioner mortatity, marriage patterns, commutation rates and other variables have increased net liabilities by $1,886 million.

The international accounting standard AASB 119 requires the recalculation of superannuation liabilities each year using a discount rate equal to the long-term government bond rate as at 30 June. Under the previous Australian Accounting Standard, the valuation basis was the forecast long-term asset earning rate.

For funding purposes, the AASB 119 approach is inappropriate as it generally overstates the liability obligation when scheme assets are invested in growth portfolios.

Long-term investment history shows that equity returns exceed the return on bonds due to the equity risk premium. In addition, the use of AABB 119 distorts underlying comparisons from year to year as bond rates fluctuate.

### Borrowings

The increase in borrowings of $3,029 million during 2008-09 reflects the impact of the global economic down turn on the State's operating result and the record levels of general government sector capital expenditure.

Further Crown borrowings have also increased been used to reduce the overdraft on the Come and Go facility with Treasury Corporation in order to lock in historically low nominal interest rates.

## Operating Statement

- Operating deficit funds higher agency recurrent and capital appropriations.
- Administration of the First Home Owners Grant Scheme transferred to Crown.
- State Taxation revenue fell due to global financial crisis but Commonwealth contributions increased to fund stimulus Education and Housing initiatives.

**Statement of Financial Performance ($m)**

| | 2008-09 | 2007-08 |
|---|---|---|
| **Total Revenues** | 44,801 | 42,343 |
| **Total Expenses** | 48,421 | 43,453 |
| **Loss on Disposal of Non-Current Assets** | 32 | 44 |
| **Gain/(Loss) from Financial Instruments** | 187 | (32) |
| **Deficit** | **3,465** | **1,186** |

- Recurrent appropriations increased by $2,523 million. The main increases were to the Ministers for Health ($836 million), Transport ($756 million), Housing ($385 million), Education and Training ($345 million), Aging and for Disability services ($212 million), Community Services ($129 million), Police ($75 million) and Corrective Services ($50 million).
- Capital Appropriations increased by $586 million. The main increases went to the Ministers for Transport ($363 million), Education and Training ($130 million), and Health ($120 million).
- Grants and subsidies increased by $298 million. The Crown has taken over the funding of the First Home Owners Grant Scheme from NSW Treasury ($738 million). Offsetting this, no grant was payable to the Transport Infrastructure Development Corporation this year ($390m in 2007-08) and there was a reduction in capital grants for Crown Property Management of $53 million.
- Insurance claims increased by $812 million. This was due to a turnaround in SICorp's insurance expenses from 2007-08 to 2008-09. The releasing of past excess provisions appears to have come to an end and in 2008-09 expenses returned to normal levels.
- State Revenue from taxes, fees and fines decreased by $713 million. Stamp duties fell by $1,420 million due to the weakness in the property market in 2008-09. This was off set by increases in land tax ($311million), fees and fines ($64 million), payroll tax ($160million) and motor vehicle taxes of ($53 million).
- Commonwealth contributions increased by $2,207 million. This included decreases of $280 million and $590 million in existing Specific Purpose recurrent and capital payments respectively. In addition, there were new National Partnership payments of $1,446 million for recurrent and $1,617 million for capital purposes. These new payments were directed to Education and Housing.

- The core responsibilities of the Crown are financial liability and asset management.

## Liability Management

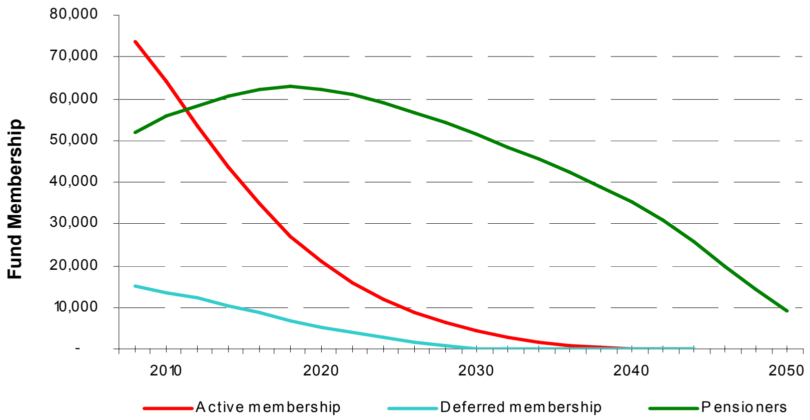
### Superannuation

Approximately three quarters of the New South Wales public sector workforce are members of accumulation based superannuation schemes, primarily First State Super, where employers contribute the 9 per cent Superannuation Guarantee Charge.

The rest of the workforce are members of closed defined benefit schemes: the pension based State Superannuation Scheme and Police Superannuation Scheme; and the lump sum based State Authorities Superannuation Scheme and State Authorities Non-Contributory Superannuation Scheme.

Most State Super scheme members currently in the workforce (i.e. active members) will retire over the next twenty years. Pensioner numbers are expected to peak in the next decade and then decline slowly over the following 30 years.

**State Super scheme membership projection to 2050**




Other public sector schemes are dedicated to specific activities, being the Judges Pension Scheme and the Parliamentary Contributory Superannuation Fund. The defined benefit component of the Parliamentary Contributory Superannuation Fund has also been closed to new members since March 2007.

Superannuation liabilities are estimates of the value of employee benefit entitlements, based on employee contributions and the accrued value of employer funded entitlements over time. Liability estimates are based on the present value of employee entitlements, using assumptions on benefit payments, salary growth, retirement rates and other variables. The assumptions underlying these estimates are revised on an ongoing basis and are subject to detailed assessment as part of the triennial actuarial review. The last triennial review was completed in 2006 and the current Mercer review is due to be completed by December 2009.

Liabilities are funded by financial assets, provided by scheme employees and employers and invested and managed by the trustees of the respective schemes.

The margin between gross liabilities and the market value of assets represent the Crown's unfunded superannuation liabilities.

### *Superannuation Funding Plan*

The objective of the Government's funding plan is for sufficient, but not excessive, employer contributions to be made to the defined benefit schemes to ensure full funding by 2030, as required by the Fiscal Responsibility Act 2005.

This funding approach ensures that liabilities are met without unnecessarily diverting financial resources away from core government services such as health, education and transport.

The Crown funding plan for the general government sector uses forecasts based on the actuarial funding approach with the discount rate equivalent to forecast long term investment earnings. Cash employee and employer contributions and investment earnings are used to forecast asset values and to target a net liability outcome.

Crown cash contributions to superannuation are based on a pre-tax investment earnings forecast of 7.9 per cent per annum, as per advice from Mercer Investment Consulting.

The 7.9 per cent forecast is consistent with State Super's long term returns and reflects investments in a diversified portfolio of asset classes, including equities and property as well as bonds and other interest based investments. The funding plan also makes allowance for certain tax benefits, including the benefit of tax free earnings on assets that finance pension liabilities and the receipt of franking credits on Australian shares.

Using these investment forecasts, and with the help of the State Super fund actuary Mercer, cash employer contributions are reviewed each year and then reset at a rate based on full funding of net liabilities by 2030. The growth rate for employer contributions in general government sector has been increased from 3.5 per cent per annum to 7.7 per cent per annum, to apply from 2009-10 onwards. This funding arrangement has been set on an interim basis until the situation in global financial markets becomes more stable. Funding schedules will also be reviewed following the finalisation of the Mercer Triennial review, due in December 2009.

## Borrowings

Crown gross debt includes interest bearing loans and finance leases. Borrowings are generally managed under arrangements with TCorp. Crown gross debt is used to finance cash flow budget deficits.

Management of Crown borrowings has two long-term objectives: to minimise the market value of debt within specified risk constraints, and to minimise the cost of debt.

The management of Crown debt is governed by a Memorandum of Understanding (MOU) between NSW Treasury and TCorp. The MOU includes a requirement to adhere to finance expense budget allocations, which are agreed at the beginning of each financial year. TCorp, as debt manager, operates to agreed benchmarks on debt duration and has an active management mandate to add value relative to a benchmark portfolio. The General Government Debt Management Committee, consisting of representatives of TCorp, Treasury and the Road and Traffic Authority, meets quarterly to monitor debt strategy and to review financial market developments.

As part of the debt management process, TCorp has started to issue longer term bonds and inflation indexed bonds. These bonds are being issued following a review of debt duration benchmarks and debt management processes. Use of these bonds will help reduce debt cost volatility and lock-in the benefits of currently low nominal interest rates.

### Insurance Management

The management of insurance is based on a number of dedicated schemes, mostly overseen by the Self Insurance Corporation (SICorp). Liabilities are met by assets, provisioned in prior years, ongoing investment earnings and insurance premiums.

SICorp's main functions are:

- the administration of the Treasury Managed Fund (TMF), which provides cover for all insurance exposures faced by general government sector budget dependent agencies in New South Wales (other than compulsory third party insurance). TMF membership is also available to all other public sector agencies on a voluntary basis;
- the management of liabilities from a number of closed schemes. The closed schemes are the Governmental Workers Compensation Account, the Transport Accident Compensation Fund, the Pre-managed Fund Reserve and the residual workers compensation liabilities of the former State Rail Authority;
- the collection and analysis of data provided by TMF claims managers; system management of the TMF data warehouse; provision of reporting functions to member agencies; and monitoring of claims providers and the provision of financial statements and budget estimates.

SICorp operates as a branch of NSW Treasury. A skills based advisory board has been established to complement and strengthen Treasury's management of the administration of SICorp by providing industry expertise and ensuring challenging performance goals are set and achieved. The main objective of the board is to provide strategic, operations, and technical advice and guidance to the administration and management of the State's self insurance scheme.

The views of agency members of the TMF are presented to the board through the TMF Agency Council. The Council is representative of the broad spectrum of agencies in the TMF and includes representatives from seven agencies as well as representatives of the Public Sector Risk Management Association and NSW Treasury. Members are generally from the finance area or occupational health and safety area of their agencies.

As part of the risk management arrangement, the TMF purchases a comprehensive reinsurance program to protect its exposure to catastrophic events. In addition, the TMF, in consultation with risk manager provider Suncorp Risk Services, is able to utilise the TMF data warehouse to identify areas of risk and design risk management strategies that target risk areas.

## Financial Asset Management

The Crown accumulates financial assets to meet liabilities as they fall due.

Agencies in the general government budget sector are participants in the Treasury Banking System (TBS) - a cash forecasting and management system that has been in place since 1993. The TBS is used to efficiently manage cash resources and includes a set-off arrangement, which allows all TBS bank accounts to be treated as one account for the purpose of calculating and making interest payments.

Financial assets are largely invested to meet specific liabilities. There are two major types of asset portfolios, based on investments to meet superannuation liabilities, and investments to meet insurance obligations. (The superannuation asset portfolio is managed by State Super and offsets the Crown's superannuation liability. Only the net liability is shown on the Crown).

The asset portfolios are designed to optimise returns within appropriate risk parameters in order to reduce the level of funding needed to meet liabilities over time.

Most superannuation investments are held by State Super, with the balance mainly held by the Electricity Industry Superannuation Scheme (EISS). Other investments are largely managed by TCorp on behalf of client agencies, such as SICorp with its TMF investment portfolio.

State Super and TMF investments in 2007-08 and 2008-09 have been adversely affected by falling asset markets due to the global financial crisis.

| Financial year to 30 June 2009 | State Super % | TMF % |
|---|---|---|
| **2008 - 09** | -10.4 | -2.8 |
| **2007 - 08** | -7.4 | -7.4 |
| **2006 - 07** | +13.3 | +9.5 |
| **Average 5 Years** | 4.6 | 3.9 |

Although negative, earnings from State Super during the global financial crisis and in previous years have generally been higher than industry averages. A survey of superannuation fund earnings by Intech Investment Consultants for the financial year ended 30 June 2009 advised a medium return of negative 13 per cent for growth based funds.

Similarly SICorp result was better than comparable asset class industry benchmarks of negative 4.0 per cent for 2009.

## Crown 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 NSW Government.

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

### Crown Finance

As detailed in program objectives and descriptions (refer page 11).

### NSW Self Insurance Corporation

The NSW Self Insurance Corporation (SICorp) administers the insurance liabilities and financial assets of the Treasury Managed Fund (TMF), the Government Workers' Compensation Account, Transport Accidents Compensation Fund and the Pre Managed 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.

### Electricity Tariff Equalisation Ministerial Corporation

The Fund manages purchase cost risk for electricity retail suppliers of small retail customers in New South Wales. The Government has decided to phase out the Corporation's activities with the Fund to close by 30 June 2011.

### State Rail Authority

Residual Holding Corporation holds certain former State Rail Authority cross-border rolling stock leases.

### Crown Lands Homesites Program

The program is responsible for the development and sale of residential Crown Lands homesites in urban areas. Program activities are administered by Landcom.

### Land Development Working Account

The account is responsible for the development of Crown land for residential purposes in country New South Wales and for commercial purposes on a State wide basis. The account activities are administered by the Department of Lands.

### Crown Leaseholds

This collects Crown land purchase instalments and generates revenue from leases, licences and permissive occupancies.

It reports on the value of vacant Crown land. Crown Leasehold activities are administered by the Department of Lands.

### Agency Amalgamations

On 13 July 2009 the Premier wrote a letter to the Minister for Lands notifying him that a Property Management Authority would be created from the functions that had been allocated from within the Services, Technology and Administration cluster and also from other clusters. Three of the agencies to be included within this new Management Authority are Land Development Working Account, Crown Land Homesites Program and the Crown Leaseholds Entity. Accordingly, these three agencies will no longer form part of the Crown entity after July 2009

## Crown Finance Service Groups

### Debt Liability Management

| | |
|---|---|
| Service Description: | This service group covers the management of the Crown debt portfolio and the Treasury Banking System (TBS), which are managed in conjunction with NSW Treasury Corporation, to meet the objectives of minimising the market value of debt within specified risk constraints, minimising the cost of debt and maximising investment returns. |
| Linkage to Results: | This service group contributes towards minimising the level and cost of the State's net debt liabilities by working towards a range of intermediate results that include the following:<br>• Maintain underlying general government net debt as a proportion of gross state product<br>• ensure liabilities are managed to minimise associated costs and<br>• maximise returns within risk constraints through appropriate investment of any surplus funds. |

### Superannuation Liability Management

| | |
|---|---|
| Service Description: | This service group covers the management of unfunded superannuation liabilities of New South Wales public sector defined benefit superannuation schemes in accordance with the Government's long-term funding plan. |
| Linkage to Results: | This service group contributes towards elimination of Total State Sector net unfunded superannuation liabilities by 30 June 2030. |

### Central Financial Services

| | |
|---|---|
| Service Description: | This service group covers the periodic payments made to meet agency long service leave, the cost of redundancies, grants under the First Home Owners Grant Scheme and GST administration costs payable to the Australian Taxation Office. It also includes provision of funds to various departments and authorities involved in the administration of joint Australian Government/State natural disaster schemes. |
| Linkage to Results: | This service group contributes to efficient operation of the State's finances by working towards a range of intermediate results that include the following:<br>• management of payment system to ensure agencies receive funding in timely manner and<br>• efficient management of other financial assets and liabilities. |

## Expenditure on Consultants

| Consultants costing $30,000 or more | | |
|---|---|---|
| **Finance and Accounting/Tax** | **Project** | Amount (ex. GST) |
| ▪ Ernst & Young | Valuation of Financial Guarantee Contracts. | $53,714 |
| ▪ Mercer Human Resources | Actuarial services. | $513,619 |
| ▪ Deloitte Touche Tohmatsu | Financial reviews including reviews of agencies. | $166,019 |
| ▪ Credit Suisse | Financial advice for the Electricity Generation and Retail Project. | $783,051 |
| ▪ Ernst & Young | Accounting and Tax advice for the Energy Reform Project. | $5,120,087 |
| ▪ Lazard Carnegie Wylie | Financial advice for the Electricity Generation and Retail Project. | $3,978,088 |
| ▪ PV & Associates Pty Ltd | Consultants for the Electricity Generation and Retail Project. | $245,940 |
| ▪ Ernst & Young | Accounting and Tax advice for the Pillar Project. | $150,768 |
| ▪ Ernst & Young | Accounting and Tax advice for Waste Service NSW (WSN) Project. | $191,351 |
| ▪ UBS Investment Bank | Advisory services for the sale of WSN Environmental Solutions Project. | $216,287 |
| ▪ Ernst & Young | Accounting and Tax advice for the sale of NSW Lotteries Project. | $396,590 |
| ▪ Deloitte Touche Tohmatsu[1] | Performance audit of claims managers. | $117,731 |
| ▪ Deloitte Touche Tohmatsu[1] | Audit of Department of Education and GIO's case management procedures and arrangements. | $39,558 |
| ▪ Finity Consulting Pty Ltd[1] | Liability and Property claims audit for the Treasury Managed Fund (TMF) claims manager tender. | $80,475 |
| **Information Technology** | | |
| ▪ KPMG Corporate Finance (Aust) Pty Ltd | Information Technology advice for the Electricity Generation and Retail Project. | $2,197,670 |
| ▪ Internal Audit Bureau[1] | Development of Chimaera project – data warehouse enhancement. | $54,300 |
| ▪ Internal Audit Bureau[1] | Business analysis for data governance review, evaluation and redesign. | $35,875 |
| ▪ Oakton Ltd[1] | Business analysis for TMF Data Warehouse WorkCover CDR5.2 project. | $62,825 |
| ▪ Oakton Ltd[1] | Development of system specifications. | $48,650 |

## Expenditure on Consultants

| Consultants costing $30,000 or more (continued) | | |
|---|---|---|
| **Management Services** | **Project** | Amount (ex. GST) |
| ▪ GHD Pty Ltd | Electricity Rural Community Impact Statement. | $46,700 |
| ▪ Cosway Australia Pty Ltd | Communication advice for the Energy Reform Project. | $424,274 |
| ▪ Gavin Anderson & Company | Communication advice for the Energy Reform Project. | $1,235,397 |
| ▪ Worley parsons | Consultations for the NSW Electricity Generation and Retail Project. | $1,641,281 |
| ▪ PriceWaterhouse Coopers | State Bank Post sale advice. | $42,500 |
| ▪ Finity Consulting Pty Ltd[1] | TMF claims manager tender. | $833,454 |
| ▪ Finity Consulting Pty Ltd[1] | TMF risk management function review. | $61,091 |
| ▪ Oakton Ltd[1] | Client manager transition feasibility study and advice. | $87,239 |
| **Legal** | | |
| ▪ Baker & Mckenzie | Advisory services regarding Initial Public Offer (IPO) for the Electricity Generation and Retail Project. | $4,097,832 |
| ▪ RSM Bird | Probity advice for the Energy Reform Project. | $217,347 |
| ▪ Clayton UTZ | Advisory services for the sale of WSN Environmental Solutions Project. | $371,643 |
| | **Sub-total:** | $23,511,356 |
| **Consultants costing less than $30,000** | | |
| Finance and Accounting/Tax | 6 projects totalling | $98,150 |
| Information Technology[1,2] | 4 projects totalling | $46,287 |
| Management Services[1,2] | 7 projects totalling | $132,651 |
| Legal | 6 projects totalling | $78,713 |
| Economic Assessment | 1 project totalling | $7,500 |
| | **Sub-total:** | $363,301 |
| | **TOTAL:** | $23,874,657 |

1) Projects undertaken by the NSW Self Insurance Corporation (SICorp) totalling $1,567,249.

2) Within the consultants costing less than $30,000 two information technology projects and seven management services projects were undertanen by SICorp and total $146,051.

These consultancy fees relating to SICorp are also detailed in the SICorp Annual Report 2008-09.

## Account Payable Performance

The accounts payable function for the controlled entities of the Crown Entity is performed by various areas. These are:

1. Crown Asset and Liability Management branch of the NSW Treasury provide accounts payable services for:
   - Crown Finance Entity
   - Consolidation Fund
   - NSW Self Insurance Corporation
   - Electricity Tariff Equalisation Ministerial Corporation
   - Liability Management Ministerial Corporation
   - SRA Residual Holding Corporation
2. Corporate Finance branch of the Land and Property Management Authority (ex Department of Lands) provide accounts payable services for:
   - Crown Leaseholds Entity
   - Land Development Working Account
3. Finance department of Landcom provide accounts payable services for:
   - Crown Lands Homesites Program

In accordance with the requirements of the *Public Finance and Audit Regulation 2005*, the Annual Reports legislation and the Treasurer's Direction, the responsible department ensures that all accounts are paid promptly.

The following tables report the time taken to administer payments for the consolidated Crown Entity.

| Reporting on Payment of Accounts | | | | | |
|---|---|---|---|---|---|
| Outstanding invoices by age at the end of each quarter $ | Current (ie. within due date) $ | Less than 30 days overdue $ | Between 30 and 60 days overdue $ | Between 60 and 90 days overdue $ | More than 90 days overdue $ |
| September 2008 | 36,027,128 | 3,558,898 | 769,801 | 824,198 | 58,482 |
| December 2008 | 7,056,373 | 1,061,866 | 1,051,613 | 796,593 | 91,736 |
| March 2009 | 7,447,740 | 448,736 | 2,428,509 | 42,296 | 202,333 |
| June 2009 | 2,731,164 | 3,365,155 | 88,624 | 406,775 | 30,689 |

| Accounts paid on time during each quarter | Total Accounts Paid on Time | | | | Total Amount Paid $ |
|---|---|---|---|---|---|
| | Target % | Actual % | | $ | |
| | | By Number | By Value | | |
| September 2008 | 89 | 93 | 100 | 19,057,969,415 | 19,065,198,640 |
| December 2008 | 89 | 88 | 100 | 19,021,514,653 | 19,029,313,884 |
| March 2009 | 89 | 91 | 100 | 18,462,023,178 | 18,467,897,979 |
| June 2009 | 89 | 91 | 100 | 20,494,582,445 | 20,505,143,324 |

During the year, there were some delays in the processing of the Crown Finance Entity's payments which were subject to a rigorous review and approval process before payment can be made. However, there were no instances where penalty interest was paid in accordance with clause 15 of the *Public Finance and Audit Regulation 2005.*

## Land Disposal

The controlled entities of the Crown Entity namely Crown Lands Homesites Program (CLHP), Land Development Working Account (LDWA) and Crown Leaseholds Entity (CLE) administer the development and sales activities of Crown lands. Lands are disposed of to comply with Government policy objectives.

For the year ended 30 June 2009, 2,407 parcels of land with a carrying value of $45.0 million were disposed for $30.2 million by the LDWA and CLE. This includes 368 parcels of land with a carrying value of $15.3 million that were transferred to reserve trusts and local government for no consideration.

In addition, 36 residential lots were sold to individual purchasers under the CLHP with proceeds totalling $7.5 million. These lots had a carrying value of $5.2 million.

During 2008-09 there were no parcel of lands disposed of by means other than public auction or tender that had a value of more than $5 million.

Any association between purchaser and person responsible for approving the disposal is required to be declared. There were no such declarations in the year.

Proceeds from sales made by the CLHP were used to fund further development works. The net proceeds from sales of lands from LDWA and CLE were paid to the Consolidated Fund.

All sale documents are retained as either the administering entity's records or held by the entity's' solicitors responsible for the conveyancing and can be accessed under the normal Freedom of Information guidelines.

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New South Wales
TREASURY

# Crown Entity

Consolidated Financial Report for the year ended 30 June 2009

GPO BOX 12
Sydney NSW 2001

# INDEPENDENT AUDITOR'S REPORT

**Crown Entity**

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Entity, which comprises the balance sheet as at 30 June 2009, the operating statement, statement of recognised income and expense, cash flow statement, service group statements, a summary of significant accounting policies and other explanatory notes.

## Qualified Auditor's Opinion

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the value of Crown reserves, the financial report:

- presents fairly, in all material respects, the financial position of the Crown Entity as at 30 June 2009, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

### *Basis for Qualified Auditor's Opinion*

As disclosed in Note 2 Summary of Significant Accounting Policies, the Crown Entity is undertaking a project to identify and value the Crown reserves it controls. Until that project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the financial report.

My audit report for the year ended 30 June 2008 referred to the same matter.

## Secretary of the Treasury's Responsibility for the Financial Report

The Secretary is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

My responsibility is to express an opinion on the financial report based on my audit. Except as discussed in the qualification paragraph, I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

My opinion does *not* provide assurance:

- about the future viability of the Crown Entity,
- that it has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

**Independence**

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat
Auditor-General

20 October 2009
SYDNEY

**Crown Entity**

**Financial Report tor the Year Ended 30 June 2009**
**Statement by Department Head**

Pursuant to Section 45F (1B) of the *Public Finance and Audit Act 1983*, I declare that in my opinion:

(a) The accompanying consolidated financial report exhibits a true and fair view of the financial position of the Crown Entity as at 30 June 2009 and the transactions for the year then ended; and

(b) The consolidated financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the Treasurer's Directions.

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

Michael Schur
Secretary
20 October 2009

# Crown Entity

## Consolidated Operating Statement
## for the year ended 30 June 2009

| | Notes | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| **INCOME** | | | |
| Taxation, Fines and Regulatory Fees | 3(a) | 18,293,255 | 19,006,359 |
| Commonwealth Contributions | 3(b) | 21,435,753 | 19,228,643 |
| Financial Distributions | 3(c) | 2,008,571 | 2,097,322 |
| Sale of Goods and Services | 3(d) | 1,013,514 | 850,036 |
| Investment Income | 3(e) | ( 146,197) | ( 213,237) |
| Share of Profit of an Associate | 7 | 122,931 | 55,390 |
| Other Income | 3(f) | 2,072,881 | 1,318,645 |
| **Total Income** | | **44,800,708** | **42,343,158** |
| **EXPENSES** | | | |
| Superannuation - Defined Benefit Plans | 20 | 1,336,845 | 1,164,620 |
| Long Service Leave | 21 | 660,731 | 422,038 |
| Depreciation and Amortisation | 13,15 | 1,782 | 6,659 |
| Grants and Subsidies | 4(a) | 878,050 | 579,646 |
| Finance Costs | 4(b) | 1,288,743 | 1,141,983 |
| Insurance Claims | 4(c) | 1,225,617 | 412,790 |
| Recurrent Appropriations | 35 | 38,341,767 | 35,818,657 |
| Capital Appropriations | 35 | 3,854,111 | 3,267,682 |
| Other Expenses | 4(d) | 833,625 | 638,370 |
| **Total Expenses** | | **48,421,271** | **43,452,445** |
| **Loss on Disposal of Non-Current Assets** | 5 | ( 31,964) | ( 44,368) |
| **Gains / (Loss) from Financial Instruments** | 6 | 187,162 | ( 32,488) |
| **DEFICIT FOR THE YEAR** | | **( 3,465,365)** | **( 1,186,143)** |

The accompanying notes form part of these financial statements.

# Crown Entity

## Consolidated Balance Sheet
## as at 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | 29 | 856,950 | 462,490 |
| Financial Assets at Fair Value | 8 | 79,987 | 81,821 |
| Derivative Financial Instruments | 9 | 1,556 | 8,817 |
| Advances Repayable to the Crown | 10 | 46,464 | 57,422 |
| Inventories | 11 | 18,510 | 16,210 |
| Receivables | 12 | 2,982,596 | 2,956,578 |
| Other | | 1 | 15 |
| **Total Current Assets** | | **3,986,064** | **3,583,353** |
| **Non-Current Assets** | | | |
| Property, Plant and Equipment | 13 | 6,225,574 | 6,311,117 |
| Investment in an Associate | 7 | 894,024 | 805,894 |
| Financial Assets at Fair Value | 8 | 3,721,878 | 4,054,485 |
| Advances Repayable to the Crown | 10 | 887,831 | 893,067 |
| Inventories | 11 | 21,348 | 20,588 |
| Receivables | 12 | 317,755 | 176,980 |
| Intangible Assets | 15 | 1,759 | 2,432 |
| Other | | 34 | 42 |
| **Total Non-Current Assets** | | **12,070,203** | **12,264,605** |
| **Total Assets** | | **16,056,267** | **15,847,958** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Payables | 17 | 314,219 | 318,264 |
| Bank Overdraft | 30 | 2,400,300 | 3,297,782 |
| Borrowings | 18 | 414,943 | 493,739 |
| Unfunded Superannuation | 20 | 1,057,400 | 978,300 |
| Employee Benefits and Other Provisions | 21 | 3,163,242 | 2,870,332 |
| Provision for Outstanding Insurance Claims | 22 | 751,213 | 676,253 |
| Aboriginal Land Council Claims | 26 | 992,271 | 1,010,273 |
| Other | 33 | 332,496 | 285,574 |
| **Total Current Liabilities** | | **9,426,084** | **9,930,517** |
| **Non-Current Liabilities** | | | |
| Payables | 17 | 25,153 | 35,435 |
| Borrowings | 18 | 12,924,943 | 9,817,480 |
| Unfunded Superannuation | 20 | 27,374,282 | 16,528,984 |
| Employee Benefits and Other Provisions | 21 | 166,487 | 151,070 |
| Provision for Outstanding Insurance Claims | 22 | 4,333,049 | 3,668,602 |
| Other | 33 | 332,059 | 146,460 |
| **Total Non-Current Liabilties** | | **45,155,973** | **30,348,031** |
| **Total Liabilities** | | **54,582,057** | **40,278,548** |
| **Net Liabilities** | | **( 38,525,790)** | **( 24,430,590)** |
| **EQUITY** | | | |
| Reserves | 23 | 2,751,757 | 2,765,801 |
| Retained Deficit | 23 | ( 41,277,547) | ( 27,196,391) |
| **Total Equity** | | **( 38,525,790)** | **( 24,430,590)** |

The accompanying notes form part of these financial statements.

# Crown Entity

## Statement of Recognised Income and Expense
## for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| Net Increase in Property, Plant and Equipment Asset Revaluation Reserve | 23 | 2,889 | 150,863 |
| Superannuation Gains / (Losses) | 23 | ( 10,593,763) | ( 2,848,350) |
| Other Net (Decrease) / Increase in Equity | 23 | ( 356) | 512 |
| **TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | | **( 10,591,230)** | **( 2,696,975)** |
| Deficit for the Year | | ( 3,465,365) | ( 1,186,143) |
| **TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR** | | **( 14,056,595)** | **( 3,883,118)** |
| **EFFECT OF CHANGES IN ACCOUNTING POLICY AND CORRECTION OF ERRORS** | | | |
| Deficit for the Year as Reported in 2008 | | | ( 3,898,188) |
| Change in Accounting Policy | | | |
| AASB 119 - Actuarial Gain | | | 2,848,350 |
| Deferred Income from Licence Fees | | | 11,157 |
| Overstatement of 2008 Receivables | | | ( 147,462) |
| **Restated Deficit for the Year** | | | **(1,186,143)** |

The accompanying notes form part of these financial statements.

## Crown Entity

## Consolidated Cash Flow Statement
## for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Payments** | | | |
| Employee Related | | ( 1,368,939) | ( 1,271,995) |
| Grants and Subsidies | | ( 1,028,522) | ( 675,540) |
| Finance Costs | | ( 853,675) | ( 868,784) |
| Recurrent Appropriation | 35 | ( 38,341,767) | ( 35,818,657) |
| Capital Appropriation | 35 | ( 3,854,111) | ( 3,267,682) |
| Transfer of Funds to State Property Authority | | - | ( 20,386) |
| Other | | ( 1,653,739) | ( 2,134,796) |
| **Total Payments** | | **( 47,100,753)** | **( 44,057,840)** |
| **Receipts** | | | |
| Taxation, Fines and Regulatory Fees | | 18,410,137 | 19,130,205 |
| Sale of Goods and Services | | 44,210 | 1,075,035 |
| Commonwealth Grants | 35 | 21,430,636 | 19,233,760 |
| Investment Income | | 103,710 | 329,538 |
| Financial Distribution from Non-Budget Sector | | 2,140,974 | 2,036,161 |
| Other | | 3,247,106 | 1,404,111 |
| **Total Receipts** | | **45,376,773** | **43,208,810** |
| **NET CASH FLOWS USED IN OPERATING ACTIVITIES** | 30 | **( 1,723,980)** | **( 849,030)** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of Investments | | ( 1,299,870) | ( 1,264,947) |
| Purchase of Property, Plant & Equipment | | ( 272) | ( 169) |
| Advances Made | | ( 42,538) | ( 42,230) |
| Proceeds from Sales of Investment | | 1,307,478 | 1,413,730 |
| Proceeds from Sales of Property, Plant & Equipment | | 43,984 | 36,397 |
| Advance Repayments Received | | 72,036 | 67,038 |
| Dividend Received from Investment | | 34,800 | - |
| Proceeds of Capital Restructure | | - | 73,400 |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **115,618** | **283,219** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from Borrowings and Advances | | 2,994,956 | 19,000 |
| Repayment of Borrowings and Advances | | ( 94,652) | ( 108,374) |
| **NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES** | | **2,900,304** | **( 89,374)** |
| | | | |
| **NET INCREASE / (DECREASE) IN CASH** | | **1,291,942** | **( 655,185)** |
| Opening Cash and Cash Equivalents | | ( 2,835,292) | ( 2,180,107) |
| **CLOSING CASH AND CASH EQUIVALENTS** | 30 | **( 1,543,350)** | **( 2,835,292)** |

The accompanying notes form part of these financial statements.

# Crown Entity

## Notes to the Financial Statements for the year ended 30 June 2009

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Crown Entity

Notes to the Financial Statements for the year ended 30 June 2009

## 1. Crown Entity Information

### Reporting Entity

The Crown Entity is a government department for financial reporting purposes under section 45A (1A) of the *Public Finance and Audit Act 1983*. As a separate reporting entity, it reports on the following Crown finance and property transactions:

### Crown Finance Entity

The Crown Finance Entity manages the Crown's financial assets and financial liabilities. This includes:

- the Crown debt portfolio
- the Crown superannuation agency group
- long service leave liability for certain general government agencies

It is also responsible for miscellaneous finance activities, such as providing grants and subsidies to public sector bodies. It acts as the residual entity for whole-of-government transactions that are not the responsibility of any other state public sector agency.

### Consolidated Fund

The Consolidated Fund collects state taxation, Commonwealth contributions and financial distributions from State Sector agencies. Payments comprise recurrent and capital appropriation payments to budget dependent agencies. Note 34 details the Fund's receipts and payments.

Other consolidated Crown entities are:

### NSW Self Insurance Corporation (SICorp)

SICorp operates under the *NSW Self Insurance Corporation Act 2004*. It is a statutory body that largely provides self-insurance coverage for general government budget dependent agencies. Other State agencies may join on a voluntary basis.

SICorp includes the:

- NSW Treasury Managed Fund (TMF)
- Pre-Managed Fund Reserve
- Governmental Workers Compensation Account (GWC)
- Transport Accidents Compensation Fund (TAC)

During the year, SICorp undertook to manage the residual workers compensation liabilities of the former State Rail Authority (SRA) and Rail Infrastructure Corporation (RIC). The liabilities of the SRA were initially vested to the Crown Finance Entity pursuant to amendments to the *Transport Administration Act 1988* (TAA) that provided for the restructuring of the Rail Industry. The liabilities of RIC were transferred to the Crown Finance Entity following Section 94 and Order No. 2008-01 of the TAA which took effect from 1 October 2008.

### Crown Lands Homesites Program

This entity develops and sells urban Crown land for residential home sites.

### Land Development Working Account

This entity is a Public Trading Enterprise that develops and sells Crown land for residences in country NSW and for commercial purposes state-wide.

## 1. Crown Entity Information (Continued)

**Electricity Tariff Equalisation Ministerial Corporation**

This corporation is a statutory body that manages the Electricity Tariff Equalisation Fund (ETEF) which oversees purchase-cost risk management for electricity suppliers of small retail customers.

**Crown Leaseholds Entity**

This entity collects Crown land purchase instalments and generates income from leases, licences and permissive occupancies. It reports the value of untenured and tenured Crown Land.

**Liability Management Ministerial Corporation (LMMC)**

This corporation is a statutory body that manages the General Government Liability Management Fund (GGLMF). The Fund invests accumulated Crown funds pending the payment of Crown employer contributions to the SAS Trustee Corporation superannuation fund. The LMMC was inactive during 2008-09.

**State Rail Authority Residual Holding Corporation**

The State Rail Authority of New South Wales (StateRail) was a statutory body representing the Crown in right of the State of New South Wales, as constituted by the *Transport Administration Act 1988*. On 30th June 2007, all remaining functions, assets (except for cash of $336,000), rights and liabilities of StateRail with the unique exception of its rights and liabilities relating to specific ongoing cross border rolling stock leases, were transferred to various agencies, including RailCorp, Rail Infrastructure Corporation and the Crown Finance Entity. StateRail was subject to the *State Revenue and Other Legislation Amendment (Budget) Act 2007*, which changed its name to the "State Rail Authority Residual Holding Corporation" from 1 July 2007.

**Crown Entity**

These financial statements combine those activities as a single economic entity. The statements do not include inter-entity transactions and balances.

Notes 27, 28 and 33 detail the contingent liabilities and assets and/or guarantees for specific activities. The Report on State Finances lists State sector contingencies/guarantees.

Its main business address is 1 Farrer Place, Sydney NSW 2000.

This financial report was authorised for issue by the Secretary of NSW Treasury on the date of accompanying statement by the Secretary was signed.

## 2. Summary of Significant Accounting Policies

**Basis of Preparation**

This consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards which include Australian Accounting Interpretations
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2005*
- Treasury Accounting Policy Statements

Legislative provisions prevail where there are any inconsistencies between these requirements. Because of its unique structure, the Crown Entity is exempt from the Financial Reporting Code.

## 2. Summary of Significant Accounting Policies (continued)

The financial statements have been prepared on a historical cost basis, except for:

- investment property
- property, plant and equipment
- financial assets at fair value
- derivative financial instruments

These assets are measured at fair value. Superannuation and insurance gross liabilities are valued at net present value and their portfolio assets at market value, other assets held for sale are measured at the lower of the carrying amount or fair value less costs to sell.

Motor vehicles on finance lease were initially recorded at fair value. Each vehicle was then reduced on a straight line basis to its residual value over the life of the lease.

The financial notes include the key judgements, assumptions and estimations management have applied affecting the financial statements.

All amounts are rounded to the nearest 1,000 in Australian dollars ($'000).

**Accounting Standards / Interpretations Issued but not yet Effective**

NSW Treasury has mandated that early adoption of standards is not permitted.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2009. Relevant Standards and Interpretations are listed as follows:-

- AASB 3, AASB 127 and AASB 2008-3 (Mar 2008) regarding business combinations and consolidations (1 Jul 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 2008-2 (Mar 2008) regarding puttable financial instruments (1 Jan 2009)
- AASB 2008-5 and AASB 2008-6 (Jul 2008) regarding annual improvements projects (1 Jan 2009 and 1 Jul 2009 respectively)
- AASB 2008-7 (Jul 2008) regarding cost of an investment in a subsidiary (1 Jan 2009)
- AASB 2008-9 (Sep 2008) regarding amendments to AASB 1049 for consistency with AASB 101 (1 Jan 2009)
- AASB 2008-11 (Nov 2008) regarding business combinations among not-for-profit entities (1 Jul 2009)
- AASB 2009-1 (Apr 2009) regarding amendments to standard on borrowing costs for not-for-profit public sector entities (1 Jul 2009)
- AASB 2009-2 (Apr 2009) regarding amendments to standard on improving disclosures about financial instruments (1 July 2009)
- Interpretation 15 (Aug 2008) on constructions of real estate (1 Jan 2009)
- Interpretation 17 and AASB 2008-13 (Dec 2008) on distribution of non-cash assets to owners (1 Jul 2009)

It is considered that the impact of these new Standards and Interpretations in future periods will have no material impact on the financial statements of the Crown Entity.

## 2. Summary of Significant Accounting Policies (continued)

### Basis of Consolidation

The consolidated financial report is the financial report of the Crown Entity and the entities that it controls at 30 June each year. Each Crown controlled entity prepares its own financial report using consistent accounting policies.

Consolidation occurs on the date when the Crown Entity or its entities are given control. Consolidation stops on the date when control is transferred elsewhere.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Crown Entity in the form of cash dividends or a repayment of loans.

### Income

Income is recognised as probable economic benefits to the Crown Entity that can be reliably measured. It uses the following criteria to identify income:

#### Taxation, Fines and Regulation Fees

The Crown Entity recognises state taxation by:

- measuring government-assessed income when assessments are issued, mainly for land tax
- recognising taxpayer-assessed income when the tax collecting agency receives the funds, such as for payroll tax and stamp duty. It recognises additional income after reviewing taxpayers returns
- recognising fees when the cash is received
- measuring and recognising fines when issued, such as court fines. It recognises additional income from overdue fines
- recognises license fees on an accrual basis. This is a change in accounting policy (refer Note 38).
- recognising all other infringements when the cash is received, such as Infringement Processing Bureau fines

#### Sales of Land

Revenue from the sale of land is recognised on settlement when the significant risks and rewards of ownership of the land have passed to the buyer and can be measured reliably.

#### Royalties and Permissive Occupancies

Revenue is recognised in accordance with AASB 118 *Revenue* on an accrual basis in accordance with the substance of the relevant agreement.

#### Commonwealth Contributions

Commonwealth contributions help NSW meet expenditure responsibilities. These now consist of Budget Balancing Assistance, National Agreement and National Partnership payments. They are used for both recurrent and capital purposes. Contributions are recognised as income when cash is received.

A separate note, Note 3(g) details contributions received that relate to other financial years.

#### Financial Distributions

These are dividends, income tax equivalents and other contributions that some general government non-budget dependent agencies, public trading enterprises and public financial enterprises pay. They are recognised in the period when they are earned.

## 2. Summary of Significant Accounting Policies (continued)

**Tariff Receipts from Electricity Retailers/Generators**

Tariff receipts from retailers/generators are recognised in accordance with the Electricity Tariff Equalisation Fund payment rules when the right to receive the tariff is established.

**Insurance Premiums**

Insurance premiums are recognised to income over the period of the insured risk.

**Reinsurance and Other Recoveries Revenue**

Reinsurance is purchased for losses above their predetermined retention levels to avoid the impact of financial losses associated with large claims or incidents. When claims arise above the reinsurance excess level, the cost of claims recoupable from the reinsurer is recognised as revenue.

**Property Rentals**

Income from property rentals is recognised on a straight-line basis over the lease term.

**Investment Income**

Investment income includes interest income and net gains or losses from changes in the fair value of investments. Interest income is recognised as interest accrued by using the effective interest method. The Crown Entity calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate method discounts estimated future cash receipts through the expected life of the financial asset.

**Income from Associate**

A full description of accounting for income from associate is provided under the heading 'Investment in an Associate' under the Assets section.

### Expenses

**Employee Benefits and Other Provisions**

**Wages, Salaries, Annual Leave and Sick Leave**

The Crown Entity has no employees. Its work is done by staff from:

- the Department of Lands
- Landcom
- NSW Treasury Corporation (TCorp)
- NSW Treasury – Office of Financial Management (OFM)

SICorp insurance claims are administered by GIO General Limited, Allianz Australia Insurance Limited, and Employers Mutual Limited. SICorp pays these administration costs.

The Crown Entity is staffed by the Crown Asset and Liability Management Branch in the NSW Treasury. The Crown Entity reimburses the OFM for these staffing costs.

**Wages, Salaries, Annual Leave and Sick Leave (continued)**

All NSW Budget Dependant agencies contribute varying levels of service to the Crown Entity. In particular, The Treasury and the Department of Lands provide significant services. The agencies are funded for these services through appropriations made by the Consolidated Fund.

In addition NSW Non Budget Dependant agencies contribute varying minor services free of charge. Due to the irregular and varied nature of those services, no charge is made for them.

## 2. Summary of Significant Accounting Policies (continued)

**Superannuation**

The Crown Entity recognises an unfunded superannuation liability for the defined benefit schemes. It is the difference at balance date between the present value of forecast employees' accrued benefits and the estimated net market value of the superannuation schemes' assets.

Each year, an actuary assesses the liability using data the Pillar Administration maintains for the SAS Trustee Corporation and the most recent Triennial Review actuarial economic assumptions.

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

In calculating the liability, forecasts are made for:

- expected future wage and salary levels
- expected future investment earning rates
- Consumer Price Index (CPI) growth rate
- experience of employee departures
- periods of service

It is calculated based on the latest Triennial Review actuarial economic assumptions, except for the discount rate, which is based on the long term Commonwealth government bond rate. AASB 119 *Employee Benefits* requires the discount rate to be revised each year and tied to the actual long term Commonwealth government bond rate as at 30 June.

The pension accounting costs are accrued using the projected unit credit method. The cost of pensions is charged to operations to spread the cost over the service lives of current and past employees. The trustee scheme actuary, currently Mercer, undertakes a complete valuation every three years. The 2009 Triennial Review is expected to be completed in December 2009.

According with NSW Treasury policy, the Crown Entity has changed its policy on the recognition of superannuation actuarial gains and losses. Such actuarial gains and losses are now recognised outside of profit or loss in the 'statement of recognised income and expense'. Previously, actuarial gains and losses were recognised through profit or loss. Both options are permissible under AASB 119 *Employee Benefits*.

The change in policy has been adopted on the basis that recognition outside profit or loss provides reliable and more relevant information as it better reflects the nature of actuarial gains and losses. This is because actuarial gains/losses are re-measurements, based on assumptions that do not necessarily reflect the ultimate cost of providing superannuation.

Recognition outside profit or loss also harmonises better with the Government Finance Statistics / GAAP comprehensive income presentation for the whole of government and general government sector, required under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. A comprehensive income presentation will also be available at the entity level from 2009-10 under AASB 101 *Presentation of Financial Statements*.

The change in accounting policy reduces the 2009 net deficit for the year by $10,593.8 million (2008: $2,848.4 million), by excluding from the operating statement the superannuation actuarial loss line item. This item is now recognised in the 'Statement of Recognised Income and Expense' rather than the 'Operating Statement'.

## 2. Summary of Significant Accounting Policies (continued)

### Long Service Leave

Long service leave liability is classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the entity's normal operating cycle
- it is held primarily for the purpose of being traded
- it is due to be settled within twelve months after the reporting date, or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date

All other liabilities are classified as non-current.

The Crown Entity recognises LSL liability for budget dependent agencies in the Other Employee Benefits provision. It measures the liability as the present value of future payments anticipated for the employee services that the government has taken on at the reporting date, using the projected unit credit method. An actuary calculates this using:

- expected future wage and salary levels
- experience of employee departures
- periods of service

Estimated future cash outflows are discounted using market yields at the reporting date that closely match the term of maturity of government bonds.

The Crown Entity previously recognised the LSL liability for non-budget dependent agencies using the shortcut measurement techniques of AASB 119 *Employee Benefits*. Cumpston Sarjeant Pty Ltd, Consulting Actuaries undertook a triennial assessment of the liability during 2008-09. The actuary determined that the shortcut measurement techniques were no longer appropriate as they gave a materially different value to the present value methodology. Therefore the same present value methodology used to value the LSL liability for budget dependent agencies (described above) is now being used to value the LSL liability for non-budget dependent agencies.

### Depreciation of Physical Non-Current Assets

Depreciation is provided for on a straight-line basis for all depreciable assets to write off the depreciable amount of each asset as it is used over its estimated useful life.

| **Asset** | **Depreciation Rates (%)** | |
|---|---|---|
| | **2008-09** | **2007-08** |
| Buildings | 2.5 | 2.5 |
| Motor Vehicles | 12.5 | 12.5 |
| Computer Equipment | 25.0 | 25.0 – 33.3 |
| Furniture and Fittings | 10.0 - 20.0 | 10.0 - 20.0 |

Land is not depreciated.

### Amortisation of Physical Non-Current Assets

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

## 2. Summary of Significant Accounting Policies (continued)

### Grants and Subsidies

The Crown Entity pays grants and subsidies as a voluntary transfer, not in substance agreement. These are treated as an expense when the payments are made.

An exception is the Snowy Scheme Reform payments to the Joint Government Enterprise (JGE) established by the Commonwealth, NSW and Victorian governments to increase the Murray and Snowy river flows. The Victorian Government is the fund manager. This grant is treated as expense only when it is spent by them.

The constitution of the JGE states that the members will share in any contribution not utilised for operations at the date of winding up plus any accrued interest.

### Claims Expenses

Claims expenses are recognised as expenses on actuarial assessment and include movements in outstanding provisions.

### Finance Costs

Finance costs include the unwinding of discounts (the increase in the provision resulting from the passage of time) for the provision of outstanding claims and restoration costs. These are recognised as an expense in the period in which they are incurred.

### Goods and Services Tax

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

- where the GST as either part of the cost of acquiring an asset or part of an item expense is not recoverable from the Australian Taxation Office
- for receivables and payables which are recognised as including GST

The net GST recoverable or payable is included as part of receivables or payables.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST recoverable or payable on cash flows from investing and financial activities are classed as operating cash flows.

Contingencies and commitments are inclusive of GST.

### Recurrent and Capital Appropriations and Contributions from Other Bodies

Generally, parliamentary appropriations are income where an agency obtains control over appropriated assets after receiving cash. The Consolidated Fund recognises these appropriations as expenses.

The accounting treatment is different at year-end when appropriations are left unspent. Agencies account for unspent appropriations as liabilities rather than income, as the authority to spend the money lapses and the unspent amount must be repaid to the Consolidated Fund. The Fund accounts for the unspent appropriations as corresponding receivables, not expenses.

## Assets

### Cash and Cash Equivalents

Cash and cash equivalents in the Consolidated Balance Sheet comprise:

- cash at bank
- cash in hand
- restricted cash in the balances of Special Deposit Accounts
- other short term deposits with an original maturity of 3 months or less

The Cash Flow Statement shows these cash and cash equivalents net of outstanding bank overdrafts.

## 2. Summary of Significant Accounting Policies (continued)

### Financial Assets

Financial assets can be classified as:

- fair value through profit or loss
- loans and receivables
- held-to-maturity investments

The assets are measured at fair value when initially recognised. Investments not at fair value are measured through directly attributed transaction costs. The Crown Entity classifies the assets after initial recognition and when allowed and appropriate, it re-evaluates this at each year-end.

Purchases and sales are financial asset purchases or sales under contracts where assets must be delivered in a time that is regulated or is set by a market. These are recognised on the trade date, when the Crown Entity commits to buying the asset.

#### (i) Financial Assets at Fair Value through Profit or Loss

Financial assets held for trading are included as financial assets at fair value through profit or loss. This occurs if they are acquired to sell in the near term. Financial assets are also designated at fair value through profit or loss when they are managed and their performance is evaluated on a fair value basis. Derivatives are also classified as financial assets at fair value through profit or loss. Gains or losses on investments held for trading and financial assets through profit or loss are recognised in the Operating Statement.

#### (ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value, usually based on transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. When they are derecognised or impaired, gains and losses are recognised in the Operating Statement, and through the amortisation process.

### Derecognition of Financial Assets

The Crown Entity derecognises a financial asset including a part of an asset, or a part of a group of similar assets, when its right to receive cash flows from the asset has expired. It can retain this right and agree to pay all cash flows without material delay to a third party in a pass-through arrangement. Or it can transfer its right by either substantially transferring all risks and rewards or its control of the asset.

When this occurs, it recognises the asset to the extent of its continuing involvement in the asset. Where its continuing involvement is a guarantee over the transferred asset, this is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Crown Entity could be required to repay.

When continuing involvement occurs as a written and/or purchased option on the transferred asset, this is the amount of the asset that the Crown Entity may repurchase. For a written put option measured at fair value, the Crown Entity's continuing involvement is limited to the fair value and the option exercise price. Both of these types of options include a cash-settled option or similar provision.

### Derecognition of Financial Liabilities

The Crown Entity derecognises a financial liability when its obligation to it is discharged, cancelled or expires.

When a lender replaces an existing financial liability with one on significantly different or modified terms, the Crown Entity derecognises the original liability and recognises the new liability. It then recognises the difference in their carrying amounts in the Operating Statement.

## 2. Summary of Significant Accounting Policies (continued)

**Impairment of Financial Assets**

The Crown Entity assesses if a financial asset or group of financial assets is impaired at each reporting date.

**(i) Financial Assets Carried at Amortised Cost**

On objective evidence of an impairment loss incurred on loans and receivables being carried at amortised cost, the Crown Entity measures it as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. This does not include future credit losses that have not been incurred. It reduces the asset's carrying amount either directly or through an allowance account, and recognises the loss in the Operating Statement.

The Crown Entity tests its financial assets, either individually or collectively, for impairment. If an individual asset is not impaired, it is then collectively assessed with other assets that have similar credit risk characteristics. If the asset has a new or a continuing impairment, it is not included in a collective assessment.

If the Crown Entity finds evidence that impairment has lessened after it has recognised the loss, it reverses the loss. It then recognises this in the Operating Statement, to the extent that the asset's carrying value is not more than its amortised cost at the reversal date.

**(ii) Financial Assets Carried at Cost**

If the Crown Entity incurs an impairment loss on an unquoted equity instrument not carried at fair value because the value cannot be reliably measured, or a loss on a linked or derivative asset settled by delivery, it measures the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

**Derivative Financial Instruments**

Crown Entity uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value for derivatives are shown after net-off of transactions with the same counter-party.

As the Crown Entity does not apply hedge accounting, any gains or losses arising from changes in the fair value of derivatives are taken directly to the Operating Statement.

Fair values of interest rate contracts are calculated by reference to the market values for similar contracts.

**Inventories**

Inventories comprise of developed land for sale, work in progress and undeveloped land. Inventories are valued at the lower of cost and net realisable value.

Inventories acquired at no cost or for a nominal consideration are initially measured at current replacement cost at the date they are acquired.

Land held for sale is the land cost and related development expenses. This does not include vacant Crown land.

## 2. Summary of Significant Accounting Policies (continued)

**Receivables**

Taxes, fees and fines are recognised and carried at the original levied amount less an allowance for any uncollectible amounts. Receivables from reinsurance and other recoveries are actuarially assessed.

The Crown Entity makes an allowance for doubtful debts on sound evidence that it cannot collect a debt. Bad debts are written off as incurred.

**Plant and Equipment**

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

**Property**

Land and buildings are measured at fair value less accumulated depreciation on buildings. Crown land is divided into two categories: land under tenure (Leasehold Land) and untenured Crown land (Land).

Land under tenure represents all parcels of Crown land which have a lease, licence, permissive occupancy or enclosure permit in place.

Untenured Crown land includes all Crown Entity land assets, except for those with tenure arrangements in place or Crown reserves under management by Reserve Trusts. Untenured Crown land includes Crown reserves for which no formal trust has been established; unoccupied Crown land; certain Crown Roads; land granted under Aboriginal Land Claims awaiting transfer; waterways and New South Wales land on the continental shelf within the 3 Nautical Mile Zone.

**Revaluations**

After initially recognising land and buildings at cost, they are carried at a revalued amount. This is their fair value at the revaluation date, less ensuing accumulated building depreciation and impairment losses.

Crown land assets reported by the CLE are valued in accordance with the NSW Treasury Valuation of Physical Non-Current Assets at Fair Value Policy and Guidelines Paper (TPP 07-1). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment*.

Property is measured on an existing use basis, where there are no known alternative uses in the existing natural, legal, financial and socio-political environment. However, in circumstances where there are known feasible alternative uses, property is valued at its highest and best use. Fair value of property, plant and equipment is determined based on the best available market evidence, including current market selling prices for the same or similar assets.

Land assets reported within the CLE are re-valued annually by an independent Valuation Services section within the Land and Property Information (LPI) division of the Land and Property Management Authority.

A revaluation was carried out as at 30 June 2009 and resulted in a net adjustment across all land assets of $3 million, to reflect the revaluation and the total land value of $6.2 billion.

The method of revaluing the land assets utilises mass valuation techniques, for the two broad categories of land which are reported as assets.

## 2. Summary of Significant Accounting Policies (continued)

### Land under Tenure

The CLE's interest in land under tenure is limited by the existence of agreements, which in many cases will deny the CLE occupancy of the land for many years or even in perpetuity. The CLE's interest in these leases is generally limited to the right to receive the income stream from the rentals combined with (in the case of term leases) the present value of the market value of the land deferred for the lease term. Consequently, the basis of valuation is capitalisation of the income stream from the different classifications of land within each Local Government Area (LGA), appropriately taking into account the conditions attached to the leases.

In 2007, individual capitalisation rates were determined by the valuers for different types of tenure arrangements within different LGAs. These averaged approximately 5.65 per cent and were applied to the income stream to determine the land values.

In revaluing the land in 2008 and 2009, a single value movement factor was determined for each LGA, to capture the overall annual movement of capitalisation rates. This factor was applied to the capitalisation rate for each category of land in the LGA. The revised capitalisation rate was then applied to the total income for each tenure type to determine the revised land values. The factor was determined by the valuers from general market analysis and research of each LGA.

The only exception to this relates to Crown land under enclosure permit, which is valued on the same basis as untenured Crown land.

This land is held for use in the supply of services to the people of New South Wales and for administrative purposes by a not-for-profit entity. Therefore, it does not meet the definition of investment property.

### Untenured Crown Land

The determination of global rates per hectare for a variety of land classifications for each LGA is considered the most appropriate approach to determine a value for untenured Crown land. This methodology has the advantages of being a practical way to cost effectively arrive at a market based value for lands where the CLE holds the full interest.

In 2007 a valuation rate per hectare was provided for each land category type, within each LGA. The land was valued at the highest and best use taking into account zoning and other restrictions, access to services, infrastructure and property market demand. These value elements were considered in a global way when formulating a level to apply to the particular land category. The rates per hectare for each land category were determined following a consideration of sales of comparable land in the locality. Where significantly different classes of land were identified within a category, these were accounted for in compiling the overall rate per hectare for the land category.

In revaluing the land in 2008 and 2009, a single value movement factor was determined for each LGA, to capture the overall annual land value movement. This factor was applied to the rate per hectare for each Crown land type within each respective LGA, to determine the 2009 valuation. The factor was determined by the valuers from general market analysis and research of each LGA.

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 surplus or deficit, the increment is recognised immediately as revenue in the Operating Statement.

Revaluation decrements are recognised immediately as expenses in surplus or deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve. As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

## 2. Summary of Significant Accounting Policies (continued)

**Assets not able to be reliably measured**

The Crown Entity (CE) holds certain assets that have not been recognised in the balance sheet because the CE is unable to reliably measure the value for the assets. These assets include:

- Some minor infrastructure, such as redundant minor dams, is on Crown land. As these items do not generate any future economic benefit to the CE, the land value is included in the untenured Crown land valuation, but the dams are not recognised as separate assets.
- Other infrastructure on Crown land. Due to the size and nature of the Crown Estate, the value of infrastructure assets on Crown land is not currently captured. Work is currently underway so that in future the CE should be in a position to determine a more reliable estimate of these values. Some infrastructure is likely to be of heritage significance.

**Derecognition and Disposal**

The Crown Entity derecognises a property, plant and equipment item when disposing of it, or when no future economic benefit is expected of it.

It calculates any gain or loss on asset derecognition as the difference between the net disposal proceeds and the asset's carrying amount. This appears in the Operating Statement in the year the asset is derecognised.

**Leased Assets**

The Crown Entity distinguishes between finance leases and operating leases. A finance lease effectively transfers all the main ownership risks and benefits of a leased asset from the lessor to the lessee, while the lessor effectively retains these risks and benefits with an operating lease.

**(i) Crown Entity as a Lessee**

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

**(ii) Crown Entity as a Lessor**

With operating leases, the Crown Entity adds any initial direct lease negotiation costs to the carrying amount of the asset. It recognises this as an expense over the lease term, as it does with rental income.

Operating lease payments are charged to the Operating Statement on a straight-line basis over the lease term. Lease incentives are recognised directly to the Operating Statement as an integral part of the total lease expense.

**Impairment of Assets**

As detailed in TPP7-01, where an asset of a not-for-profit entity does not belong to a cash generating unit, it cannot be impaired under AASB 136, unless selling costs are material. In effect this exempts most assets from impairment testing.

At each reporting date, the Crown Entity assesses whether an asset belonging to a cash generating unit is impaired. If so or when it does a yearly impairment test, it estimates the recoverable amount.

An asset's recoverable amount is the higher of its fair value, less selling costs and its value in use. If an individual asset does not generate an independent cash inflow, its value in use cannot be estimated as close to fair value. When this occurs, it is tested for impairment as part of the cash-generating unit to which it belongs.

## 2. Summary of Significant Accounting Policies (continued)

**Impairment of Assets (continued)**

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate. This reflects current market assessments of the time value of money and specific risks to the asset. If future economic benefits do not mainly depend on it generating net cash inflows and the Crown Entity would replace it, its value in use is then its depreciated replacement cost.

Impairment losses of continuing operations are recognised in impaired asset expense categories unless the asset is carried at a revalued amount. The impairment loss is then treated as a revaluation decrease.

At each reporting date, the Crown Entity also assesses if a previously recognised impairment loss has reversed. If so, it estimates the recoverable amount. It only reverses an impairment loss if it previously recognised an estimate to determine the recoverable asset.

If this occurs, the Crown Entity increases the carrying amount of the asset to its recoverable amount. This cannot exceed the carrying amount, net of depreciation, if no impairment loss had been previously recognised.

This reversal is recognised in the Operating Statement unless the asset is carried at a revalued amount. If so, then the Crown Entity treats the reversal as a revaluation increase. After this, it adjusts its future depreciation charge to allocate the asset’s revised carrying amount, less any residual value, systematically over its remaining useful life.

**Investment in an Associate**

The Crown Entity recognises the NSW Government’s 58 per cent investment in Snowy Hydro Limited (SHL) as an associate. Despite owning 58% of Snowy Hydro Limited (SHL) shares, NSW does not control SHL. This is due to a shareholders agreement that gives each of the three shareholders equal voting rights regardless of equity.

It accounts for the investment using the equity method of accounting. This is due to the Crown’s significant influence and because the investment is not a subsidiary or a joint venture.

With the equity method, the investment in the associate is carried in the Balance Sheet at cost plus post-acquisition changes in the Crown Entity’s share of net assets of the associates. This changes the associate’s share of net assets. The Crown Entity then determines whether it needs to recognise any extra impairment loss of the net investment in the associate.

The Operating Statement reflects the Crown Entity’s share of the associate’s operating results.

Where a change is recognised directly in the associate’s equity, the Crown Entity recognises its share in the Statement of Recognised Income and Expenses.

The associate has a similar reporting date, 4 July 2009, and accounting policies for like transactions and events with the Crown Entity.

**Jointly Controlled Assets**

Interests in jointly controlled assets in which the Crown Entity has joint control are included in the financial statements by recognising the Crown’s share of jointly controlled assets, liabilities, commitments, expenses or income incurred by or in respect of joint venture (classified according to their nature).

## 2. Summary of Significant Accounting Policies (continued)

**Investment Properties**

The Crown Entity initially measures investment properties at cost, including transaction costs. It initially measures a property acquired at no cost or nominal cost at its fair value. The carrying amount includes the cost of replacing part of an existing property at the time when that cost is incurred if the recognition criteria are met. This does not include any day-to-day servicing costs.

After initial recognition, the properties are stated at fair value, reflecting market conditions at the reporting date. Gains or losses from changes in the fair value are recognised in the Operating Statement in the year when they occur.

The Crown Entity derecognises the properties when:

- it disposes of them
- it takes them permanently out of use
- it does not expect them to yield any future economic benefits.

It then recognises any gain or loss in the year when it retires or disposes of the property.

Transfers are made to investment properties only if there is a change in use, with evidence of:

- the end of an owner-occupation
- a new operating lease with another party
- the end of construction or development

Transfers are made from investment properties when there is a change in use, with evidence of:

- owner-occupation
- a start of development with a view to sale

With a transfer of an investment property to an owner-occupied property, the Crown Entity accounts for the property under Property, Plant and Equipment up until the date of its change in use. With a transfer from inventories to an investment property, it recognises any difference between the fair value of the property at that date and its previous carrying amount in the Operating Statement. When it finishes its own construction or development of an investment property, it recognises any difference between the fair value of the property at that date and its previous carrying amount in the Operating Statement.

**Crown Reserves**

There are approximately 33,000 Crown reserves in New South Wales. The NSW Government manages some of these reserves and local governments and trusts manage others. A project is in progress to identify and value Crown reserves that are 'controlled' by the NSW Government, and therefore should be recognised as assets of the NSW Government in the Total State Sector Accounts.

It has been estimated that the project will require the formal identification and valuation of more than 90,000 parcels of land. Since the last reporting date, over 45,000 parcels have been formally identified and converted to the State's Integrated Titling System. It is expected that this work should be completed late in the 2010 calendar year.

Officers from Lands' Valuation Services unit have commenced to classify these parcels into categories to facilitate valuations being undertaken. Valuations commenced during the 2008-09 financial year and it is expected that valuations will be largely completed by June 2011. The valuations that were undertaken during the 2008/09 financial year were not considered to be of a materially sufficient amount to justify bringing any of the valuations to account.

## 2. Summary of Significant Accounting Policies (continued)

**Crown Reserves (continued)**

Since last year, work has also continued to enhance the Crown Lands Information Database (CLID) to enable the capture of data arising from the conversion and valuation projects. The enhancement of CLID will also facilitate the capture and analysis of critical Crown reserve information to assist in areas such as:

- improving strategic planning and decision making for the management of Crown reserves;
- improving understanding of the community assets for which reserve trusts have responsibility,
- assisting in the identification of reserve trusts that may need assistance in discharging their management obligations;
- assisting in the development of strategies to manage risk arising from ownership and management of Crown reserves;
- establishing benchmarks and monitoring performance across the multitude of Crown reserves

It is expected that this project will be completed and operational within two years.

Based on the preliminary assessment, it is currently estimated that the total value of reserves controlled by the NSW Government, but not currently recognised in the Crown Entity Accounts, is between $1 billion and $7 billion. However, the total value may even be outside of this range, depending on the current valuation of the controlled assets.

The Crown Entity will recognise the value of Crown reserves it controls in future Crown Entity Accounts once this project is complete and the value can be reliably estimated

**Intangible Assets**

Intangible assets acquired separately or in a business combination are initially measured at cost. The asset's cost in a business combination is its fair value on the date it is acquired. After it is initially recognised, it is carried at cost less any accumulated amortisation and impairment losses.

An intangible asset will have either a finite or an indefinite useful life. An asset with a finite life is amortised on a straight line basis over five years and is assessed for impairment when an indicator of impairment exists. The Crown Entity reviews both the amortisation period and the amortisation method at least every financial year-end. It changes these when it accounts for any change in the asset's expected useful life or anticipated consumption of the future economic benefits. Any adjustment it makes is reflected in the accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the depreciation and amortisation line of the Operating Statement.

The Crown Entity measures derecognition gains or losses as the difference between the net disposal proceeds and the carrying amount of the asset. It recognises these in the Operating Statement when the asset is derecognised.

An indefinite life asset is not depreciated but is tested for impairment on an annual basis.

### Liabilities

**Payables**

Payables represent liabilities for goods and services provided but not paid for by the year's end. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method.

**Borrowings**

The Crown Entity initially recognises all loans and borrowings at the fair value of the consideration received, less directly attributable transaction costs.

After this, it then uses the effective interest method to measure interest-bearing loans and borrowings at amortised cost.

Gains and losses are recognised in the Operating Statement when the liabilities are derecognised.

## 2. Summary of Significant Accounting Policies (continued)

### Provisions

Provisions are recognised for a current obligation due to a past event where it is likely that the Crown Entity must commit economic resources and can reliably estimate the cost. This obligation can be legal or constructive.

Where it is virtually certain that some or all of a provision will be reimbursed, as in an insurance contract, the reimbursement is recognised as a separate asset. A provision expense is presented in the Operating Statement, gross of any reimbursement.

Where there is a material effect due to the time value of money, the Crown Entity discounts a provision using a long term bond rate as the benchmark. With discounting, the increase in the provision because of time passing is recognised as a finance cost.

### Outstanding Insurance Claims

The Crown Entity recognises claims expense and outstanding claims liability in the financial statements. The liability covers claims incurred, but not yet paid or reported. This includes the anticipated fund management fees. The fund manager and an independent actuary assess:

- outstanding claims
- estimated unreported claims
- settlement costs

The Crown Entity calculates the outstanding insurance claims by reference to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, to be consistent with the liability at the whole of government level where SICorp is treated as a self-insurer. This policy is not in accordance with the accounting standards which require such liabilities to be recorded in accordance with AASB 1023 *General Insurance Contracts*, but ensures consistency between the different State accounts.

The Crown Entity measures the liability for outstanding claims as the present value of expected future payments. This is based on the ultimate cost to settle claims, taking into account settlement factors such as normal and superimposed inflation.

Superimposed inflation is a factor such as trends in court awards, as in a rise 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 22.

### Provision for Aboriginal Land Council Claims

Provision has been provided for the liability of claims which have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983* but not yet transferred. The provision represents fair value of land granted based on estimated size of the land. These parcels of land remain under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared.

### Financial Guarantee Contracts

Financial guarantee contracts are initially recognised as a liability at fair value plus directly attributable transaction costs. After recognition the guarantee is measured at the higher of a) initial valuation less cumulative amortisation or b) a revaluation of the liability if the specified debtor is considered likely to default.

Where the guarantee is issued for nil consideration, the guarantee is recognised at fair value as an expense and liability, with the liability subsequently amortised over the term of the agreement. Financial guarantee contracts are reported at fair value less cumulative amortisation.

## 2. Summary of Significant Accounting Policies (continued)

### Comparatives

Comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements except when an Australian Accounting Standard permits or requires otherwise. Note 39 detail items which have changed comparative information as a result of changes in accounting policies, corrections of errors and changes in estimates.

### Use of Estimates and Judgements

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made.

**Classification and Valuation of Investments**

The Crown Entity classifies its Bond Portfolio and Hour-Glass Portfolio investments as fair value through profit or loss. The fair value has been determined by reference to the quoted market price for similar instruments the underlying value provided by Portfolio manager, New South Wales Treasury Corporation (TCorp). TCorp values financial assets and liabilities using valuation techniques, which discount cash flows to present value based on observable market yields for the same or equivalent securities. Changes in fair value are mainly attributable to fluctuations in market yields and prices arising from changes in market conditions. This information is specifically relevant to Notes 8 and 19 to the financial statements.

**Valuation of Derivative Financial Instruments**

The fair values of derivatives are determined by reference to the market value for similar instruments. This information is specifically relevant to Notes 9 and 19 to the financial statements.

**Provision for Outstanding Claims**

The significant estimates and judgements used in determining the provision for outstanding claims are included in Note 22 to the financial statements.

**Long Service Leave Liability**

The significant estimates and judgements used in determining the long service liability are included in Note 21 to the financial statements.

**State Rail Authority (SRA) Workers Compensation Liability**

The significant estimates and judgements used in determining the workers compensation liability are included in Note 22 to the financial statements.

**Unfunded Superannuation Liability**

The significant estimates and judgements used in determining the Unfunded Superannuation Liability are included in Note 20 to the financial statements.

**Fair Value of Land and Buildings Held at Fair Value**

The significant estimates and judgements used in determining the fair value of land and buildings are included in Note 13 to the financial statements.

## Crown Entity

## Notes to the Financial Statements for the year ended 30 June 2009

### 3. Income

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **(a) Taxation, Fines and Regulatory Fees** | | |
| Payroll Tax | 7,139,874 | 6,979,330 |
| Stamp Duties | 4,101,622 | 5,521,469 |
| Petroleum, Tobacco and Liquor Licences | 1,048 | 939 |
| Gambling and Betting | 1,667,987 | 1,602,703 |
| Land Tax | 2,253,726 | 1,942,843 |
| Motor Vehicle Taxes and Fees | 1,663,214 | 1,610,527 |
| Debits Tax | - | ( 187) |
| Fees and Fines | 475,552 | 411,159 |
| Fire Insurance Levy | 369,421 | 373,849 |
| Other | 620,811 | 563,727 |
| | **18,293,255** | **19,006,359** |
| **(b) Commonwealth Contributions** | | |
| National Competition Payments | - | 26,304 |
| Revenue Replacement | 130,501 | 18,559 |
| Specific Purpose - Recurrent | 5,949,111 | 6,229,248 |
| Specific Purpose - Capital | 448,626 | 1,038,661 |
| Commonwealth National Partnership Payments - Recurrent | 1,445,719 | - |
| Commonwealth National Partnership Payments - Capital | 1,617,389 | - |
| GST Revenue | 11,844,407 | 11,915,871 |
| | **21,435,753** | **19,228,643** |
| **(c) Financial Distributions** | | |
| Dividends | 1,252,725 | 1,432,753 |
| Income Tax Equivalents | 755,846 | 664,569 |
| | **2,008,571** | **2,097,322** |
| **(d) Sales of Goods and Services** | | |
| Insurance Premium Revenue | 830,455 | 820,569 |
| Reinsurance and Other Recoveries Revenue | 183,059 | 29,467 |
| | **1,013,514** | **850,036** |
| **(e) Investment Income** | | |
| Interest | | |
| Advances | 85,639 | 87,065 |
| Short Term Money Market Deposit | - | 212 |
| Other | 21,381 | 16,045 |
| Loss from Financial Assets Held at Fair Value | ( 253,217) | ( 316,559) |
| | **( 146,197)** | **( 213,237)** |

* Stamp Duties in 2008 included an assessment of $461 million which was subject to an objection by the taxpayer. The matter is currently in the legal discovery phase. Interest accrued for the 2008-09 year on this amount is $41 million.

## 3. Income (continued)

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **(f) Other Income** | | |
| Royalty on Minerals | 1,278,558 | 573,565 |
| Electricity Tariff Equalisation Contributions from Retailers | 262,061 | 161,283 |
| Electricity Tariff Equalisation Contributions from Generators | 135,984 | 91,611 |
| Revenue from Crown Leasehold Assets | 61,765 | 55,953 |
| Contribution from Environmental Trust | 3,954 | 7,613 |
| Fire Brigade Levy from Local Government | 60,104 | 64,256 |
| Crown Share of Budget Agency Asset Sales | 25,702 | 69,428 |
| Builders Warranty Premium Revenue | 339 | 415 |
| Repayments of Previous Years Appropriation | 66,910 | 39,415 |
| Long Service Leave Contributions | 32,597 | 31,561 |
| Employers Superannuation Contribution | 4,362 | 4,501 |
| Unclaimed Monies | 23,024 | 11,022 |
| Bona Vacantia - Public Trustee | 6,499 | 5,402 |
| Motor Vehicle Rental Income | 823 | 11,111 |
| HIH Insurance Recoveries | 28,413 | 79,278 |
| Other | 81,786 | 112,231 |
| | **2,072,881** | **1,318,645** |

### (g) Contributions

In 2008-09 the Crown included the following contributions as revenue where:

**a) The contribution was conditional and not fully spent ($'000):**

| Description | Unspent | 2009-10 | 2010-11 | 2011-12 | Beyond |
|---|---|---|---|---|---|
| RTA Commonwealth - vehicle (various) | 568 | 568 | - | - | - |
| RTA - Defence Road Use Management | 4,300 | 4,300 | - | - | - |
| Disaster Mitigation - Community Fire Units | 150 | 150 | - | - | - |
| Triple Zero Awareness Program | 60 | 60 | - | - | - |
| DECC Natural Resource Funding[1] | 389 | 389 | - | - | - |
| Productivity Places Programs | 4,444 | 4,444 | - | - | - |
| Digital Education Revolution | 5,898 | 5,898 | - | - | - |
| Low Socio-economic Schools | 2,450 | 2,450 | - | - | - |
| Literacy and Numeracy | 8,898 | 8,898 | - | - | - |
| Teacher Quality | 2,020 | 2,020 | - | - | - |
| Geriatric Assessment | 213 | 213 | - | - | - |
| Home and Community Care | 88 | 88 | - | - | - |
| Illicit Drugs Strategy | 548 | 548 | - | - | - |
| Commonwealth National Partnership Payments not yet distributed to agencies | 1,363,803 | 591,830 | 181,152 | 197,715 | 393,106 |
| | **1,393,829** | **621,856** | **181,152** | **197,715** | **393,106** |

1) Funding for DECC Natural Resource of $389k will be returned to the Commonwealth in 2009-10.

All these reforms are under National Partnership Agreements. Under each agreement objectives, implementation plan and reporting conditions are agreed. Performance measures and targets are set and governance arrangements designed to facilitate review of progress made towards outcomes.

## Notes to the Financial Statements for the year ended 30 June 2009

### 4. Expenses

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| **(a) Grants and Subsidies** | | |
| Natural Disaster Relief | 49,141 | 54,709 |
| Snowy River Water Rights | 38,910 | 31,000 |
| Health Capital Grant | 23,000 | 23,000 |
| Transport Infrastructure Development Corporation | - | 390,000 |
| Advances | 2,871 | 2,160 |
| First Home Owners Grant[1] | 738,052 | - |
| Other | 26,076 | 78,777 |
| | **878,050** | **579,646** |
| **(b) Finance Costs** | | |
| Finance Charges Incurred to: | | |
| NSW Treasury Corporation | 855,349 | 672,743 |
| Commonwealth Government | 84,574 | 86,885 |
| NSW Budget-Dependent Agencies | 77,669 | 96,646 |
| Other | 8,583 | 16,529 |
| Unwinding of Discounts | 262,568 | 269,180 |
| | **1,288,743** | **1,141,983** |
| **(c) Insurance Claims** | | |
| Claims Paid | 726,169 | 750,418 |
| Movement in Outstanding Claims | 358,884 | ( 468,360) |
| Management Fees and Legal Expenses | 82,946 | 86,294 |
| HIH Insurance Claims | 57,618 | 44,438 |
| | **1,225,617** | **412,790** |
| **(d) Other Expenses** | | |
| Asset Revaluation Adjustment | 7,923 | ( 13,628) |
| State Bank Post Sale Expenses | 45 | 19 |
| Remissions/Refunds Crown Revenue | 69,614 | 67,884 |
| Bad and Doubtful Debts | 21,356 | ( 6,378) |
| Outward Reinsurance Expense | 33,773 | 28,884 |
| Audit Fees - Financial Statements | 886 | 806 |
| Audit Fees - Performance Audits | 4,140 | 4,000 |
| Production of Auditor-General's Reports to Parliament | 1,500 | 1,460 |
| Electricity Tariff Equalisation Payments to Retailers | 152,050 | 101,522 |
| Electricity Tariff Equalisation Payments to Generators | 197,225 | 151,354 |
| Electricity Restructure Costs | 24,623 | 22,638 |
| GST Administration Costs | 205,136 | 196,258 |
| Actuarial Fees | 5,699 | 4,613 |
| Snowy Hydro Sale Costs | - | 3 |
| Statutory Fees - Workcover Levy | 25,526 | 23,468 |
| Financial Guarantees | 25,900 | - |
| Other | 58,229 | 55,467 |
| | **833,625** | **638,370** |

1) Payments for First Home Owners Grant is administered by the Office of State Revenue (OSR). In prior years, OSR received funding through recurrent appropriation from the Consolidated Fund.

For the year 2008-09, funding is made by the Crown Entity to the OSR.

## 5. Loss on disposal of non-current assets

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Land** | | |
| Proceeds from Sale | 36,477 | 49,523 |
| Written Down Value | ( 68,354) | ( 94,452) |
| Net Loss on Disposals | **( 31,877)** | **( 44,929)** |
| **Motor Vehicle** | | |
| Proceeds from Sale | 7,507 | 32,416 |
| Written Down Value | ( 7,594) | ( 31,855) |
| Net Loss on Disposals | **( 87)** | **561** |
| **Net Loss on Disposal of Non-Current Assets** | **( 31,964)** | **( 44,368)** |

## 6. Gain / (Loss) from Financial Instruments

| | | |
|---|---|---|
| Net Gain on Financial Assets Held for Trading | | |
| Derivative Financial Instruments | 81,080 | 698 |
| Net Gain/(Loss) on Financial Assets Designated as at Fair Value Through Profit or Loss | | |
| TCorp Bond Portfolio | 106,082 | (33,186) |
| **Net Gain / (Loss) From Financial Instruments** | **187,162** | **( 32,488)** |

## 7. Investment in an Associate

| | | |
|---|---|---|
| Non-Current Investment in an Associate[1] | 894,024 | 805,894 |
| | **894,024** | **805,894** |

[1)] This investment is classified as non-current as there is currently no intention to sell the asset.

Snowy Hydro Limited (SHL) was incorporated on 27 June 2001. Its principal activities are the generation and marketing of flexible and renewable electrical energy. The annual financial reporting period for SHL is from 29 June 2008 to 4 July 2009.

The NSW Government's investment in SHL is a 58 per cent share from the Commonwealth Government at corporatisation. It does not control the entity, with only one of up to nine board directors. The Commonwealth has a 13 per cent share and Victoria has a 29 per cent share. The Crown Entity has significant influence over SHL and uses the equity method of accounting for investment. It regularly monitors the financial performance. There are no impairment indicators and no impairment losses.

## 7. Investment in an Associate (continued)

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Share of Associate's Balance Sheet** | | |
| Current Assets | 140,339 | 125,231 |
| Non Current Assets | 1,260,843 | 1,264,070 |
| | 1,401,182 | 1,389,301 |
| Current Liability | 373,902 | 197,246 |
| Non Current Liability | 133,256 | 386,161 |
| | 507,158 | 583,407 |
| **Net Assets** | **894,024** | **805,894** |
| **Share of Associate's Profit** | | |
| Revenue | 413,817 | 380,635 |
| Profit before Income Tax | 174,773 | 75,661 |
| Income Tax Expense | ( 51,842) | ( 20,271) |
| **Profit after Income Tax** | **122,931** | **55,390** |
| **Commitment of Expenditure** | | |
| Share of Capital Expenditure Commitment Contracted For | 31,398 | 14,535 |
| Share of Other Expenditure and Operating Lease Commitment Contracted | 41,009 | 44,145 |
| | **72,407** | **58,680** |

## 8. Financial Assets at Fair Value

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current:** | | |
| Bond Portfolio | 79,886 | 81,715 |
| Other | 101 | 106 |
| | **79,987** | **81,821** |
| **Non -Current:** | | |
| Hour-Glass Investments | | |
| Australian Shares | 811,789 | 677,646 |
| Indexed Australian Shares | 223,874 | 188,593 |
| International Shares | 720,106 | 754,062 |
| Indexed International Shares | 291,534 | 237,636 |
| Listed Property | 213,066 | 199,894 |
| International Bonds | 357,632 | 393,948 |
| Medium-Term Growth | 165,948 | 96,476 |
| Long-Term Growth | 163,850 | 95,573 |
| Bond Portfolio | 773,696 | 1,410,207 |
| Other | 383 | 450 |
| | **3,721,878** | **4,054,485** |

At 30 June 2009, total investments of the Crown Entity are financial assets designated at fair value through profit and loss.

## 9. Derivative Financial Instruments

The Crown Entity's business results in gaps in cash flow maturities and exposures through possible repricing of financial positions on maturity. It enters into derivative financial instruments as part of managing its debt and investment portfolios.

### Debt Portfolio

The Crown Entity has interest rate future contracts at a $468.5 million face value (2008: $1,973.6 million) to hedge against unfavourable interest rate movements and to maintain the portfolio duration within the agreed band.

There are no interest rate or currency swaps in the debt portfolio.

The realised and unrealised movements in the fair value of these derivative instruments are recognised in the Operating Statement.

### Investment Portfolio

TCorp is authorised by the Crown Entity to invest assets of the portfolio in derivative instruments as long as the portfolio is not geared and this does not create a net short position for the portfolio.

In its capacity as manager for SICorp's investments, TCorp is authorised to use these following derivatives:

- exchange-traded interest rate futures contracts
- exchange-traded interest rate options
- over–the-counter (OTC) options on Commonwealth and TCorp bonds
- swaps

### Fair value of the Crown Entity's derivative financial instruments

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| **Current Assets** | | |
| Interest Rate Futures | 1,556 | 8,817 |
| **Amount Receivable under Derivative Financial Instruments** | **1,556** | **8,817** |

## 10. Advances Repayable to the Crown

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | 46,464 | 57,422 |
| **Non-Current** | 887,831 | 893,067 |
| **Total Advances** | **934,295** | **950,489** |
| **Represented By:** | | |
| Rural Assistance Authority | 95,281 | 81,433 |
| Sydney Water Corporation | 29,742 | 33,143 |
| Commonwealth Housing Advances | 673,895 | 693,694 |
| Administered Advances | 35,523 | 37,287 |
| Department of Primary Industries | 21,696 | 23,109 |
| NSW Health Department | 8,694 | 9,781 |
| Department of Environment and Conservation | 42,358 | 38,487 |
| Roads and Traffic Authority | 13,732 | 15,330 |
| Other | 13,374 | 18,225 |
| | **934,295** | **950,489** |

Advances repayable to the Crown, with a face value of $1,415 million as at 30 June 2009 (2008: $1,447 million), have stated interest rates of 0.0 - 10.2 per cent and mature in 1 - 34 years.

The fair value of advances that are the on-lending of Commonwealth loans was estimated by discounting the expected future cash flows by the relevant Commonwealth bond rate. The fair value of other advances was estimated by discounting the expected future cash flows by the relevant TCorp bond rate.

## 11. Inventories

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Current | 18,510 | 16,210 |
| Non-Current | 21,348 | 20,588 |
| | **39,858** | **36,798** |
| **Details:** | | |
| Work in Progress | 8,498 | 6,693 |
| Developed Land | 16,368 | 14,111 |
| Undeveloped Land | 14,992 | 15,994 |
| | **39,858** | **36,798** |
| Acquisition Cost | 14,475 | 15,877 |
| Development Cost | 25,100 | 20,921 |
| | 283 | - |
| | **39,858** | **36,798** |

## 12. Receivables

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current:** | | |
| Taxes, Fees and Fines | 1,297,442 | 1,193,386 |
| Less: Allowance for Doubtful Debts | ( 30,720) | ( 17,338) |
| **Net -Taxes, Fees and Fines** | 1,266,722 | 1,176,048 |
| Dividends | 1,203,534 | 1,384,974 |
| Tax Equivalents | 249,254 | 195,035 |
| Reinsurance and Other Recoveries Receivable | 64,688 | 34,223 |
| Unspent Appropriations | 18,235 | 15,906 |
| Insurance Premiums Receivable | 102,747 | 92,879 |
| ETEF Tariff | 31,167 | 12,102 |
| Other | 46,249 | 45,411 |
| | **2,982,596** | **2,956,578** |
| **Non-Current:** | | |
| Reinsurance and Other Recoveries Receivable | 295,786 | 146,284 |
| Motor Vehicle Lease Reserve | - | 7,548 |
| Conversions - Crown Leaseholds | 21,969 | 23,148 |
| | **317,755** | **176,980** |

### Movements in Allowance for Doubtful Debts

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Balance at Beginning of the Year | 17,338 | 24,112 |
| Additional Provision Recognised | 30,361 | 16,587 |
| Amount Used | ( 16,979) | ( 23,361) |
| Balance at End of the Year | **30,720** | **17,338** |

The average credit period on sales, unless agreed, is 30 days. No interest is being charged on payments which are delayed. Allowance for doubtful debts has been made for specific receivables which are not likely to be received. Movement of this allowance is recognised in the Operating Statement.

The current receivables included assessments totalling $534.1 million (2008: $504.7 million) which were under objection or appeal.

## 13. Property, Plant and Equipment

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Finance Lease | - | 8,242 |
| Owned | 6,225,574 | 6,302,875 |
| | **6,225,574** | **6,311,117** |

### a) Property, Plant & Equipment – Finance Lease

| | Leasehold Building $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|
| **Fair Value** | | | |
| Opening Balance 1 July 2008 | - | 10,413 | 10,413 |
| Less: Disposals | - | ( 10,413) | ( 10,413) |
| **Closing Balance 30 June 2009** | - | - | - |
| **Accumulated Depreciation** | | | |
| Opening Balance 1 July 2008 | - | 2,171 | 2,171 |
| Add: Charge for the Year | - | 648 | 648 |
| Less: Disposals | - | ( 2,819) | ( 2,819) |
| **Closing Balance 30 June 2009** | - | - | - |
| **Net Carrying Amount** | | | |
| Balance 1 July 2008 | - | 8,242 | 8,242 |
| **Balance 30 June 2009** | - | - | - |

| | Leasehold Building $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|
| **Fair Value** | | | |
| Opening Balance 1 July 2007 | 8,010 | 64,787 | 72,797 |
| Less: Transfer to State Property Authority | ( 8,010) | - | ( 8,010) |
| Less: Disposals | - | ( 54,374) | ( 54,374) |
| **Closing Balance 30 June 2008** | - | **10,413** | **10,413** |
| **Accumulated Depreciation** | | | |
| Opening Balance 1 July 2007 | - | 19,124 | 19,124 |
| Add: Charge for the Year | - | 5,566 | 5,566 |
| Less: Disposals | - | ( 22,519) | ( 22,519) |
| **Closing Balance 30 June 2008** | - | **2,171** | **2,171** |
| **Net Carrying Amount** | | | |
| Balance 1 July 2007 | 8,010 | 45,663 | 53,673 |
| **Balance 30 June 2008** | - | **8,242** | **8,242** |

## 13. Property, Plant and Equipment (continued)

### Motor Vehicles

Motor vehicles were initially recorded at fair value. Each vehicle was then reduced on a straight line basis to its residual value over the life of the lease. It is assumed the residual value approximates the fair value as residuals are adjusted several times a year in line with forecast sale prices and leases are normally only for a two year period. The Crown Entity ceased issuing new leases in January 2006.

In February 2009, the Crown Motor Vehicle Leasing arrangement was concluded following the end of all existing leasing agreements and subsequent sale of the entire remaining fleet of leased motor vehicles.

### Leasehold Building

The leasehold building as at 30 June 2007 was owned by the Crown Property Portfolio. On 1 July 2007, all the properties contained in the Crown Property Portfolio were vested to the State Property Authority.

### b) Property, Plant & Equipment - Owned

| | Land $'000 | Building $'000 | Leasehold Land $'000 | Plant & Equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Fair Value** | | | | | |
| Opening Balance 1 July 2008 | 5,676,911 | - | 625,435 | 1,032 | 6,303,378 |
| Add: Acquisition | 9,559 | - | - | 26 | 9,585 |
| Add: Asset Revaluation Increment/(Decrement) | 11,770 | - | ( 8,881) | - | 2,889 |
| Less: Disposals | ( 57,220) | - | ( 12,016) | - | ( 69,236) |
| Less: Trsf to Other Government Agencies | ( 10,506) | - | - | - | ( 10,506) |
| Less: Trsf Between Classes | ( 35,688) | - | 25,862 | 1 | ( 9,825) |
| **Closing Balance 30 June 2009** | **5,594,826** | **-** | **630,400** | **1,059** | **6,226,285** |
| **Accum Depreciation** | | | | | |
| Opening Balance 1 July 2008 | - | - | - | 503 | 503 |
| Add: Charge for the Year | - | - | - | 208 | 208 |
| **Closing Balance 30 June 2009** | **-** | **-** | **-** | **711** | **711** |
| **Net Carrying Amount** | | | | | |
| Balance 1 July 2008 | 5,676,911 | - | 625,435 | 529 | 6,302,875 |
| **Balance 30 June 2009** | **5,594,826** | **-** | **630,400** | **348** | **6,225,574** |

## 13. Property, Plant and Equipment (continued)

b) Property, Plant & Equipment - Owned

| | Land | Building | Leasehold Land | Plant & Equipment | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Fair Value** | | | | | |
| Opening Balance 1 July 2007 | 5,680,186 | 544,820 | 551,578 | 879 | 6,777,463 |
| Add: Acquisition | 73,538 | - | - | 221 | 73,759 |
| Add: Asset Revaluation Increment/(Decrement) | 219,000 | - | ( 19,065) | - | 199,935 |
| Less: Disposals | ( 76,592) | - | ( 2,993) | - | ( 79,585) |
| Add: Transfer from Other Government Agencies | ( 11,433) | - | - | - | ( 11,433) |
| Less: Transfer Between Classes | ( 113,452) | - | 95,915 | - | ( 17,537) |
| Add: Revaluation of Transferred Assets | ( 35,444) | - | - | - | ( 35,444) |
| Less: Trsf to State Property Authority | ( 58,892) | ( 544,820) | - | ( 68) | ( 603,780) |
| **Closing Balance 30 June 2008** | **5,676,911** | **-** | **625,435** | **1,032** | **6,303,378** |
| **Accum Depreciation** | | | | | |
| Opening Balance 1 July 2007 | - | 6,387 | - | 350 | 6,737 |
| Add: Charge for the Year | - | - | - | 201 | 201 |
| Less: Trsf to State Property Authority | - | ( 6,387) | - | ( 48) | ( 6,435) |
| **Closing Balance 30 June 2008** | **-** | **-** | **-** | **503** | **503** |
| **Net Carrying Amount** | | | | | |
| Balance 1 July 2007 | 5,680,186 | 538,433 | 551,578 | 529 | 6,770,726 |
| **Balance 30 June 2008** | **5,676,911** | **-** | **625,435** | **529** | **6,302,875** |

### Leasehold Land

Leasehold land includes all parcels of Crown land which have a lease, licence, permissive occupancy or enclosure permit in place. The Crown Leaseholds Entity (CLE)'s interest in land under tenure is limited by the existence of agreements, which in many cases will deny the CLE occupancy of the land for many years or even in perpetuity.

The CLE's interest in these leases is generally limited to the right to receive the income stream from the rentals combined with (in the case of term leases) the present value of the market value of the land deferred for the lease term. Consequently, the basis of valuation is capitalisation of the income stream from the different classifications of land within each Local Government Area (LGA), appropriately taking into account the conditions attached to the leases.

## 13. Property, Plant and Equipment (continued)

In 2007, individual capitalisation rates were determined by the valuers for different types of tenure arrangements within different LGAs. These were in the range of 2% to 12% and applied to the income stream to determine the land values. In revaluing the land in 2008 and 2009, a single value movement factor was determined for each LGA, to capture the overall annual movement of capitalisation rates. This factor was applied to the capitalisation rate for each category of land in the LGA. The revised capitalisation rate was then applied to the total income for each tenure type to determine the revised land values. The factor was determined by the valuers from general market analysis and research of each LGA. The only exception to this relates to Crown land under enclosure permit, which is valued on the same basis as untenured Crown land.

### Untenured Crown Land

Untenured Crown land includes all Crown land assets, except for those with tenure arrangements in place or Crown reserves under management by Reserve Trusts. Untenured Crown land includes Crown reserves for which no formal trust has been established; unoccupied Crown land; certain Crown Roads; land granted under Aboriginal Land Claims awaiting transfer; waterways and New South Wales land on the continental shelf within the 3 Nautical Mile Zone.

The determination of global rates per hectare for a variety of land classifications for each LGA is considered the most appropriate approach to determine a value for untenured Crown land. This methodology has the advantages of being a practical way to cost effectively arrive at a market based value for lands where the CLE holds the full interest.

In 2007 a valuation rate per hectare was provided for each land category type, within each LGA. The land was valued at the highest and best use taking into account zoning and other restrictions, access to services, infrastructure and property market demand. These value elements were considered in a global way when formulating a level to apply to the particular land category. The rates per hectare for each land category were determined following a consideration of sales of comparable land in the locality. Where significantly different classes of land were identified within a category, these were accounted for in compiling the overall rate per hectare for the land category.

In revaluing the land in 2008 and 2009, a single value movement factor was determined for each LGA, to capture the overall annual land value movement. This factor was applied to the rate per hectare for each Crown land type within each respective LGA, to determine the 2009 valuation. The factor was determined by the valuers from general market analysis and research of each LGA.

Crown land assets reported by the CLE are valued in accordance with the NSW Treasury Valuation of Physical Non-Current Assets at Fair Value Policy and Guidelines Paper (TPP 07-1). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB 140 *Investment Property*. Land assets reported within the CLE are re-valued annually by in independent Valuation Services section within the Land and Property Information (LPI) division of the Land and Property Management Authority.

A revaluation was carried out as at 30 June 2009 and resulted in a net adjustment across all land assets of $3 million. Total land value is over $6.2 billion.

## 13. Property, Plant and Equipment (continued)

### Aboriginal Land Councils

The Crown Leaseholds Entity land holdings include land, valued at $992 million (2008: $1,010 million), which has been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. These parcels of land remain under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared. Once this action occurs, freehold title can be issued to the respective local Aboriginal Land Councils. At that point the care, control and management of the land will be transferred from the Crown.

### Crown Property Portfolio

On 1 July 2007 all the land and buildings held by the Crown Property Portfolio ($597 million) were vested to the State Property Authority.

## 14. Investment Property

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Land | - | - |
| Building | - | - |
| | - | - |
| **Reconciliations** | | |
| **Land - Net Fair Value at Beginning of Year** | - | 15,673 |
| Less: Transfer to State Property Authority | - | ( 15,673) |
| Closing Balance | - | - |
| **Building - Net Fair Value at Beginning of Year** | - | 45 |
| Less: Transfer to State Property Authority | - | ( 45) |
| Closing Balance | - | - |
| **Total Investment Property** | - | - |

Previous investment properties of the Crown Entity related to properties in the Crown Property Portfolio (CPP). On 1 July 2007, CPP was transferred from the Crown Entity and all of its assets and liabilities were vested to the State Property Authority.

As at 30 June 2009 the Crown Entity has no investment property and is under no contractual obligations to purchase, construct or develop investment property.

## 15. Intangible Assets

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Intangible | 4,790 | 4,544 |
| Accumulated Amortisation | ( 3,031) | ( 2,112) |
| Net Intangible | **1,759** | **2,432** |

**Reconciliation**

*Reconciliation of Carrying Amount*

| | | |
|---|---|---|
| **Computer Software** | | |
| Net Carrying Amount at the Beginning of Year | 2,432 | 3,016 |
| Additions | 247 | 299 |
| Amortisation | ( 920) | ( 883) |
| Balance at Year End | **1,759** | **2,432** |

## 16. Jointly Controlled Assets

**Joint Government Enterprise Limited (JGE) – Water for Rivers**

JGE was established as a joint enterprise by the Commonwealth Government, the Victorian Government and the New South Wales Government ("the Members") on 12 November 2003. The principal activities of the company are to fund water saving initiatives and purchase water entitlements in sufficient volumes to provide increased flows into the Snowy River, Snowy Mountain River and Murray River systems.

Under the Funding Agreement, the JGE is contractually funded jointly by the three parties from the date of incorporation and New South Wales Government's ("NSW") 40 per cent share $150 million in total to be paid each quarter over 10 years.

To ensure that the JGE neither makes a taxable profit or loss, contribution paid by the parties are placed into a "Funding Account". JGE is only reimbursed from the funding account for expenditure incurred. The bank account is legally held in the name of, and on behalf of, the Members, the money in Funding account remains jointly controlled by the Members until such time as an expense reimbursement claim is received from JGE. The constitution of the JGE states that the members will share in any contribution not utilised for operations at the date of winding up plus any accrued interest.

The NSW's share in the bank balance is included in the financial statements under their respective asset categories:

**Current Assets**

| | | |
|---|---|---|
| Cash and Cash Equivalents | **18,817** | **41,073** |

**Commitments**

The balance in joint Funding Account is fully committed for the purpose it was established.

| | | |
|---|---|---|
| Share of Capital Commitments | **18,817** | **41,073** |

## 17. Payables

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current:** | | |
| Creditors | 10,877 | 10,269 |
| Financial Charges | 190,549 | 190,528 |
| GST Payable to Commonwealth | 82,582 | 75,026 |
| Motor Accident Authority - HIH Liability to Nominated Claimants | 8,480 | 13,236 |
| Accrued ETEF Tariffs | 10,568 | 12,103 |
| Other | 11,163 | 17,102 |
| | **314,219** | **318,264** |
| **Non-Current:** | | |
| Motor Accident Authority - HIH Liability to Nominated Claimants | 25,153 | 35,435 |
| | **25,153** | **35,435** |

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. Financial charges mainly represent accrued interest payable on due date to TCorp and Commonwealth government. Other payables are non-interest bearing and are generally on 30 day terms.

## 18. Borrowings

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current:** | 414,943 | 493,739 |
| **Non-Current:** | 12,924,943 | 9,817,480 |
| | **13,339,886** | **10,311,219** |
| **Analysed as:** | | |
| New South Wales Treasury Corporation (TCorp) | 12,476,086 | 9,409,688 |
| Commonwealth Financial Agreement | 8,003 | 8,048 |
| Commonwealth Specific Purpose Advances | 819,474 | 847,154 |
| Finance Leases | - | 8,242 |
| Administered Loans | 35,523 | 37,287 |
| Other | 800 | 800 |
| **Total Borrowings at Amortised Cost** | **13,339,886** | **10,311,219** |

Crown Entity estimated the fair value of Commonwealth specific purpose loans by discounting the expected cash flows by the relevant Commonwealth bond rate.

Borrowings from TCorp are interest bearing and average interest costs including the amortisation of bond premium or discount of Core Portfolio was 7.24 per cent (2008: 6.11 per cent). Modified duration of portfolio is 5.04 years (2008: 3.96 years). The fair value is estimated by using the market value of the equivalent TCorp bonds that underlie the borrowings. The Crown Entity measures its exposure to interest rate risk in terms of cash flows or notional cash flows generated by financial instruments as discussed in Note 19.

## 19. Financial Instruments

The Crown Entity's principal financial instruments are detailed in the following table. These financial instruments arise directly from the Crown Entity's operations or are required to finance those operations. The Crown Entity does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

The Crown Entity's main risks arising from financial instruments are market, credit and liquidity. The Crown Entity's objectives, policies and processes for measuring and managing risk, and quantitative and qualitative disclosures are included throughout this financial report.

Management has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by the Crown Entity, set risk limits and controls, and monitor risks.

The Crown Entity enters into financial instruments for two main purposes:

- borrowings and advances are used to raise and on-lend finance for General Government Sector activities
- Hour-Glass and bond investments are used to fund insurance liabilities

Note 2 details the key accounting policies and methods which set out the recognition criteria, the basis of measurement, and the income and expenses recognition for each class of financial instrument.

### Financial Instrument Categories

| | Note | Category | Carrying Amount 2009 $'000 | Carrying Amount 2008 $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and Cash Equivalents | 29 | N/A | 856,950 | 462,490 |
| Financial Assets at Fair Value | 8 | At fair value through profit or loss (designated as such upon initial recognition) | 3,801,865 | 4,136,306 |
| Derivative Financial Instruments | 9 | At fair value through profit or loss (classified as held for trading) | 1,556 | 8,817 |
| Advances Repayable to the Crown | 10 | Loans and Receivables (at amortised cost) | 934,295 | 950,489 |
| Receivables[1] | 12 | Loans and Receivables (at amortised cost) | 1,766,140 | 1,746,570 |
| **Financial Liabilities** | | | | |
| Payables[2] | 17 | Financial liabilities (at amortised cost) | 256,790 | 278,673 |
| Bank Overdrafts | | N/A | 2,400,300 | 3,297,782 |
| Borrowings | 18 | Financial liabilities measured at amortised cost | 13,339,886 | 10,311,219 |
| Financial Guarantees | 33 (f) | Financial liabilities measured at fair value less accumulated amortisation | 20,900 | - |

1) Excludes statutory receivables and prepayments

2) Excludes statutory payables and unearned revenue

### Risk Management

The activities of the Crown Entity expose it to a variety of financial risks. These are:

- market risk
  - i. interest rate risk
  - ii. currency risk
  - iii. other price risk
- credit risk
- liquidity risk

## 19. Financial Instruments (continued)

The Crown Entity contracts the NSW Treasury Corporation (TCorp) to manage these risks in line with Memoranda of Understanding (MoU) between it and the Crown Entity. TCorp actively manages and reports on the risks associated with the holding of financial instruments. TCorp is the State's central financing authority which has recognised expertise in the management of financial risks.

The MoU are updated annually to include changes in market conditions and/or management's direction. The documents clearly set out investment management objectives, restrictions, and establish performance benchmarks. The MoU are authorised and approved by the Deputy Secretary of the NSW Treasury.

Proposed changes to the MoU must go through a consultative process within the forum of the Crown Debt and Asset Management Committees. The Crown Debt and the Crown Asset Management Committees, established separately, exist to monitor the performance and management of the Crown Entity's debt and asset portfolios. Members of the Committees include representatives from both TCorp and the NSW Treasury. The NSW Treasury's representatives on these committees include staff that are qualified and experienced in corporate finance.

TCorp manages and monitors the financial risks within the boundaries of its established Board policies, legislative requirements, management guidelines and MoU. TCorp's operational risks are mitigated through:

- comprehensive and detailed risk management policies
- detailed controls over the security, integrity and accuracy of all key systems
- clear and appropriate reporting lines
- qualified and experienced personnel
- a Risk Management & Compliance function
- regular internal audits

***Market Risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Crown Entity's exposures to market risk are primarily through interest rate risk on its borrowings and fixed interest investments, and other price risks associated with the movement in the unit price of the Hour-Glass Investment facilities.

The effects on the Crown Entity's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which the Crown Entity operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the balance sheet date. The analysis is performed on the same basis for 2008. The analysis assumes that all other variables remain constant.

## 19. Financial Instruments (continued)

*Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Exposure to interest rate risk arises primarily through the Crown Entity's interest bearing liabilities. This risk is measured, limited and managed in terms of duration of borrowings. The Crown Entity does not account for any fixed rate financial instruments at fair value through profit or loss or as available for sale. Therefore, for these financial instruments, a change in interest rates would not affect the Crown Entity's operating result or equity.

The value of the Crown Entity's investments in the TCorp Bond Portfolio is impacted by changes in interest rates. TCorp manages the portfolio to agreed benchmarks that have been established by the Crown Entity in the context of risks present in its liabilities.

The following table provides the sensitivity analysis of interest rate risk affecting financial assets and liabilities on the operating result of the Crown Entity. There is no effect on equity. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

| | | $'000 | | | |
|---|---|---|---|---|---|
| | Carrying Amount | -1% | | +1% | |
| | | Profit | Equity | Profit | Equity |
| **2009** | | | | | |
| **Financial Assets** | | | | | |
| Cash and Cash Equivalents[1] | 429,195 | ( 4,292) | - | 4,292 | - |
| Bond Portfolio | 1,058,036 | 36,800 | - | ( 36,800) | - |
| **Financial Liabilities** | | | | | |
| Bank Overdrafts | 2,400,300 | 24,003 | - | ( 24,003) | - |
| Borrowings managed by TCorp | 12,484,889 | 748,000 | - | ( 748,000) | - |
| **2008** | | | | | |
| **Financial Assets** | | | | | |
| Cash and Cash Equivalents[1] | 414,147 | ( 4,141) | - | 4,141 | - |
| Bond Portfolio | 1,522,665 | 58,600 | - | ( 58,600) | - |
| **Financial Liabilities** | | | | | |
| Bank Overdrafts | 3,297,782 | 32,978 | - | ( 32,978) | - |
| Borrowings managed by TCorp | 9,418,536 | 485,000 | - | ( 485,000) | - |

1. Excludes the cash and cash equivalents which are in the Hour-Glass and Bond Portfolio. Cash and cash equivalents of the Bond Portfolio are included in the Bond Portfolio line (above). Cash and cash equivalents in the Hour-Glass investment facilities are subject to the overall price risks of the Hour-Glass facilities. Refer to the section on *Other Price Risk*.

## 19. Financial Instruments (continued)

*Currency Risk*

The Crown Entity has some foreign currency risk exposure from its investments in TCorp Hour-Glass facilities and Bond Portfolio.

The Hour-Glass investment facilities, which are unit trusts, are subject to the overall price risk only. This is discussed below. International Bonds and Listed Property investments within the Hour-Glass are fully hedged.

During the year, some investments in the Bond Portfolio (for example, derivative instruments) may be denominated in currencies other than Australian Dollars. The agreement between the Crown Entity and TCorp requires the manager to effectively hedge that currency exposure fully as and when it arises. TCorp fully hedges all foreign currency exposure for international fixed interest and listed property unit trust investments and foreign currency-denominated bond investments.

As at 30 June 2009, the Crown Entity has no transactional or structural currency exposures (2008: Nil).

*Other Price Risk*

Exposure to 'other price risk' primarily arises through the investment in the TCorp Hour Glass Investment facilities which are held for strategic rather than trading purposes. The Crown Entity has no direct equity investments.

The Crown Entity holds units in the following Hour-Glass investment facilities:

| Facility | Investment Sectors | Investment Horizon | 2009 $'000 | 2008 $'000 |
|---|---|---|---|---|
| Treasury Managed Fund Facility | Cash, money market instruments, International bonds, listed property, Australian & International shares | Long term | 2,842,524 | 2,472,548 |
| Medium Term Growth Facility | Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares | 3 years to 7 years | 165,949 | 96,476 |
| Long Term Growth Facility | Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares | 7 years and over | 163,853 | 95,573 |

The unit price of each facility is equal to the total fair value of the net assets held by the facility divided by the total number of units on issue for the facility. Unit prices are calculated and published daily.

## 19. Financial Instruments (continued)

TCorp as trustee for each of the above facilities is required to act in the best interest of the unitholders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. Since April 2007, TCorp has also acted as manager for the Cash Facility. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investments in the Hour-Glass facilities limit the Crown Entity's exposure to risk, as this allows diversification across a pool of funds, with different investment horizons and a mix of investments.

The TCorp Hour-Glass investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). TCorp provides sensitivity analysis information for each of the facilities using historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability). A reasonably possible change is based on the percentage change in unit price multiplied by the redemption price as at 30 June each year for each facility.

| **Hour-Glass Investment Facility** | **Change in Unit Price** | | **Impact on Surplus/(Deficit)** | |
|---|---|---|---|---|
| | **2009 %** | **2008 %** | **2009 $'000** | **2008 $'000** |
| Treasury Managed Fund | +/- 20.0 | +/- 17.5 | +/- 568,505 | +/- 432,696 |
| Medium Term Growth | +/- 7.0 | +/- 7.5 | +/- 11,616 | +/- 7,236 |
| Long Term Growth | +/- 15.0 | +/- 15.0 | +/- 24,578 | +/- 14,336 |

***Credit Risk***

Credit risk arises from the financial assets of the Crown Entity, which comprise of cash and cash equivalents, receivables, advances, financial assets at fair value and financial guarantees. The Crown Entity's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at balance date.

There have been no changes in the fair value of financial assets due to change in credit risks.

*Cash and cash equivalents*

Cash comprises cash investment in the TMF Hour-Glass facility and bank balances within and outside the NSW Treasury Banking System. Interest is earned on daily bank balances adjusted for a management fee to NSW Treasury.

## 19. Financial Instruments (continued)

*Receivables*

Receivables of the Crown Entity include trade debtors, statutory receivables, and reinsurance and other recoveries receivable.

*Trade Debtors*

All trade debtors are recognised as amounts receivable at balance date. The collection of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on sales, unless agreed, is 30 days.

*Reinsurance and Other Recoveries Receivable*

Receivables from reinsurance and other recoveries are actuarially assessed.

When it becomes apparent that a recovery may not be received with virtual certainty, these recoveries are deducted from the recoveries receivable estimate. There is no allowance for impairment for this type of receivables.

*Advances*

The Crown Entity has a significant concentration of credit risk with NSW public sector entities. The risk mainly relates to advances to budget sector agencies that are funded from the Consolidated Fund.

It follows the Treasurer's directions and gives advances to entities on terms set by parties within the NSW Government. It assesses outstanding balances for the advances each year, and reduces the carrying value when it no longer expects repayment. The maximum credit risk on advances is the carrying value reported in the Balance Sheet.

The Crown Entity does not receive any collateral for advances and receivables.

The financial assets that are past due or considered impaired are included in the table below.

| | Total $'000 | Past Due but Not Impaired $'000 | | | Considered Impaired $'000 |
|---|---|---|---|---|---|
| | | < 3 months overdue | 3 - 6 months overdue | > 6 months overdue | |
| **2009** | | | | | |
| Receivables | 23,158 | 17,028 | 1,213 | 4,140 | 777 |
| **2008** | | | | | |
| Receivables | 28,331 | 5,839 | 1,910 | 19,690 | 892 |

*The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired.*

## 19. Financial Instruments (continued)

*Financial Assets at Fair Value*

Financial assets at fair value include investments in TCorp's Hour-Glass facilities and the managed assets portfolio. The investments within the Hour-Glass facilities are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Hour-Glass facilities is managed by ensuring there is a wide spread of risks, achieved by engaging a spread of funds managers in a specific asset sector. TCorp as trustee contracts with these managers and requires in their mandates a series of controls over concentration and credit quality of assets.

Credit risk applicable to investments in TCorp-managed asset portfolios as well as advances and receivables is detailed in the tables below.

Concentration of Credit Risk

| By credit rating | AAA | AA+ | AA | AA- | A+ | A | Other Ratings [(1)] | Total |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2009** | | | | | | | | |
| Advances | - | - | - | - | - | - | 934,295 | 934,295 |
| Receivables | 449,600 | - | - | - | - | 116,707 | 1,199,833 | 1,766,140 |
| Bond Portfolio | 683,100 | 225,100 | 100,700 | 3,600 | 14,300 | 1,500 | 29,736 | 1,058,036 |
| **2008** | | | | | | | | |
| Advances | - | - | - | - | - | 33,143 | 917,347 | 950,490 |
| Receivables | 36,768 | - | - | - | - | 168,948 | 1,540,854 | 1,746,570 |
| Bond Portfolio | 1,305,402 | 101,400 | 67,500 | 3,900 | 11,400 | 3,200 | 29,863 | 1,522,665 |

| By classification of counterparty | Governments $'000 | Banks $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|
| **2009** | | | | |
| Advances | 896,883 | - | 37,412 | 934,295 |
| Receivables | 1,403,538 | - | 362,602 | 1,766,140 |
| Bond Portfolio | 798,636 | 119,100 | 140,300 | 1,058,036 |
| **2008** | | | | |
| Advances | 910,437 | - | 40,052 | 950,489 |
| Receivables | 1,559,311 | - | 187,259 | 1,746,570 |
| Bond Portfolio | 1,145,365 | 77,800 | 299,500 | 1,522,665 |

1) Short term ratings of A-2 or better, when counterparty has no long term rating or the long term rating is A or lower. The majority of receivables are from government agencies with no individual credit rating. The NSW Government, of which they form a part, has a AAA credit rating.

## 19. Financial Instruments (continued)

*Financial Guarantees*

The Crown Entity has a number of financial guarantees outstanding at 30 June 2009 with an estimated total value of $20.9 million (2008: $25.9 million). The estimated value was calculated by independent valuer based on the remote possibility of any of these guarantees ever being exercised. These guarantees are grouped into four categories.

1. Structured Finance Activities: The Crown has guaranteed certain payment and performance obligations under cross border leases. The Crown Entity has a third-party risk in terms of monies being placed on deposit with counterparty. TCorp regularly monitors the risk on behalf of the Crown. The counterparties have credit standings of from BBB+ to AAA. The credit risk for these activities is $124 million (2008: $283 million).

2. NSW Treasury Corporation – NEMMCO Guarantees: The Crown provides a guarantee over electricity related settlement payments made by State electricity agencies to the National Electricity Marketing Management Company (NEMMCO) and power generators. Settlement payments are normally four weeks in arrears. The stability and financial integrity of the National Electricity Market is underpinned by the regulatory framework set out in the National Electricity Code and supported by established risk management procedures administered by NEMMCO including strategies for the management of credit risk. The credit risk for these activities is $655 million (2008: $1,327 million).

3. GIO Guarantees: The Crown provided a guarantee over GIO obligations for insurance policies entered into before its sale in 1992. The Crown's guarantee can only be called upon if the existing owners are unable to make payment. This is regarded as extremely unlikely. The credit risk for these guarantees is $289 million (2008: $255 million).

4. Public Private Partnership Guarantees: The Crown has guaranteed that five State agencies involved in public private partnerships will meet their obligations to pay for finance leases and services provided. These are long term agreements involving significant sums. It is very unlikely that the agencies would cease to pay the finance lease contracts on assets or meet payments for services they require for their operations. The credit risk for these activities is $4,352 million (2008: 4,322 million).

***Liquidity Risk***

Liquidity risk is the risk that the Crown Entity will be unable to meet its payment obligations when they fall due. The Crown Entity continuously manages risk through monitoring future cash flows and maturities, and through planning to ensure adequate holdings of high quality liquid assets.

The Crown Entity aims to maintain a balance between funding continuity and flexibility by using:

- bank overdrafts
- TCorp's "Come & Go" facility
- borrowings
- finance leases

The Crown Entity outsources the management of its borrowings to TCorp, which manages them in accordance with established modified duration targets. The NSW Government's AAA credit rating provides a high degree of certainty over its ability to refinance maturing borrowings as needed. Further, since balance date the NSW Government has stated that it will apply to be covered by the Commonwealth loan guarantee scheme.

## 19. Financial Instruments (continued)

The Crown Entity has approved financial accommodation from TCorp for $6,800 million (2008: $3,300 million) under the Public Authorities (Financial Arrangements) Act 1987. The financing facility covered short term cash requirements caused by seasonal fluctuations in government receipts. At 30 June 2009, $551 million of this was drawn down (2008: $1,339 million)

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Crown Entity's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

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. There has been no interest awarded for late payment to date.

The table below summarises the maturity profile of the Crown Entity's financial liabilities, together with the interest rate exposure.

| | Weighted Average Effective Interest Rate | Nominal Amount[1] | Interest Rate Exposure | | | Maturity Dates | | |
|---|---|---|---|---|---|---|---|---|
| | | | Fixed Interest Rate | Variable Interest Rate | Non-Interest Bearing | < 1 Year | 1 - 5 Years | > 5 Years |
| | % | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2009** | | | | | | | | |
| Payables | - | 256,790 | - | - | 256,790 | 231,637 | 25,153 | - |
| Bank Overdrafts | 5.33 | 2,400,300 | - | 2,400,300 | - | 2,400,300 | - | - |
| TCorp Borrowings | 7.24 | 20,256,114 | 20,256,114 | - | - | 1,577,862 | 6,024,304 | 12,653,948 |
| Cwlth General Purpose Borrowings | 3.00 | 8,003 | 8,003 | - | - | 8,003 | - | - |
| Cwlth Specific Purpose Borrowings | 4.80 | 1,345,777 | 1,345,777 | - | - | 49,162 | 207,535 | 1,089,080 |
| Own Name Borrowings | 6.82 | 800 | 800 | - | - | - | 400 | 400 |
| Administered Borrowings | 4.03 | 42,782 | 17,958 | 24,824 | - | 1,767 | 23,138 | 17,877 |
| Financial Guarantees | - | 20,900 | - | - | 20,900 | 3,100 | 12,400 | 5,400 |
| **Total Financial Liabilities** | | **24,331,466** | **21,628,652** | **2,425,124** | **277,690** | **4,271,831** | **6,292,930** | **13,766,705** |
| **2008** | | | | | | | | |
| Payables | - | 278,673 | - | - | 278,673 | 243,238 | 35,435 | - |
| Bank Overdrafts | 7.84 | 3,297,782 | - | 3,297,782 | - | 3,297,782 | - | - |
| Finance Leases | 5.49 | 8,447 | 8,447 | - | - | 8,447 | - | - |
| TCorp Borrowings | 6.11 | 14,564,163 | 14,564,163 | - | - | 925,934 | 5,389,069 | 8,249,160 |
| Cwlth General Purpose Borrowings | 3.00 | 8,048 | 8,048 | - | - | 8,048 | - | - |
| Cwlth Specific Purpose Borrowings | 4.59 | 1,393,937 | 1,393,937 | - | - | 5 | 1,822 | 1,392,110 |
| Own Name Borrowings | 6.82 | 800 | 800 | - | - | - | 300 | 500 |
| Administered Borrowings | 7.68 | 45,971 | 45,971 | - | - | 10,919 | 8,002 | 27,050 |
| **Total Financial Liabilities** | | **19,597,821** | **16,021,366** | **3,297,782** | **278,673** | **4,494,373** | **5,434,628** | **9,668,820** |

1) The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities. Therefore the amounts disclosed above will not reconcile to the balance sheet.

## 19. Financial Instruments (continued)

### *Fair Value*

All financial instruments are carried at either fair value, fair value less accumulated amortisation or amortised cost (refer to Financial Instrument Categories table).

In adopting AASB 139, all financial assets and financial liabilities were initially recognised at fair value.

The Crown Entity estimated the initial fair value of Commonwealth specific purpose and general purpose loans by discounting the expected cash flows by the relevant Commonwealth bond rate. It is exempt from the NSW Treasury Policy Paper TPP 08-1 *Accounting for Financial Instruments* requirement to discount loans by the TCorp bond rate.

The initial fair value of advances that are the on-lending of Commonwealth loans was estimated by discounting the expected future cash flows by the relevant Commonwealth bond rate. The initial fair value of other advances was estimated by discounting the expected future cash flows by the relevant TCorp bond rate.

The Crown Entity estimated the fair value of TCorp borrowings by using the market value of the equivalent TCorp bonds that underlie the borrowings.

Cash and cash equivalents are carried at fair value. Receivables, bank overdrafts and borrowings are carried at amortised cost after initial recognition at fair value.

Derivatives, investments and payables are carried at fair value.

Other financial assets are carried at fair value based on either market prices or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Except where specified below, the amortised cost of financial instruments recognised in the balance sheet approximates the fair value, because of the short term nature of many of the financial instruments. The following table details the financial instruments where the fair value differs from the carrying amount.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | $'000 | $'000 | $'000 | $'000 |
| **Financial Assets** | | | | |
| Administered Borrowings | 35,523 | 35,896 | 37,287 | 37,147 |
| Unrecognised (Loss)/Profit | 373 | - | ( 140) | - |
| **Total** | **35,896** | **35,896** | **37,147** | **37,147** |
| **Financial Liabilities** | | | | |
| TCorp Borrowings | 12,476,086 | 12,231,735 | 9,409,689 | 8,980,505 |
| Commonwealth General Purpose Borrowings | 8,003 | 4,209 | 8,048 | 4,125 |
| Administered Borrowings | 35,523 | 35,896 | 37,287 | 37,147 |
| Unrecognised Profit | ( 247,772) | - | ( 433,247) | - |
| **Total** | **12,271,840** | **12,271,840** | **9,021,777** | **9,021,777** |

## 20. Unfunded Superannuation Liability

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

| Scheme | Coverage | Scheme Type | Benefit Type |
|---|---|---|---|
| State Superannuation Fund (SSS) | Closed to new entrants in 1985 | The entire benefit is defined by final salary and service and is not separated into employer and employee financed components | Indexed pension or lump sum |
| Police Superannuation Fund (PSS) | Closed to new entrants in 1988 | As for SSS | Indexed pension, or lump sums available from 1 April 1988. |
| Parliamentary Contributory Superannuation Scheme (PCSS) | Closed to new entrants from March 2007 onwards. | As for SSS | Indexed pension or partial indexed pension plus partial lump sum |
| State Authorities Superannuation Scheme (SASS) | Closed to new entrants on 18 December 1992 | Hybrid scheme – employer financed benefit is defined as a proportion of final or final average salary – employee financed benefit is an accumulation of employees' contributions plus earnings | Lump sum; some indexed pensions available to members of schemes amalgamated to form SASS |
| Judges Pension Scheme (JPS) | Compulsory for members of the judiciary | Benefit is defined in terms of final salary and is employer financed. | Indexed pension |
| State Authorities Non-contributory Superannuation Scheme (Basic Benefit) | Closed to new entrants on 18 December 1992 | Totally employer financed | Lump sum; three percent of final or final average salary for each year of service as from 1 April 1988 |

SASS Trustee Corporation actuary, Mercer, calculated the unfunded liabilities of State public sector superannuation schemes.

In 2008-09, unfunded superannuation liabilities increased by $10,924 million (2008: $3,085 million).

Actuaries calculated unfunded superannuation liabilities at 30 June 2009 using:

- scheme membership data at 30 June 2008
- demographic assumptions of the 2009 Triennial Valuation of the State Super Fund Superannuation Schemes.

## 20. Unfunded Superannuation Liability (continued)

### The following figures are 2009 actual

### Member Numbers

| | SASS | SANCS | SSS | PSS | JPS | PCSS | TOTAL |
|---|---|---|---|---|---|---|---|
| Contributors | 33,025 | 51,137 | 15,776 | 2,336 | 138 | 97 | 102,509 |
| Deferred Benefits | - | - | 2,396 | 135 | - | 10 | 2,541 |
| Pensioners | 3,496 | - | 32,893 | 6,201 | 189 | 251 | 43,030 |
| Pensions Fully Commuted | - | - | 13,087 | - | - | - | 13,087 |

### Superannuation position for AASB 119

| | SASS | SANCS | SSS | PSS | JPS | PCSS | TOTAL |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Accrued Liability | 8,660,560 | 2,024,193 | 28,092,665 | 8,670,694 | 605,495 | 438,600 | 48,492,207 |
| Estimated Reserve Account Balance | (4,639,116) | (537,313) | (11,941,003) | (2,735,293) | - | (207,800) | ( 20,060,525) |
| | 4,021,444 | 1,486,880 | 16,151,662 | 5,935,401 | 605,495 | 230,800 | 28,431,682 |
| Future Service Liability | (1,766,802) | (747,011) | (947,012) | (314,742) | - | - | ( 3,775,567) |
| Net Liability to be Disclosed in Balance Sheet | 4,021,444 | 1,486,880 | 16,151,662 | 5,935,401 | 605,495 | 230,800 | 28,431,682 |
| Current | | | | | | | 1,057,400 |
| Non-Current | | | | | | | 27,374,282 |
| Total | | | | | | | 28,431,682 |

## 20. Unfunded Superannuation Liability (continued)

### Reconciliation of the present value of the partly funded defined benefit obligation

| | SASS | SANCS | SSS | PSS | JPS | PCSS | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| *Present Value at 1/7/08* | 8,498,344 | 1,918,845 | 22,851,587 | 6,887,768 | 553,467 | 373,600 | 41,083,611 |
| Current Service Cost | 266,709 | 83,593 | 141,681 | 68,350 | 18,712 | 7,700 | 586,745 |
| Interest Cost | 539,532 | 120,822 | 1,488,026 | 439,029 | 35,311 | 23,803 | 2,646,523 |
| Contributions by Fund Participants | 153,783 | - | 179,247 | 13,299 | - | 1,800 | 348,129 |
| Actuarial (Gains)/Losses | (74,253) | 88,524 | 4,772,124 | 1,667,672 | 26,748 | 52,097 | 6,532,912 |
| Benefits Paid | (723,555) | (187,591) | (1,340,000) | (405,424) | (28,743) | (20,400) | (2,705,713) |
| *Present Value at 30/6/09* | **8,660,560** | **2,024,193** | **28,092,665** | **8,670,694** | **605,495** | **438,600** | **48,492,207** |

### Reconciliation of the fair value of fund assets

| | SASS | SANCS | SSS | PSS | JPS | PCSS | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| *Fair Value at 1/7/08* | 4,764,955 | 594,824 | 14,504,256 | 3,458,437 | - | 253,855 | 23,576,327 |
| Expected Return on Fund Assets | 398,686 | 49,584 | 1,137,341 | 266,043 | - | 19,886 | 1,871,540 |
| Actuarial Gains/(Losses) | (763,886) | (100,422) | (2,551,383) | (597,719) | - | (47,441) | (4,060,851) |
| Employer Contributions | 809,133 | 180,918 | 11,542 | 657 | 28,743 | 100 | 1,031,093 |
| Contributions by Fund Participants | 153,783 | - | 179,247 | 13,299 | - | 1,800 | 348,129 |
| Benefits Paid | (723,555) | (187,591) | (1,340,000) | (405,424) | (28,743) | (20,400) | (2,705,713) |
| *Fair Value at 30/6/09* | **4,639,116** | **537,313** | **11,941,003** | **2,735,293** | **-** | **207,800** | **20,060,525** |

### Reconciliation of the assets and liabilities recognised in the Balance Sheet

| | SASS | SANCS | SSS | PSS | JPS | PCSS | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Present Value of Defined Benefit Obligations at 30/6/09 | 8,660,560 | 2,024,193 | 28,092,665 | 8,670,694 | 605,495 | 438,600 | 48,492,207 |
| Fair Value of Fund Assets at 30/6/09 | (4,639,116) | (537,313) | (11,941,003) | (2,735,293) | - | (207,800) | (20,060,525) |
| *Net Liability at 30/6/09* | **4,021,444** | **1,486,880** | **16,151,662** | **5,935,401** | **605,495** | **230,800** | **28,431,682** |

### Expense recognised in the Operating Statement

| | SASS | SANCS | SSS | PSS | JPS | PCSS | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Current Service Cost | 266,709 | 83,593 | 141,681 | 68,350 | 18,712 | 7,700 | 586,745 |
| Interest Cost | 539,532 | 120,822 | 1,488,026 | 439,029 | 35,311 | 23,803 | 2,646,523 |
| Expected Return on Fund assets (net of expenses) | (398,686) | (49,584) | (1,137,341) | (266,043) | - | (19,886) | (1,871,540) |
| *Expense/(Income) Recognised* | **407,555** | **154,831** | **492,366** | **241,336** | **54,023** | **11,617** | **1,361,728** |

## 20. Unfunded Superannuation Liability (continued)

### Expense recognised in the Statement of Recognised Income and Expense

| | SASS $'000 | SANCS $'000 | SSS $'000 | PSS $'000 | JPS $'000 | PCSS $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Actuarial (Gains)/Losses | 689,633 | 188,946 | 7,323,507 | 2,265,391 | 26,748 | 99,538 | 10,593,763 |
| Adjustment for Limit on Net Asset | - | - | - | - | - | - | - |

### Fund Assets

| | Pooled Fund 30-Jun-09 | PCSS 30-Jun-09 |
|---|---|---|
| Australian Equities | 32.1% | 30.0% |
| Overseas Equities | 26.0% | 23.0% |
| Australian Fixed Interest Securities | 6.2% | 13.0% |
| Overseas Fixed Interest Securities | 4.7% | 15.0% |
| Property | 10.0% | 13.0% |
| Cash | 8.0% | 4.0% |
| Other | 13.0% | 2.0% |

### Fair Value of Fund Assets

All Fund assets are invested by STC at arm's length through independent fund managers.

### Expected Rate of Return on Assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns are net of investment tax and investment fees.

### Actual Return on Fund Assets

| | SASS $'000 | SANCS $'000 | SSS $'000 | PSS $'000 | JPS $'000 | PCSS $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Actual Return on Fund Assets | (465,540) | (55,103) | (1,410,605) | (349,509) | - | (32,800) | (2,313,557) |

### Valuation method and principal actuarial assumptions at the reporting date

### (a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligation and the related current service costs.

This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

## 20. Unfunded Superannuation Liability (continued)

### (b) Economic Assumptions (State Super, Judges and Parliamentary Super Schemes)

| | Pooled Fund | JPS | PCSS |
|---|---|---|---|
| Salary Increase Rate (Including Promotional Increases) | 3.5% | 3.5% | 0% in 2009-10<br>3.5% thereafter |
| Rate of CPI Increase | 2.5% | 2.5% | 2.5% |
| Expected Rate of Return on Assets | 8.13% | N/A | 8.13% |
| Discount Rate | 5.59% | 5.59% | 5.59% |

### (c) Demographic Assumptions

The Pooled Fund Scheme demographic assumptions at 30 June 2009 are those expected to be used in the Mercer 2009 triennial actuarial valuation. The triennial review report will be available from the NSW Treasury website, after it is tabled in Parliament in December 2009. The PCSS assumptions are those used for the 2008 PCSS triennial actuarial valuation and the JPS assumptions are those used for the 2007 JPS triennial actuarial valuation.

### Historical Information

| | SASS<br>$'000 | SANCS<br>$'000 | SSS<br>$'000 | PSS<br>$'000 | JPS<br>$'000 | PCSS<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|---|---|
| Present Value of Defined Benefit | 8,660,560 | 2,024,193 | 28,092,665 | 8,670,694 | 605,495 | 438,600 | 48,492,207 |
| Fair Value of Fund Assets | (4,639,116) | (537,313) | (11,941,003) | (2,735,293) | - | (207,800) | (20,060,525) |
| (Surplus)/Deficit in Fund | 4,021,444 | 1,486,880 | 16,151,662 | 5,935,401 | 605,495 | 230,800 | 28,431,682 |
| Experience Adjustments – Fund | (74,253) | 88,524 | 4,772,124 | 1,667,672 | 26,748 | 52,097 | 6,532,912 |
| Experience Adjustments – Fund Assets | 763,886 | 100,422 | 2,551,383 | 597,719 | - | 47,441 | 4,060,851 |

### Expected Contributions

| | SASS<br>$'000 | SANCS<br>$'000 | SSS<br>$'000 | PSS<br>$'000 | JPS<br>$'000 | PCSS<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|---|---|
| Expected Employer Contributions | 408,003 | 160,256 | 409,895 | 100,000 | 29,886 | - | 1,108,040 |

### Funding Arrangements for Employer Contributions

a) Surplus/(Deficit)

The following is a summary of the 30 June 2009 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*:

| | SASS<br>$'000 | SANCS<br>$'000 | SSS<br>$'000 | PSS<br>$'000 | JPS<br>$'000 | PCSS<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|---|---|
| Accrued Benefits | 8,113,373 | 1,867,638 | 20,774,056 | 6,158,213 | 469,756 | 365,900 | 37,748,936 |
| Net Market Value of Fund Assets | (4,639,116) | (537,313) | (11,941,003) | (2,735,293) | - | (207,800) | (20,060,525) |
| *Net Deficit* | 3,474,257 | 1,330,325 | 8,833,053 | 3,422,920 | 469,756 | 158,100 | 17,688,411 |

## 20. Unfunded Superannuation Liability (continued)

### Funding Arrangements for Employer Contributions (continued)

b) Contribution Recommendations

Recommended contribution rates for the entity are:

| | SASS multiple of member contributions | SANCS % member salary | SSS multiple of member contributions | PSS multiple of member contributions | JPS % member salary | PCSS multiple of member contributions |
|---|---|---|---|---|---|---|
| Crown | N/A | N/A | N/A | N/A | N/A | N/A |

c) Funding Method (Pooled Fund)

The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

d) Economic Assumptions

The economic assumptions adopted by the triennial actuarial review of the Fund were:

| | Pooled Fund | JPS | PCSS |
|---|---|---|---|
| **Weighted-Average Assumptions** | | | |
| Expected Rate of Return on Fund Assets Backing Current Pension Liabilities | 8.3% | 7.3% | 7.5% |
| Expected Rate of Return on Fund Assets Backing Other Liabilities | 7.3% | N/A | N/A |
| Expected Salary Increase Rate | 4.0% | 4.0% | 0% in 2009-10<br>4.0% thereafter |
| Expected Rate of CPI Increase | 2.5% | 2.5% | 2.5% |

### Nature of Asset/Liability

If a surplus exists in the employer’s interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund’s actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer’s share of the fund assets and the defined benefit obligation.

## 20. Unfunded Superannuation Liability (continued)

### The following figures are 2008 comparatives

### Member Numbers

| | SASS | SANCS | SSS | PSS | JPS | PCSS | TOTAL |
|---|---|---|---|---|---|---|---|
| Contributors | 35,013 | 54,895 | 17,310 | 2,572 | 138 | 99 | 110,027 |
| Deferred Benefits | - | - | 2,625 | 139 | - | 2 | 2,766 |
| Pensioners | 3,740 | - | 31,666 | 6,043 | 189 | 265 | 41,903 |
| Pensions Fully Commuted | - | - | 13,108 | - | - | - | 13,108 |

### Superannuation position for AASB 119

| | SASS | SANCS | SSS | PSS | JPS | PCSS | TOTAL |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Accrued Liability | 8,498,344 | 1,918,845 | 22,851,587 | 6,887,768 | 553,467 | 373,600 | 41,083,611 |
| Estimated Reserve Account | (4,764,955) | (594,824) | (14,504,256) | (3,458,437) | - | (253,855) | ( 23,576,327) |
| | 3,733,389 | 1,324,021 | 8,347,331 | 3,429,331 | 553,467 | 119,745 | 17,507,284 |
| Future Service Liability | (1,588,555) | (658,168) | (724,713) | (269,892) | - | - | ( 3,241,328) |
| Net Liability to be Disclosed in Balance Sheet | 3,733,389 | 1,324,021 | 8,347,331 | 3,429,331 | 553,467 | 119,745 | 17,507,284 |
| Current | | | | | | | 978,300 |
| Non-Current | | | | | | | 16,528,984 |
| Total | | | | | | | 17,507,284 |

### Reconciliation of the present value of the partly funded defined benefit obligation

| | SASS | SANCS | SSS | PSS | JPS | PCSS | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| *Present Value at 1/7/07* | 8,814,246 | 1,923,915 | 22,607,420 | 6,787,701 | 539,030 | 395,590 | 41,067,902 |
| Current Service Cost | 268,168 | 87,191 | 155,842 | 81,655 | 19,400 | 8,800 | 621,056 |
| Interest Cost | 546,484 | 118,685 | 1,416,231 | 422,694 | 31,943 | 23,965 | 2,560,002 |
| Contributions by Fund Participants | 161,996 | 3,183 | 201,455 | 14,219 | - | 1,918 | 382,771 |
| Actuarial (Gains)/Losses | (584,585) | (29,945) | (236,667) | (27,347) | (9,278) | (33,781) | (921,603) |
| Benefits Paid | (707,965) | (184,184) | (1,292,694) | (391,154) | (27,628) | (22,892) | (2,626,517) |
| *Present Value at 30/6/08* | **8,498,344** | **1,918,845** | **22,851,587** | **6,887,768** | **553,467** | **373,600** | **41,083,611** |

## 20. Unfunded Superannuation Liability (continued)

Reconciliation of the fair value of fund assets

| | SASS $'000 | SANCS $'000 | SSS $'000 | PSS $'000 | JPS $'000 | PCSS $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| *Fair Value of Fund Assets at 1/7/07* | 5,072,168 | 525,032 | 16,646,509 | 4,098,903 | - | 302,830 | 26,645,442 |
| Expected Return on Fund Assets | 378,242 | 46,943 | 1,258,017 | 308,509 | - | 23,241 | 2,014,952 |
| Actuarial Gains/(Losses) | (741,490) | (96,150) | (2,309,031) | (572,040) | - | (51,242) | (3,769,953) |
| Employer Contributions | 602,004 | 300,000 | - | - | 27,628 | - | 929,632 |
| Contributions by Fund Participants | 161,996 | 3,183 | 201,455 | 14,219 | - | 1,918 | 382,771 |
| Benefits Paid | (707,965) | (184,184) | (1,292,694) | (391,154) | (27,628) | (22,892) | (2,626,517) |
| *Fair Value of Fund Assets at 30/6/08* | **4,764,955** | **594,824** | **14,504,256** | **3,458,437** | **-** | **253,855** | **23,576,327** |

### Reconciliation of the assets and liabilities recognised in the balance sheet

| | SASS $'000 | SANCS $'000 | SSS $'000 | PSS $'000 | JPS $'000 | PCSS $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Present Value of Defined Benefit Obligations at 30/6/08 | 8,498,344 | 1,918,845 | 22,851,587 | 6,887,768 | 553,467 | 373,600 | 41,083,611 |
| Fair Value of Fund Assets at 30/6/08 | (4,764,955) | (594,824) | (14,504,256) | (3,458,437) | - | (253,855) | (23,576,327) |
| *Net Liability in Balance Sheet at 30/6/08* | **3,733,389** | **1,324,021** | **8,347,331** | **3,429,331** | **553,467** | **119,745** | **17,507,284** |

### Expenses recognised in Operating Statement

| | SASS $'000 | SANCS $'000 | SSS $'000 | PSS $'000 | JPS $'000 | PCSS $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Current Service Cost | 268,168 | 87,191 | 155,842 | 81,655 | 19,400 | 8,800 | 621,056 |
| Interest Cost | 546,484 | 118,685 | 1,416,231 | 422,694 | 31,943 | 23,965 | 2,560,002 |
| Expected Return on Fund assets (net of expenses) | (378,242) | (46,943) | (1,258,017) | (308,509) | - | (23,241) | (2,014,952) |
| Other | 20 | - | - | - | - | - | 20 |
| *Expense/(Income) Recognised* | **436,430** | **158,933** | **314,056** | **195,840** | **51,343** | **9,524** | **1,166,126** |

### Expense recognised in the Statement of Recognised Income and Expense

| | SASS $'000 | SANCS $'000 | SSS $'000 | PSS $'000 | JPS $'000 | PCSS $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Actuarial (Gains)/Losses | 156,905 | 66,205 | 2,072,364 | 544,693 | (9,278) | 17,461 | 2,848,350 |
| Adjustment for Limit on Net Asset | - | - | - | - | - | - | - |

## 20. Unfunded Superannuation Liability (continued)

### Fund Assets

| | Pooled Fund 30-Jun-08 | PCSS 30-Jun-08 |
|---|---|---|
| Australian Equities | 31.6% | 31.9% |
| Overseas Equities | 25.4% | 28.6% |
| Australian Fixed Interest Securities | 7.4% | 11.2% |
| Overseas Fixed Interest Securities | 7.5% | 11.4% |
| Property | 11.0% | 15.9% |
| Cash | 6.1% | 1.0% |
| Other | 11.0% | 0.0% |

### Fair Value of Fund Assets

All Fund assets are invested by STC at arm's length through independent fund managers.

### Expected Rate of Return on Assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns are net of investment tax and investment fees.

### Actual Return on Fund Assets

| | SASS $'000 | SANCS $'000 | SSS $'000 | PSS $'000 | JPS $'000 | PCSS $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Actual Return on Fund Assets | (337,781) | (41,465) | (1,041,463) | (264,363) | - | (28,001) | (1,713,073) |

### Valuation method and principal actuarial assumption at the reporting date

### (a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligation and the related current service costs.

This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

### (b) Economic Assumptions (State Super, Judges and Parliamentary Super Schemes)

| | Pooled Fund | JPS | PCSS |
|---|---|---|---|
| Salary Increase Rate (Excluding Promotional Increases) | 3.5% pa | 3.5% pa | 3.5% pa |
| Rate of CPI Increase | 2.5% pa | 2.5% pa | 2.5% pa |
| Expected Rate of Return on Assets | 8.3% | N/A | 7.95% |
| Discount Rate | 6.55% | 6.55% | 6.55% |

## 20. Unfunded Superannuation Liability (continued)

### (c) Demographic Assumptions

The demographic assumptions at 30 June 2008 are those used in the 2006 triennial actuarial valuation. These are the same assumptions used in the current 2008-09 reporting year.

### Funding Arrangements for Employer Contributions

a) Surplus / Deficit

The following is a summary of the 30 June 2008 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*;

| | SASS | SANCS | SSS | PSS | JPS | PCSS | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Accrued Benefits | 8,467,841 | 1,926,715 | 20,981,498 | 6,037,717 | 447,679 | 355,800 | 38,217,250 |
| Net Market Value of Fund Assets | (4,764,956) | (594,824) | (14,504,255) | (3,458,437) | - | (253,855) | (23,576,327) |
| *Net Deficit* | 3,702,885 | 1,331,891 | 6,477,243 | 2,579,280 | 447,679 | 101,945 | 14,640,923 |

### Funding Method (Pooled Fund)

The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

### Economic Assumptions

The economic assumptions adopted by the triennial actuarial review of the Fund were:

| | Pooled Fund | JPS | PCSS |
|---|---|---|---|
| **Weighted-Average Assumptions** | | | |
| Expected Rate of Return on Fund Assets Backing Current Pension Liabilities | 7.7% pa | 7.3% pa | 7.5% pa |
| Expected Rate of Return on Fund Assets Backing Other Liabilities | 7.0% pa | 7.3% pa | 7.5% pa |
| Expected Salary Increase Rate | 4.0% pa | 4.0% pa | 4.0%pa |
| Expected Rate of CPI Increase | 2.5% pa | 2.5% pa | 2.5% pa |

### Nature of Asset / Liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of the fund assets and the defined benefit obligation.

## 21. Employee Benefits and other Provisions

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | 3,163,242 | 2,870,332 |
| **Non-Current** | 166,487 | 151,070 |
| | **3,329,729** | **3,021,402** |

### Long Service Leave (LSL)

Although Treasury considers the methodology, analyses and assumptions adopted to calculate these liabilities are appropriate given the data available, estimates of future costs are always inherently uncertain. Therefore differences between the ultimate costs and estimates should be regarded as normal and expected.

### Valuation Methodology

An assessment of present value of accrued liabilities has been considered by an actuary.

For each future year the amounts of entitlements expected to be paid in service and on termination of employment have been determined by making a projection of each employee based on their current salary and LSL balance, assumed rates of taking LSL in service, rates of death, disablement, retirement, and resignation, and rates of salary escalation. The resulting cash flows have then been converted to a present value by discounting market yield at the reporting date based on the ten year Commonwealth government bond rate as at 30 June.

### a) Long Service Leave and On-costs

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | | |
| Budget Dependent Long Service Leave and Other Leave Benefits | 3,068,610 | 2,779,400 |
| Non-Budget Dependent Long Service Leave Pool | 94,632 | 90,932 |
| | **3,163,242** | **2,870,332** |
| **Non-Current** | | |
| Budget Dependent Long Service Leave and Other Leave Benefits | 161,506 | 146,284 |
| Non-Budget Dependent Long Service Leave Pool | 4,981 | 4,786 |
| | **166,487** | **151,070** |
| **Total Long Service Leave Provision** | **3,329,729** | **3,021,402** |

## 21. Employee Benefits and other Provisions (continued)

**Movement in Major Provisions:**

| | Budget Dependent Long Service Leave $'000 | Non-Budget Dependent Long Service Leave $'000 |
|---|---|---|
| Balance as at 1 July 2008 | 2,925,684 | 95,718 |
| Add: Increase in Liability During the Year | 455,483 | 8,857 |
| Add: Interest Costs | 190,169 | 6,222 |
| Less: Payments | ( 341,220) | ( 11,184) |
| **Balance as at 30 June 2009** | **3,230,116** | **99,613** |

## 22. Provision For Outstanding Insurance Claims

SICorp consults with an independent actuary to set the liability for outstanding claims for the TMF, TAC Fund and GWC Account. The liability is measured as the best estimate of the expected future payments needed to settle the present obligation at the reporting date. This estimate is based on the ultimate cost to settle claims, taking into account both normal and any superimposed inflation. Superimposed inflation is a factor such as trends in court awards, as in a rise in the level and period of compensation for injury.

The estimate is 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 outstanding claims liability of the Pre-Managed Fund Reserve, which is part of TMF, is determined from estimates from the member agencies. This list is vetted by the TMF Manager and approved by NSW Treasury.

Other liabilities include the outstanding workers compensation of the old State Rail Authority and Rail Infrastructure Corporation. The year end valuations of these are actuarially assessed.

Outstanding claims provisions for HIH are assessed annually by independent actuary.

## 22. Provision for Outstanding Insurance Claims (continued)

### Provision for Outstanding Claims

| | Treasury Managed Fund $'000 | Government Workers Compensation $'000 | Transport Accidents Compensation Fund $'000 | HIH $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at the Beginning of the Year | 3,863,150 | 65,204 | 178,813 | 76,668 | 161,020 | 4,344,855 |
| Additions | 714,867 | - | - | 4,070 | 813 | 719,750 |
| Payments | ( 672,268) | ( 4,900) | ( 13,416) | ( 30,528) | ( 15,629) | ( 736,741) |
| Actuarial (Gains)/Losses | 334,115 | ( 3,104) | 11,272 | 58,154 | ( 80) | 400,357 |
| Provisions Transferred In | - | - | - | - | 90,248 | 90,248 |
| Interest Costs | 246,413 | 4,070 | 12,084 | 3,226 | - | 265,793 |
| **Balance at the End of the Year** | **4,486,277** | **61,270** | **188,753** | **111,590** | **236,372** | **5,084,262** |
| **Current** | 687,529 | 4,595 | 13,476 | 27,892 | 17,721 | 751,213 |
| **Non-Current** | 3,798,748 | 56,675 | 175,277 | 83,698 | 218,651 | 4,333,049 |
| **Total - 2009** | **4,486,277** | **61,270** | **188,753** | **111,590** | **236,372** | **5,084,262** |
| **Current** | 630,917 | 4,869 | 9,857 | 18,408 | 12,202 | 676,253 |
| **Non-Current** | 3,232,233 | 60,335 | 168,956 | 58,260 | 148,818 | 3,668,602 |
| **Total - 2008** | **3,863,150** | **65,204** | **178,813** | **76,668** | **161,020** | **4,344,855** |

The TMF weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.44 years (2008: 6.17 years).

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

| | 2009 % | 2008 % |
|---|---|---|
| **Claims Expected to be Paid Not Later than One Year:** | | |
| Inflation Rate | 2.50 - 4.50 | 2.80 - 4.50 |
| Discount Rate | 6.00 | 7.00 |
| Superimposed Inflation * | 0 - 10.00 | 0 - 10.00 |
| **Later than One Year:** | | |
| Inflation Rate | 2.50 - 4.0 | 2.50 - 4.0 |
| Discount Rate | 6.00 | 7.00 |
| Superimposed Inflation * | 0 -10.00 | 0 -10.00 |

* Dependant on Payment Type

## 23. Equity

| | Accumulated Deficit 2009 $'000 | Accumulated Deficit 2008 $'000 | Reserves 2009 $'000 | Reserves 2008 $'000 | Total Equity 2009 $'000 | Total Equity 2008 $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July** | ( 27,196,391) | ( 22,791,130) | 2,765,801 | 2,873,463 | ( 24,430,590) | ( 19,917,667) |
| Changes in Accounting Policy | - | ( 228,377) | - | - | - | ( 228,377) |
| **Restated Opening Balance** | **( 27,196,391)** | **( 23,019,507)** | **2,765,801** | **2,873,463** | **( 24,430,590)** | **( 20,146,044)** |
| **Changes in Equity - Transactions with Owners as Owners** | | | | | | |
| Transfer of Crown Property Portfolio to State Property Authority | - | ( 216,639) | - | ( 258,525) | - | ( 475,164) |
| Increase / (Decrease) in Net Assets from Equity Transfers | 2,290 | - | ( 4,872) | - | ( 2,582) | - |
| Asset & Liabilities - Administration Restructure | ( 35,217) | - | - | - | ( 35,217) | - |
| Capital Restructure | - | 73,400 | - | - | - | 73,400 |
| Transfer in of SRA Residual Entity | - | 336 | - | - | - | 336 |
| **Total** | **( 32,927)** | **( 142,903)** | **( 4,872)** | **( 258,525)** | **( 37,799)** | **( 401,428)** |
| **Changes in Equity-Other than Transactions with Owners as Owners** | | | | | | |
| Deficit for the Year | ( 3,465,365) | ( 1,186,143) | - | - | ( 3,465,365) | ( 1,186,143) |
| Increase in Asset Revaluation Reserve - Land & Buildings | - | - | 2,889 | 150,863 | 2,889 | 150,863 |
| Superannuation Actuarial Loss | ( 10,593,763) | ( 2,848,350) | - | - | ( 10,593,763) | ( 2,848,350) |
| Other Net Increase/(Decrease) | ( 356) | 512 | - | - | ( 356) | 512 |
| **Total** | **( 14,059,484)** | **( 4,033,981)** | **2,889** | **150,863** | **( 14,056,595)** | **( 3,883,118)** |
| **Transfers within Equity** | | | | | | |
| Transfer of Realised Revaluation Reserve to Accumulated Funds on Disposal of Asset | 11,228 | - | ( 11,228) | - | - | - |
| Other Equity Changes | 27 | - | ( 833) | - | ( 806) | - |
| **Total** | **11,255** | **-** | **( 12,061)** | **-** | **( 806)** | **-** |
| **Balance at 30 June** | **( 41,277,547)** | **( 27,196,391)** | **2,751,757** | **2,765,801** | **( 38,525,790)** | **( 24,430,590)** |

### Nature and Purpose of Reserves

*Asset Revaluation Reserve*

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

## 24. Individually Significant Items

In 2008-09, there were the following significant items:

1. Revenue from taxes, fees and fines decreased overall by $713 million. This was mainly due to the fall in revenue from stamp duties of $1,420 million due to the weakness in the state's property market in 2008-09. This was off set by increased land tax of $311 million, fees and fines $64 million, payroll tax $160 million and motor vehicle taxes of $53 million.
2. Commonwealth contributions increased by $2,207 million. This included decreases of $280 million and $590 million to the existing Special Purpose recurrent and capital payments respectively. In addition there were new National Partnership Payments of $1,446 million for recurrent and $1,617 million for capital. Some of these replaced existing Special Purpose Payments and some were for new initiatives including the Commonwealth Stimulus Package. The Stimulus Package was directed to Education and Housing.
3. Dividends fell by $180 million and tax equivalents increased by $91 million. 2008-09 operating profits by electricity generators were reduced due to an increase proportion of unrealised profits which are not included in dividend calculations. This has reduced forecast dividend payments.
4. The Consolidated Fund received an additional $705 million in royalty payments on minerals. This was mainly due to higher contract prices coupled with an increase in the royalty rates on 1 January 2009.
5. Recurrent appropriations increased by $2,523 million. The main increases were to Health $836 million, Transport $756 million, Housing $385 million, Education $345 million, Aging and Disability $212 million, Community Services $129 million, Police $75 million and Corrective Services $50 million. These were offset by reductions to Treasury $322 million and Rural Assistance Authority $146 million.
6. Capital Appropriations increased by $586 million. The main increases went to the RTA $363 million, Education $130 million, and Health $120 million. These were offset by a reduction to Environment and Conservation of $71 million.
7. Insurance claims increased by $812 million. This was due to a turnaround in SICorp's insurance expenses from 2007-08 to 2008-09. The releasing of excess provisions has come to an end and in 2008-09 expense growth has returned to normal.
8. Grants and subsidies have increased overall by $298 million. The Crown has taken over the First Home Owners Grant Scheme from NSW Treasury $738 million. Offsetting this there was no grant to the Transport Infrastructure Development Corporation (2008: $390m) and reduced capital grants for Crown Property Management of $53 million.

## 24. Individually Significant Items (continued)

In 2007-08, there were the following significant items:

1. Recurrent appropriation payments were $35,819 million, an increase of $1,693 million over 2006-07. The main increases went to Health ($565 million), Education ($375 million), Department of Community Service ($182 million), Department of Ageing & Disability ($146 million), Rural Assistance Authority ($143 million) and World Youth Day ($67 million).
2. A grant of $390 million (2007: $960 million) was made to the Transport Infrastructure Development Corporation to enable the repayment of a large portion of this entity's debt.
3. Following a Cabinet decision in May 2007, the Crown Property Portfolio (CPP) was transferred from the Crown Entity on 1 July 2007 and consolidated with the State Property Authority. This resulted in $217 million of accumulated funds and $259 million of reserves being transferred out. This mainly represented property assets.
4. Taxes, fees and fines were $19,006 million, an increase of $216 million over 2006-07. The increase was mainly due to payroll tax ($602 million), motor vehicle taxes & fees ($70 million) and fees & fines ($68 million) offset by falls in stamp duty ($435 million) and land tax ($88 million). Of these assessment amounts $505 million is under objection or appeal.
5. Commonwealth contributions totalled $19,229 million, an increase of $1,663 million over 2006-07. The main increases were for GST revenue ($1,053 million), Health Care $317 million), Rural Adjustment Scheme ($174 million) and Essential Vaccines ($96 million).
6. Total investment income fell from $1,010 million in 2006-07 to a loss of $213 million in 2007-08 primarily due to a significant fall in SICorp investment income attributable to the fall in equity markets.

## 25. Commitments for Expenditure

### (a) Capital Commitments

Capital commitments contracted for at reporting date but not recognised as liabilities are as follows:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Capital Commitments Contracted for at Reporting Date but not Recognised as Liability are as Follows: | | |
| - not later than one year | 20,480 | 10,778 |
| - later than one year but not later than five years | 10,919 | 3,758 |
| Total (including GST) | **31,399** | **14,536** |

At 30 June 2009 the Crown Entity has capital commitments of $31.4 million (2008: $14.5 million) principally relating to the Crown Entity's share (58 per cent) of capital expenditure commitments in Snowy Hydro Limited. The details of the agreement are disclosed at Note 7 and Note 27.

## 25. Commitments for Expenditure (continued)

**(b) Operating Lease Commitments – As Lessee**

At 30 June 2009, the Crown Entity, as a Lessee, has Operating Leases commitments of $39.7 million (2008: $44.6 million).

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Future Non-Cancellable Operating Lease Rentals not Provided for and Payable: | | |
| - not later than one year | 2,117 | 2,004 |
| - later than one year but not later than five years | 5,852 | 6,755 |
| - later than five years | 31,764 | 35,794 |
| Total (including GST) | **39,733** | **44,553** |

Operating lease commitments of $38.4 million (2008: $42.9 million) relates to the Crown Entity's share
(58 per cent) of capital expenditure commitments in Snowy Hydro Limited.

**NSW Self Insurance Corporation (SICorp)**

Operating lease commitments of $1.3 million (2008: $1.7 million) relates to the rental of SICorp's Head office. The lease is a non-cancellable lease with a term of six years and an option to extend for a further four years. A market review of rents payable is undertaken biannually. On expiration of the lease the rental premises are to be returned to their original condition. A make-good restoration provision has been taken up.

**(c) Operating Lease Commitments – As Lessor**

At 30 June 2009 the Crown Entity, as a lessor, has Operating lease commitments of $248.2 million (2008: $277.5 million).

Future minimum lease payments receivable as income from non-cancellable operating leases:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Future Non-cancellable Operating Lease Receivables: | | |
| - not later than one year | 24,539 | 31,593 |
| - later than one year but not later than five years | 105,486 | 102,464 |
| - later than five years | 118,163 | 143,450 |
| Total (including GST) | **248,188** | **277,507** |

Operating lease commitments principally relates to:

**Crown Finance Entity– Motor Vehicle Leases**

The Crown Finance Entity's Operating leases relate to the fleet of motor vehicles managed by the Department of Commerce that are leased to government agencies. These leases are under non-cancellable operating leases with terms between 1 to 2 years with no option to extend. The Head Lessors lease vehicles to the Crown Entity pursuant to a finance lease called the Head Lease. Refer to Note 25 (d) for more details.

In February 2009, the Crown Motor Vehicle Leasing arrangement was concluded following the end of all existing leasing agreements and subsequent sale of the entire remaining fleet of leased motor vehicles. The value of Crown motor vehicle leases at 30 June 2009 is Nil (2008: $8.2 million)

## 25. Commitments for Expenditure (continued)

### (c) Operating Lease Commitments – As Lessor (continued)

**Crown Leaseholds Entity – as Lessor**

Crown Leaseholds Entity has entered into operating leases on the land it holds. The lands are leased to farmers, private individuals, companies and other State and Federal government agencies. The lease terms range from 1 year to 99 years and some are perpetual.

The leases and the lease conditions are classified into the following categories:

**Crown Lands Act 1989 (CLA)**

- **Lease**

  This type of lease can be granted for a period of up to 99 years and conditions are imposed in accordance with the specific requirements of the leased area, etc. In most instances, it is the land only that is leased. It is recognised that the improvements belong to the lessee or there is a right for the lessee to remove improvements at the termination of the lease (with the consent of the Minister).

- **Licence**

  These tenures are terminable at will by the Minister and generally have no set term.

- **Enclosure Permit**

  This is a permit to enclose a Crown road or watercourse and is attached to the land that is either freehold or under perpetual lease, but not a licence.

**Crown Lands (Continued Tenures) Act 1989 (CTA)**

- **Perpetual Lease**

  This is a lease held in perpetuity over land (i.e. it does not expire) subject to compliance with conditions including payment of annual rent, etc, and is generally available at low-cost. If the lease is surrendered or terminated, no compensation is payable to the holder.

- **Term Lease**

  This is a lease held for a stated period. It is held over land only and the land may be purchased if the Minister agrees. The purchase price for the land is market value.

- **Special Lease**

  These leases were granted for a period of up to 40 years under previous legislation for a variety of purposes. The land can only be used for the purpose for which the lease was granted.

- **Commonwealth Leases**

  These leases are generally tenures granted for a specific purpose such as telecommunications or rifle ranges, etc.

## 25. Commitments for Expenditure (continued)

### (d) Finance Lease Commitments – as Lessee

**Crown Finance Entity – Motor Vehicle Leases**

The Crown Finance Entity has entered into a transaction, initiated by NSW Treasury and arranged by TCorp, Macquarie and BNP, under a finance lease for the provision of passenger and light commercial vehicles for NSW agencies.

The initial vehicle limit under the facility is $200 million. This facility is a leveraged lease structure funded on a floating rate basis with the liability exposure borne by the Crown Finance Entity.

The facility had an initial 10 year term with an evergreen mechanism. These leases do not have renewal or purchase options. The lease agreements were terminated during the year.

At 30 June 2009 the Crown Entity has no further finance lease commitments as a lessee (2008: $8.2 million).

Future minimum lease payments payable under finance leases:

| | 2009<br>$000 | 2008<br>$000 |
|---|---|---|
| Minimum Lease Payment Commitments in Relation to Finance Leases Payable as Follows: | | |
| - not later than one year | **-** | **8,447** |
| Minimum Lease Payments | - | 8,447 |
| Less: Future Finance Charges | - | ( 205) |
| Present Value of Minimum Lease Payments | **-** | **8,242** |
| Classified as : | | |
| Current Borrowing | - | 8,242 |
| Total per Balance Sheet | **-** | **8,242** |

### (e) Other Commitments

At 30 June 2009 the Crown Entity had Other Commitments contracted for at reporting date but not recognised as liabilities, of $2.6 million (2008: $1.5 million).

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| Other Commitments Contracted for at Reporting Date but not Recognised as Liability are as Follows: | | |
| - not later than one year | 1,158 | 730 |
| - later than one year but not later than five years | 1,411 | 800 |
| Total (including GST) | **2,569** | **1,530** |

## 25. Commitments for Expenditure (continued)

### Snowy Hydro Limited (SHL)

The Crown Entity's share (58 per cent) of SHL's Other Commitments included above is $2.6 million (2008: $1.5 million). The details of the agreement are disclosed at Note 7 and Note 27.

### Joint Government Enterprise Limited (JGE) – Water for Rivers

JGE was established as a joint enterprise by the Commonwealth Government, the Victorian Government and the New South Wales Government on 12 November 2003.

As per the agreement NSW Government ("NSW") has to pay $150 million in total to be paid each quarter over 10 years. NSW has paid $105 million until 30 June 2009. The remaining commitment is $45 million as at 30 June 2009 (2008: $60 million). In addition NSW's share in joint "Funding Account" $18.8 million (2008: $41 million) is also committed. Refer to Note 16. However, the constitution of the JGE states that the members will share in any contribution not utilised for operations at the date of winding up plus any accrued interest.

## 26. Aboriginal Land Council Claims

The CLE has provided for the liability of claims which have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. While such claims have been granted, the care, control and management of the granted lands does not transfer to the relevant Local Aboriginal Land Council until the parcels have been surveyed and title issued. Prior to title being issued, the parcels of granted Crown land remain under the control of the Crown and have been brought to account as part of the land holdings.

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| Current | 992,271 | 1,010,273 |
| **Total** | **992,271** | **1,010,273** |
| Balance at the Beginning of Year | 1,010,273 | 1,009,359 |
| Claims Granted | 8,707 | 1,236 |
| Revaluation (Decrement) / Increment | ( 20,455) | 1,290 |
| Claims Transferred Out | ( 6,254) | ( 1,612) |
| **Balance at the End of Year** | **992,271** | **1,010,273** |

## 27. Contingent Liabilities

The following contingent liabilities are for Crown finance and property activities. The details included are all information that is practicable to disclose at this time. The Report on State Finances contains the residual Crown contingencies which are the responsibility of other state public sector agencies.

**Snowy Hydro Limited**

On 28 June 2002, the Commonwealth's Snowy Mountain Hydro-electric Authority became a new public company, Snowy Hydro Limited (SHL). This company is owned by NSW, Victoria and the Commonwealth. NSW holds 58 per cent of the issued shares SHL (all of which are fully paid up) and it has entered into 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 situations.

Each of the initial five SHL directors have a Deed of Indemnity against claim costs from liabilities transferred from the former Snowy Mountains Hydro-Electric Authority and for putting corporatisation agreements in place. The duration of the risk is for any act or omission of a Director for the period from the Corporatisation Date (28 June 2002) until the fifth anniversary of the Corporatisation Date (which has now passed) for which claims are notified to the Governments by the eleventh anniversary of the Corporatisation Date. There are currently no known claims. Directors must maintain risk insurance cover and SHL has a back-to-back indemnity indemnifying the governments for any legally allowable claim costs incurred. These directors are no longer on the board.

A five year review of the Snowy Water Licence is currently being undertaken. Under the Snowy Hydro Corporatisation Act 1997, amendments made to the Snowy Water Licence for the purpose of giving effect to the outcome of the five year review are not subject to compensation. No major amendments to the Snowy Water Licence are proposed under the five year review. If any further variation to, or revocation of, the Snowy Water Licence by the Ministerial Corporation or NSW (which have not been agreed to by SHL) has an adverse financial impact on SHL, the company will receive that corresponding amount from NSW under a compensation deed. No major amendments to the Snowy Water Licence are proposed. The Snowy Water Licence expires on the 75th anniversary of the Corporatisation date (June 2077) or if revoked earlier. The compensation deed terminates on the expiry or revocation of the Snowy Water Licence

Under the Snowy Scheme Deed of Indemnity, if a release by Snowy Hydro of Snowy River Increased Flows under Schedule Three to the Snowy Water Licence (including an instruction from the Water Ministerial Corporation to SHL in relation to releasing a Flushing Flow) causes spills or downstream damage, the Crown Entity will compensate SHL for the proportion of claims it incurs. NSW will pay 58 per cent of the cost. No claims currently exist. The risk of exposure should be very low for several years after corporatisation while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts while the Snowy Water Licence is in place.

## 27. Contingent Liabilities (continued)

Also under the Snowy Scheme Deed of Indemnity, if SHL incurs Cold Water Pollution Offence Costs (including a requirement to modify its structures or lower its storage levels to reduce the impact of cold-water releases) NSW will provide 58 per cent of the amount necessary to cover those costs up until the 7th anniversary of the Corporatisation Date (June 2009). Applicable legislation is the *Water Management Act 2000*. The Environmental Protection Authority has never asked for a dam structure to be modified for this reason in NSW. Any likelihood of this is further lessened by NSW's cold-water strategy where SHL does not have to modify dams or dam levels to reduce cold-water pollution until 2012.

**TCorp Guarantees**

The government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of $49.0 billion (2008: $37.0 billion) under the *Public Authorities (Financial Arrangements) Act 1987*.

**Sale of Pacific Power International**

As a condition of the Pacific Power International sale, the State must compensate the trustee of the Energy Industry Superannuation Scheme (EISS) funds for a shortfall of assets in the reserves of the fund relating to the transfer of defined benefit scheme membership to Connell Wagner Pty Ltd.

The compensation amount would be the lower of:

- the actual shortfall between fund assets and fund liabilities
- the potential shortfall if anticipated investment returns (4.5 per cent a year - excluding CPI) had not been realised

At 30 June 2009, the net market value of fund assets was $4 million less than the estimated value of liabilities (accrued benefits under AAS 25). The unfunded liability is due to negative investment returns during the 2009 financial year.

The unfunded liability is different to both the actual fund shortfall and the investment return shortfall. A preliminary estimate of both shortfalls conducted by the scheme actuary indicated that the actual fund shortfall would be around $4.5 million, and the investment return shortfall would be approximately $3 million. The compensation payment amount is around $3 million (2008: $Nil).

The exact amount will be estimated as part of the triennial actuarial review of the EISS, for the three year period ending 30 June 2009.

The amount paid would depend on future earnings and other cash flows in the reserves of the fund and would not become a liability unless a payment is required on the occurrence of one of the following events:

- Connell Wagner ceases to be an employer in the fund
- The last benefit was paid
- The relevant assets were exhausted

The liability would arise at the earliest of these events. There would only be one payment.

## 27. Contingent Liabilities (continued)

### NSW Treasury Corporation

NSW Treasury Corporation has issued unconditional payment undertakings for some government authorities in the national wholesale electricity market to pay the system administrators any amount up to a total maximum agreed by the participants.

It has also issued undertakings for other government authorities for their performance under contracts with third parties.

These amounts are recoverable from the government authority participants. At year end they were valued at $655 million (2008: $1,327 million).

### Contracts with Private Sector Parties

The State has guaranteed the obligations performance of various statutory authorities with private sector party contracts. There are current outstanding guarantees for:

- Sydney Harbour Tunnel
- Macarthur Water Filtration Plant
- M2 Motorway
- Olympic Multi-Use Arena
- Olympic Stadium
- Eastern Distributor
- Illawarra and Woronora Water Treatment Plant
- Prospect Water Filtration Plant and Treatment Works
- Cross City Tunnel
- Western Sydney Orbital
- Eastern Creek Alternative Waste Treatment Plant
- Lane Cove Tunnel
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- Bonnyrigg Communities Public Housing
- VISY Mill: Tumut Timber Supply Agreement
- Orange Hospital Redevelopment
- Royal North Shore Hospital Redevelopment

## 27. Contingent Liabilities (continued)

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

The State's motor vehicles were financed under one external leasing arrangement (Tranche 3) and one internal leasing arrangement managed by StateFleet and funded by TCorp (Tranche 4). Tranche 3 terminated on 3 February 2009.

Tranche 4 is funded on a floating rate basis. Effectively there is a floating rate principal exposure of $551 million as at 30 June 2009 (2008: $557 million).

### Native Title

Applications for native title under the *Native Title Act 1993* and *Aboriginal Land Rights Act 1983* have been made over various areas of land and water in New South Wales, which might ultimately result in land being transferred for no financial consideration, or for direct financial compensation being awarded. These applications have not been finalised and it is therefore not possible to estimate the financial impact or result of the claims.

Claims may also be lodged for land currently held as inventories. However, inventories are not offered for sale until Native Title interests are extinguished through compulsory acquisitions or where the Native Title Tribunal grants a non-claimant application. These claims are complex and currently unquantifiable and do not directly relate to the land value in the financial statements.

The Crown pays any future compensation claims for land disposals, not the purchaser. This then has no impact on the value of land in the financial statements.

### Contaminated Land

It is likely that some parcels of Crown land may have been contaminated at some stage in the past. Currently, some 442 sites on untenured Crown land have been identified to be contaminated to some degree. Work is being undertaken to determine the nature and extent of contamination. However, it is considered that the existence of the contaminated sites will not have a material impact on the overall value of the land holdings.

### Nedoni

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 Minister for Lands is liable to pay compensation for land to be resumed for a road at Byron Bay. The land has not been resumed as yet and negotiations are continuing with Nedoni and Byron Bay Shire Council on what, if any, of the land will actually be required for the road. The liability has therefore not been recognised.

## 27. Contingent Liabilities (continued)

### Unclaimed Money

The Crown Entity treats Consolidated Fund unclaimed money payments as income. However, claims can be legally lodged for several years after the money is paid into the Fund. These future claims are a form of contingent liability and cannot be estimated.

### Office of State Revenue

The State Debt Recovery Office is reviewing some infringement matters to decide if special circumstances exist for payment returns. There are currently 281 matters where the Crown Solicitor or other legal firms are acting on behalf of The Treasury. A settlement estimate for these matters cannot be reliably determined. In addition 55 claims have been received without dollar values requesting reassessment and refund for duty imposed on general insurance where a refund will be payable.

### GST Debts

The Crown Entity has operating lease revenue commitments receivable of $248.2 million (2008: $277.5 million). These create a future GST contingent liability of $22.6 million (2008: $25.2 million).

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Contingent Liabilities** | | |
| GST Payable on Operating Lease Commitments | 22,563 | 25,228 |
| | **22,563** | **25,228** |

### Electricity Tariff Equalisation Ministerial Corporation (ETEMC)

As at 30 June 2009 ETEMC has no contingent liabilities (2008: $61 million). The 2008 liabilities were due to payment made by the generators to the ETEF. Under the ETEF payment rules, ETEMC is required to repay to the generators when funds are available. Liabilities to the generators were fully repaid during 2008-09.

## 28. Contingent Assets

### HIH Collapse

Because of the HIH collapse, the Crown Entity assumed builders warranty and third party motor insurance liabilities of about $650 million. An actuary estimated the discounted present value of the outstanding liability to be $145.2 million as at 30 June 2009 (2008: $125.3 million).

The liquidators currently intend to distribute various percentages up to "more than 50 per cent" depending on the scheme company. In 2009, the Crown Entity received payments totalling $28.4 million (2008: $79.3 million)

### GST Credits

The Crown Entity has capital commitments of $31.4 million (2008: $14.5 million) and operating lease commitments payable of $39.7 million (2008: $44.6 million). The recoverable input tax credits constitute a contingent asset of $6.7 million (2008: $5.5 million).

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| GST Recoverable Input Tax Credits | | |
| Capital Commitments | 2,854 | 1,321 |
| Other Commitments | 234 | 139 |
| Operating Lease Commitments - Lessee | 3,612 | 4,050 |
| | **6,700** | **5,510** |

## 29. Cash and Cash Equivalents

| | | |
|---|---|---|
| Cash on Hand and at Bank | 838,133 | 421,407 |
| Short Term Deposits | 18,817 | 41,083 |
| | **856,950** | **462,490** |

In 2008-09, under the *Public Authorities (Financial Arrangements) Act 1987*, the Governor approved financial accommodation of $6,800 million for Crown Entity and Electricity Tariff Equalisation Ministerial Corporation (2008: $3,300 million) in order to replace existing short term debt and new borrowings to fund the budget cash deficit. At 30 June 2009, $551 million of this was drawn down (2008: $1, 339 million).

Of the cash on hand and at bank, $233.3 million is restricted cash assets (2008: $187.5 million). This is cash in Special Deposit Accounts and trust funds that can only be used in line with the Special Deposit Account legislation and for trust fund purposes. Note 31 and Notes 32 detail these transactions.

Cash and cash equivalents in the Consolidated Balance Sheet are cash at bank, cash on hand, restricted cash in special deposit accounts and other short term deposits.

## 30. Cash Flow Information

### (a) Reconciliation of Cash and Cash Equivalents

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents include cash at bank, cash on hand, short term deposits and bank overdraft.

Cash and cash equivalents assets recognised in the Consolidated Balance Sheet are reconciled at the end of the financial year to the Consolidated Cash Flow Statement as follows:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Cash on Hand and at Bank | 838,133 | 421,407 |
| Short Term deposits | 18,817 | 41,083 |
| | **856,950** | **462,490** |
| Bank Overdraft | ( 2,400,300) | ( 3,297,782) |
| **Net Cash and Cash Equivalents (per Cash Flow Statement)** | **( 1,543,350)** | **( 2,835,292)** |

### (b) Reconciliation of Cash Flows from Operating Activities to the Change in Net Assets

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Deficit for the Year** | ( 3,465,365) | ( 1,186,143) |
| Non Cash Items Added Back | | |
| Increase of Investment in Associated Company | ( 122,931) | ( 55,390) |
| Decrease / (Increase) Asset Revaluation | 7,923 | ( 13,628) |
| Unrealised Loss on Investments | 336,804 | 588,185 |
| Depreciation and Amortisation | 1,782 | 6,659 |
| Non Cash Finance Costs | 59,623 | ( 10,498) |
| Loss / (Gain) on Asset Disposals | 31,964 | ( 15,933) |
| Land Transferred to Other Government Agencies | - | 11,433 |
| Administrative Restructure - Transfer in | ( 35,217) | ( 228,040) |
| Other | ( 12,809) | ( 52,304) |
| Define Superannuation Actuarial Losses | ( 10,593,762) | ( 2,848,350) |
| | **( 10,326,623)** | **( 2,617,866)** |
| Change in Operating Assets and Liabilities | | |
| Movement in Working Capital | 128,888 | ( 18,684) |
| Increase/(Decrease) in Other Liabilities | 12,124,988 | 2,975,957 |
| Increase in Other Assets | ( 185,868) | ( 2,294) |
| | **12,068,008** | **2,954,979** |
| **Movement for the Year** | **1,741,385** | **337,113** |
| **Net Cash Flows Used in Operating Activities** | **( 1,723,980)** | **( 849,030)** |

## 31. Trust Funds

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| **Trust Monies Held by the Crown Entity on Behalf of:** | | |
| Olympic Coordination Authority Payables | 6,098 | 6,098 |
| State Rail Authority Windup | 915 | 915 |
| Compensation Deposits re Land Acquisition Fund | 758 | 758 |
| Consumer Affairs Trust | 112 | 112 |
| Other | 103 | 16 |
| | **7,986** | **7,899** |

The Trustee Act 1925 requires that trust funds should be held separate from other operating funds of the agency. The Crown Entity has not kept a separate bank account for the above trust funds due to the immateriality of the amounts involved.

## 32. Special Deposit Accounts

The Crown Entity operates ten special deposits accounts. These are:

**NSW Policyholders Protection Fund**

The Insurance Protection Act 2001 established this fund to hold taxes and other payments to meet home building and third-party motor accident insurance policy claims of declared insolvent insurers.

**Non-Budget Long Service Leave Pool**

This account holds long service leave funds for certain budget dependent agencies that are now non-budget dependent.

**Structured Finance Activities**

This account is used to manage cross border leases and other structured finance activities arranged by TCorp.

**Confiscated Proceeds Account**

The Criminal Assets Recovery Act 1990 established this account to hold money recovered from criminals until used in accordance with the Act.

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

This is a special workers compensation scheme for bushfire fighters, emergency service workers and rescue association workers.

**Builders Warranty Insurance**

This is used to manage reinsurance arrangements the government has put in place to help stabilise the building warranty insurance market.

## 32. Special Deposit Accounts (continued)

### NSW Self Insurance Corporation

This fund was established under the *NSW Self Insurance Corporation Act 2004.* The Corporation provides self insurance coverage for general government budget dependent agencies.

### Petroleum Products Subsidy Account

This makes payments under the Commonwealth's Petroleum Products Subsidy Scheme and is reimbursed by the Commonwealth. The scheme was wound up and the account closed last year.

### State Infrastructure Fund

A State Infrastructure Fund has been was established during 2008-09 to hold development contributions collected from Special Contribution Areas across the State. These monies are set aside to fund the provision of State infrastructure, land purchases and conservation requirements in these contribution areas.

### Royal North Shore Hospital (RNSH) Interest Adjustment Account

This account was established during the year to record and maintain separately the funds received from ABN Amro Bank of $2.4 million. The payment is contribution to the project for the redevelopment of Royal North Shore Hospital which is a joint financing arrangement approved on 17 October 2008. ABN Amro is the financier of the project.

The contribution will be paid out from 2015 until 2036, or earlier depending on the project's termination date.

| Accounts | NSW Policy Holders Protection Fund $'000 | Non Budget Long Service Leave Pool $'000 | Structured Finance Activities $'000 | Confiscated Proceeds Account $'000 | Workers Compensation $'000 |
|---|---|---|---|---|---|
| Balance 1.7.2007 | 68,533 | 26,416 | 333 | 45,219 | 8,125 |
| Plus Receipts | 67,821 | 9,536 | 750 | 20,148 | 4,553 |
| Less Payments | ( 59,041) | ( 13,613) | ( 374) | ( 14,539) | ( 6,085) |
| **Balance 30.6.2008** | **77,313** | **22,339** | **709** | **50,828** | **6,593** |
| Plus Receipts | 67,303 | 9,394 | 185 | 19,075 | 4,500 |
| Less Payments | ( 37,734) | ( 11,184) | ( 450) | ( 786) | ( 6,125) |
| **Balance 30.6.2009** | **106,882** | **20,549** | **444** | **69,117** | **4,968** |

| Accounts | Builders Warranty Insurance $'000 | NSW Self Insurance Corporation $'000 | Petroleum Products Subsidy $'000 | RNSH Interest Adjustment $'000 | State Infrastructure Fund $'000 |
|---|---|---|---|---|---|
| Balance 1.7.2007 | 21,523 | 95,907 | 50 | - | - |
| Plus Receipts | 1,481 | 2,746,326 | - | - | - |
| Less Payments | ( 1,164) | ( 2,691,912) | ( 50) | - | - |
| **Balance 30.6.2008** | **21,840** | **150,321** | **-** | **-** | **-** |
| Plus Receipts | 1,362 | 2,561,432 | - | 2,444 | 1,338 |
| Less Payments | ( 2,572) | ( 2,178,996) | - | - | - |
| **Balance 30.6.2009** | **20,630** | **532,757** | **-** | **2,444** | **1,338** |

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

## 33. Other Liabilities

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current:** | | |
| Builders Warranty Insurance | 20,630 | 21,840 |
| Confiscated Proceeds | 69,117 | 50,828 |
| Premium Received in Advance | 5,458 | 10,257 |
| Management, Incentive and Other Fees | 26,239 | 36,659 |
| Special Deposit and Trust Accounts | 16,737 | 14,493 |
| Deferred Income | 191,215 | 150,357 |
| Financial Guarantees | 3,100 | - |
| Other | - | 1,140 |
| | **332,496** | **285,574** |
| **Non-Current:** | | |
| Provision for Restoration Costs | 60 | 56 |
| Deferred Income | 313,963 | 146,404 |
| Financial Guarantees | 17,800 | - |
| Other | 236 | 0 |
| | 332,059 | **146,460** |
| **Total** | **664,555** | **432,035** |

**(a) 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. Movement of this account is shown in Note 32.

**(b) 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. Movement of this account is shown in Note 32.

**(c) Provision for Shortfall in Lease Payments**

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Balance at the Beginning of Year | - | 12,613 |
| Transferred to State Property Authority | - | ( 12,613) |
| **Balance at the End of Year** | **-** | **-** |

The Provision for Sub-lease Income Shortfall at 30 June 2007 was for the Crown Properties Portfolio (CPP) head leases on Colonial State Bank Centre, Martin Place, Sydney and Pacific Power Building, Sydney. These are vested to the State Property Authority from 1 July 2007.

**(d) Provision for Restoration Costs**

The make-good restoration liability is calculated on all leased properties, where Crown entity is the lessee and reflects an estimate of the cost to make-good the premises to their original conditional at the end of the lease term. A discount rate of 6.14 per cent was used and the level of the provision is reviewed at the end of each year and an adjustment made to receivables.

| | | |
|---|---|---|
| **Non-Current:** | | |
| Balance at the Beginning of Year | 56 | 53 |
| Unwinding of Discounts | 4 | 3 |
| **Balance at the End of Year** | **60** | **56** |

## 33. Other Liabilities (continued)

### (e) Deferred Income

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | 191,215 | 150,357 |
| **Non Current** | 313,963 | 146,404 |
| | **505,178** | **296,761** |

### (e)(i) Licence fees

Licence fees are recognised on a straight-line basis over the specified period of time in accordance with the substance of the relevant agreement / item.

| | | |
|---|---|---|
| Opening Balance at Beginning of Year | 268,012 | 296,053 |
| Add: Licence Fees Deferred | 403,386 | 95,453 |
| Less: Amortisation | ( 182,448) | ( 123,494) |
| | **488,950** | **268,012** |

### (e)(ii) Other

Deferred income also includes revenue received in advance by the Crown Leaseholds Entity of $16.2 million (2008: $28.7m) which represents invoices raised and payments received in the current financial period in respect of the future financial periods.

### (e)(iii) Prepaid long-term leases

Previous long-term leases of the Crown Entity were from the Crown Property Portfolio (CPP). The CPP leased its properties on long term operating leases of over 50 years and received prepaid rentals which were recognised as income on a straight line basis over the lease terms. As at 1 July 2007, all these were vested to the State Property Authority.

| | | |
|---|---|---|
| Prepaid Rental Payment Received Upfront | - | 185,791 |
| Less: Previous Years Amortisation | - | ( 18,871) |
| Less: Transfer to State Property Authority | - | ( 166,920) |
| | **-** | **-** |

### (e)(iv) Incentive from lessor

A lease incentive payment of $68 million 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 was recognised as a reduction of Head Lease Expenses over the term of the lease.

## 33. Other Liabilities (continued)

### (e) (iv) Incentive from lessor (continued)

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Lease Incentive Payment Received upfront | - | 68,000 |
| Less: Previous Years Amortisation | - | ( 68,000) |
| | - | - |
| Lease Rent Free Incentive Received | - | 9,550 |
| Less: Previous Years Amortisation | - | ( 1,134) |
| Less: Transfer to State Property Authority | - | ( 8,416) |
| | - | - |

On 1 July 2007, CPP was transferred from the Crown Entity and consolidated with the State Property Authority. All remaining balances of the CPP lease incentive payment received were transferred out on this date.

### (f) Financial Guarantees

| | | |
|---|---|---|
| Balance at the Beginning of Year | - | - |
| Additions | 25,900 | - |
| Amortisation | (5,000) | - |
| **Balance at the End of Year** | **20,900** | **-** |
| Current liability | 3,100 | - |
| Non current liability | 17,800 | - |
| | **20,900** | **-** |

**Structured Finance Activities**

Through the Structured Finance Activities Special Deposits Account, the State began several finance leases for rail stock and electricity assets. The Crown has guaranteed certain payment and performance obligations under these cross-border lease arrangements. The likelihood of these guarantees being called upon is very low due to the arrangements in place as part of the leases to ensure the payments are made.

A representative sample of approximately one-third of the guarantees was valued by Ernst & Young during 2007-08. The remainder were estimated based on Ernst & Young methodology. The guarantees have a current amortised valued of $12.1 million (2008: $13.9 million). The value is included on the balance sheet this year but was not recognised in 2007-08.

## 33. Other Liabilities (continued)

### Government Insurance Act 1927

Under the previous *Government Insurance Act 1927*, the State guarantees GIO liabilities for general, life and reinsurance policies that it issued until 15 July 1992.

Actuarial assessment of the GIO liabilities is:

| | 31 Dec 2008 $m | 31 Dec 2007 $m |
|---|---|---|
| General insurance | 185 | 153 |
| Life insurance | 66 | 69 |
| Inward reinsurance | 38 | 33 |
| | **289** | **255** |

The increase in general insurance liabilities primarily reflect increases in the central estimate and risk margin in workers compensation run-off liabilities, as well as a small increase in Health Department claims in the public liability class.

The guarantee on these policies continues under the State Government Deed issued for GIO's privatisation and subsequent purchase by AMP Limited.

The guarantees have a current amortised valued of $8.8 million (2008: $12.0 million). The value is included on the balance sheet in 2008-09 but not recognised in 2007-08.

### Public Private Partnerships

The Crown has provided guarantees to a number of statutory authorities who do not represent the Crown. These guarantees which includes payment guarantees, give lenders a similar assurance as if they were lending to a Crown agency.

The current outstanding guarantees relate to:

- Eastern Creek Alternative Waste Treatment Plant
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- Bonnyrigg Communities Public Housing
- Orange Hospital Redevelopment
- Royal North Shore Hospital Redevelopment

The guarantees have been valued at $Nil (2008: $Nil). This is due to the likelihood of any of these guarantees being called upon being remote. The arrangements of government minimise the risk of default.

## Notes to the Financial Statements for the year ended 30 June 2009

### 34. Summary of Compliance with Financial Directives

| RECURRENT APPROPRIATIONS | Appropriation 2009 | Expenditure 2009 | Appropriation 2008 | Expenditure 2008 |
|---|---|---|---|---|
| **ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE** | **$'000** | **$'000** | **$'000** | **$'000** |
| Appropriation Act | 3,901,569 | 3,257,380 | 2,925,643 | 2,637,316 |
| Budget Variation Acts (additional appropriation) | 40,000 | 40,000 | 390,000 | 390,000 |
| Sec 22 - Expenditure for Certain Works and Services | 70,000 | 62,957 | 59,761 | 24,729 |
| Section 26 - Increase in Commonwealth SPP | 319,000 | 310,095 | | |
| Treasurer's Advance | - | - | 2,350 | 2,350 |
| Transfers to Another Agency (section 32 of the Appropriation Act) | ( 161,752) | - | ( 143,670) | - |
| Other | ( 708) | - | - | - |
| Sec 16C - Insurance Protection Tax Act 2001 | 67,303 | 67,303 | 67,821 | 67,821 |
| **Total Appropriations/Expenditure (includes transfer payments)** | **4,235,412** | **3,737,735** | **3,301,905** | **3,122,216** |
| **LESS: Drawdowns from Treasury** | | 3,729,668 | | 3,155,047 |
| **Total Unspent Appropriations** | | 8,067 | | ( 32,831) |
| **CAPITAL APPROPRIATIONS** | | | | |
| Appropriation Act | 185,642 | 159,019 | 187,776 | 114,844 |
| **Total Appropriations/Expenditure (Includes Transfer Payments)** | **185,642** | **159,019** | **187,776** | **114,844** |
| **LESS: Drawdowns from Treasury** | | 159,019 | | 114,844 |
| **Total Unspent Appropriations** | | - | | - |

## 35. Consolidated Fund Transactions

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| **Receipts** | | |
| Taxation, Fines and Regulatory Fees | 18,445,145 | 19,168,261 |
| Commonwealth Grants | 21,430,636 | 19,233,760 |
| Financial Distributions | 2,145,554 | 2,045,161 |
| Other | 1,612,802 | 896,294 |
| **Total Receipts** | **43,634,137** | **41,343,476** |
| **Payments** | | |
| Recurrent Appropriations Paid to Other Agencies | ( 38,341,767) | ( 35,818,657) |
| Recurrent Appropriations Paid to Crown Finance Entity | ( 3,729,668) | ( 3,155,047) |
| Capital Appropriations Paid to Other Agencies | ( 3,854,111) | ( 3,267,682) |
| Capital Appropriations Paid to Crown Finance Entity | ( 159,018) | ( 114,844) |
| Other | - | ( 19,081) |
| **Total Payments** | **( 46,084,564)** | **( 42,375,311)** |
| **Net Cash Flows Used in Operating Activities** | **( 2,450,427)** | **( 1,031,835)** |
| **Cash Flows from Crown Finance Entity** | | |
| Proceeds from Borrowing Transferred | 2,240,986 | 260,000 |
| Investment Income Transferred | 34,800 | - |
| Interest Receipts Transferred | 70,893 | 58,161 |
| Advance Repayments Transferred | 74,222 | 67,049 |
| Other Receipts Transferred* | 139,293 | 433,242 |
| | **2,560,194** | **818,452** |
| **Net Increase / (Decrease) in Cash and Cash Equivalents** | **109,767** | **( 213,383)** |
| **Opening Cash and Cash Equivalents** | **( 1,958,840)** | **( 1,818,857)** |
| Cash transferred in as a result of capital restructuring | - | 73,400 |
| **Closing Cash and Cash Equivalents** | **( 1,849,073)** | **( 1,958,840)** |
| **Cash and Cash Equivalents** | | |
| Bank overdraft | ( 1,849,073) | ( 1,958,840) |
| | **( 1,849,073)** | **( 1,958,840)** |

* In 2008 other receipts transferred include transfer of surplus reserves from SICorp of $300 million.

## 36. Service Group Statements – Expenses and Income for the Year Ended 30 June 2009

| | Debt Liability Management $'000 | Superannuation Liability Management $'000 | Central Financial Services $'000 | Not Attributable * $'000 | Total Crown Finance Entity $'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Investment Income | - | - | 102,412 | - | 102,412 |
| Share of Profit of Associate | - | - | 122,931 | - | 122,931 |
| Revenue From Government | ( 2,240,986) | - | ( 327,275) | 3,888,687 | 1,320,425 |
| Other | - | 4,005 | 110,004 | - | 114,009 |
| **Total Revenue** | **( 2,240,986)** | **4,005** | **8,072** | **3,888,687** | **1,659,777** |
| **Expense** | | | | | |
| Superannuation | - | 1,336,845 | - | - | 1,336,845 |
| Long Service Leave | - | - | 661,013 | - | 661,013 |
| Depreciation/Amortisation | - | - | 671 | - | 671 |
| Grant and Subsidies | - | - | 1,308,050 | - | 1,308,050 |
| Finance Costs | 1,025,557 | - | 142 | - | 1,025,699 |
| Insurance Claims | - | - | 78,181 | - | 78,181 |
| Other | - | 35,008 | 365,894 | - | 400,903 |
| **Total Expenses** | **1,025,557** | **1,371,853** | **2,413,951** | **-** | **4,811,362** |
| Gain/(Loss) on Disposal of Non-Current Assets | - | - | ( 87) | - | ( 87) |
| Gain/(Loss) from Financial Instruments | 60,056 | - | - | - | 60,056 |
| | | | | | - |
| **SURPLUS / (DEFICIT) FOR THE YEAR** | **( 3,206,487)** | **( 1,367,848)** | **( 2,405,966)** | **3,888,687** | **( 3,091,616)** |

* Appropriations are made on an agency basis and not to individual service groups. Hence, government contributions are included in the “Not Attributable” column.

## 36. Service Group Statements – Expenses and Income for the Year Ended 30 June 2009 (continued)

| | Crown Finance Entity * | Consolidated Fund * | Electricity Tariff Equalisation* | NSW Self Insurance Corporation* | Crown Leaseholds * | Crown Lands Homesites Program * | Land Development Working Account * | Elimination | Consolidated Total |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | | | | | |
| Taxation, Fines & Regulatory F | - | 18,328,263 | - | - | - | - | - | ( 35,008) | 18,293,255 |
| Commonwealth Grants | - | 21,435,753 | - | - | - | - | - | - | 21,435,753 |
| Financial Distributions | - | 2,013,151 | - | - | - | - | - | ( 4,580) | 2,008,571 |
| Sales of Goods and Services | - | - | - | 1,420,073 | - | - | - | ( 406,559) | 1,013,514 |
| Investment Income | 102,412 | - | 42 | ( 249,825) | 2,208 | - | - | ( 1,034) | ( 146,197) |
| Share of Profit of Associate | 122,931 | - | - | - | - | - | - | - | 122,931 |
| Revenue From Government | 1,320,425 | - | - | - | ( 69,058) | - | ( 4,580) | ( 1,247,203) | ( 416) |
| Other | 114,009 | 4,147,713 | 398,045 | 22 | 73,872 | 338 | - | ( 2,660,702) | 2,073,297 |
| **Total Revenue** | **1,659,777** | **45,924,880** | **398,087** | **1,170,270** | **7,022** | **338** | **( 4,580)** | **( 4,355,086)** | **44,800,708** |
| **Expense** | | | | | | | | | |
| Superannuation | 1,336,845 | - | - | - | - | - | - | - | 1,336,845 |
| Long Service Leave | 661,013 | - | - | - | - | - | - | ( 282) | 660,731 |
| Depreciation/Amortisation | 671 | - | - | 1,108 | - | - | 3 | - | 1,782 |
| Grant and Subsidies | 1,308,050 | - | - | - | - | - | - | ( 430,000) | 878,050 |
| Finance Costs | 1,025,699 | - | - | 264,078 | - | - | - | ( 1,034) | 1,288,743 |
| Insurance Claims | 78,181 | - | - | 1,147,436 | - | - | - | - | 1,225,617 |
| Recurrent Appropriations | - | 42,071,435 | - | - | - | - | - | ( 3,729,668) | 38,341,767 |
| Capital Appropriations | - | 4,013,130 | - | - | - | - | - | ( 159,019) | 3,854,111 |
| Other | 400,903 | 13,555 | 349,300 | 71,830 | 32,215 | 2,062 | ( 1,157) | ( 35,083) | 833,625 |
| **Total Expenses** | **4,811,362** | **46,098,120** | **349,300** | **1,484,452** | **32,215** | **2,062** | **( 1,154)** | **( 4,355,086)** | **48,421,271** |
| Gain/(Loss) on Disposal of Non-Current Assets | ( 87) | - | - | - | ( 41,051) | 2,323 | 6,851 | - | ( 31,964) |
| Gain/(Loss) from Financial Instruments | 60,056 | - | - | 127,106 | - | - | - | - | 187,162 |
| **SURPLUS / (DEFICIT) FOR THE YEAR** | **( 3,091,616)** | **( 173,240)** | **48,787** | **( 187,076)** | **( 66,244)** | **599** | **3,425** | **-** | **( 3,465,365)** |

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

## 36. Service Group Statements – Assets and Liabilities for the Year Ended 30 June 2009

| | Debt Liability Management $'000 | Superannuation Liability Management $'000 | Central Financial Services $'000 | Total Crown Finance Entity $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and Cash Equivalents | - | - | 271,437 | **271,437** |
| Financial Assets at Fair Value | - | - | 101 | **101** |
| Derivative Financial Instruments | 37 | - | - | **37** |
| Advances Repayable to the Crown | - | - | 46,464 | **46,464** |
| Receivables | - | - | 20,102 | **20,102** |
| **Total Current Assets** | **37** | **-** | **338,104** | **338,141** |
| **Non-Current Assets** | | | | |
| Property, Plant and Equipment | - | - | 132 | **132** |
| Investment in an Associate | - | - | 894,024 | **894,024** |
| Financial Assets at Fair Value | - | - | 2,827 | **2,827** |
| Advances Repayable to the Crown | - | - | 887,831 | **887,831** |
| Receivables | - | - | 77,903 | **77,903** |
| Intangible Assets | - | - | 121 | **121** |
| **Total Non-Current Assets** | **-** | **-** | **1,862,838** | **1,862,838** |
| **Total Assets** | **37** | **-** | **2,200,942** | **2,200,979** |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Payables | 187,247 | - | 406,771 | **594,018** |
| Bank Overdraft | 551,227 | - | - | **551,227** |
| Borrowings | 414,943 | - | - | **414,943** |
| Unfunded Superannuation | - | 1,057,400 | - | **1,057,400** |
| Employee Benefits and Other Provisions | - | - | 3,163,242 | **3,163,242** |
| Provision for Outstanding Insurance Claims | - | - | 27,892 | **27,892** |
| Other | - | - | 117,651 | **117,651** |
| **Total Current Liabilities** | **1,153,417** | **1,057,400** | **3,715,556** | **5,926,373** |
| **Non-Current Liabilities** | | | | |
| Payables | - | - | 25,153 | **25,153** |
| Borrowings | 12,924,943 | - | - | **12,924,943** |
| Unfunded Superannuation | - | 27,374,282 | - | **27,374,282** |
| Employee Benefits and Other Provisions | - | - | 166,487 | **166,487** |
| Provision for Outstanding Insurance Claims | - | - | 83,698 | **83,698** |
| Other | - | - | 95,703 | **95,703** |
| **Total Non-Current Liabilties** | **12,924,943** | **27,374,282** | **371,041** | **40,670,266** |
| **Total Liabilities** | **14,078,360** | **28,431,682** | **4,086,597** | **46,596,639** |
| **Net Liabilities** | **( 14,078,323)** | **( 28,431,682)** | **( 1,885,655)** | **( 44,395,660)** |

## 36. Service Group Statements – Assets and Liabilities for the Year Ended 30 June 2009 (continued)

| | Crown Finance Entity * $'000 | Consolidated Fund * $'000 | Electricity Tariff Equalisation* $'000 | NSW Self Insurance Corporation* $'000 | Crown Leaseholds * $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and Cash Equivalents | 271,437 | - | 28,303 | 532,757 | 8,729 |
| Financial Assets at Fair Value | 101 | - | - | 79,886 | - |
| Derivative Financial Instruments | 37 | - | - | 1,519 | - |
| Advances Repayable to the Crown | 46,464 | - | - | - | - |
| Inventories | - | - | - | - | - |
| Receivables | 20,102 | 2,756,476 | 31,167 | 568,484 | 11,200 |
| Other | - | - | - | 1 | - |
| **Total Current Assets** | **338,141** | **2,756,476** | **59,470** | **1,182,647** | **19,929** |
| **Non-Current Assets** | | | | | |
| Property, Plant and Equipment | 132 | - | - | 212 | 6,225,225 |
| Investment in an Associate | 894,024 | - | - | - | - |
| Financial Assets at Fair Value | 2,827 | - | - | 3,719,051 | - |
| Advances Repayable to the Crown | 887,831 | - | - | - | - |
| Inventories | - | - | - | - | - |
| Receivables | 77,903 | 5,674 | - | 295,786 | 21,881 |
| Intangible Assets | 121 | - | - | 1,638 | - |
| Other | - | - | - | 34 | - |
| **Total Non-Current Assets** | **1,862,838** | **5,674** | **-** | **4,016,721** | **6,247,106** |
| **Total Assets** | **2,200,979** | **2,762,150** | **59,470** | **5,199,368** | **6,267,035** |
| **LIABILITIES** | | | | | |
| **Current Liabilities** | | | | | |
| Payables | 594,018 | - | 10,600 | 88,979 | 4,675 |
| Bank Overdraft | 551,227 | 1,849,073 | - | - | - |
| Borrowings | 414,943 | - | - | - | - |
| Unfunded Superannuation | 1,057,400 | - | - | - | - |
| Employee Benefits and Other Provisions | 3,163,242 | - | - | - | - |
| Provision for Outstanding Insurance Claims | 27,892 | - | - | 723,321 | - |
| Aboriginal Land Council Claim | - | - | - | - | 992,271 |
| Other | 117,651 | 174,985 | - | 29,715 | 16,229 |
| **Total Current Liabilities** | **5,926,373** | **2,024,058** | **10,600** | **842,015** | **1,013,175** |
| **Non-Current Liabilities** | | | | | |
| Payables | 25,153 | - | - | - | - |
| Borrowings | 12,924,943 | - | - | - | - |
| Unfunded Superannuation | 27,374,282 | - | - | - | - |
| Employee Benefits and Other Provisions | 166,487 | - | - | - | - |
| Provision for Outstanding Insurance Claims | 83,698 | - | - | 4,249,351 | - |
| Other | 95,703 | 313,963 | - | 60 | - |
| **Total Non-Current Liabilties** | **40,670,266** | **313,963** | **-** | **4,249,411** | **-** |
| **Total Liabilities** | **46,596,639** | **2,338,021** | **10,600** | **5,091,426** | **1,013,175** |
| **Net Liabilities** | **( 44,395,660)** | **424,129** | **48,870** | **107,942** | **5,253,860** |

## 36. Service Group Statements – Assets and Liabilities for the Year Ended 30 June 2009 (continued)

| | Crown Lands Homesites Program * $'000 | Land Development Working Account * $'000 | Elimination $'000 | Consolidated Total $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and Cash Equivalents | 3,347 | 12,377 | - | **856,950** |
| Financial Assets at Fair Value | - | - | - | **79,987** |
| Derivative Financial Instruments | - | - | - | **1,556** |
| Advances Repayable to the Crown | - | - | - | **46,464** |
| Inventories | 18,259 | 251 | - | **18,510** |
| Receivables | 173 | 2,309 | ( 407,315) | **2,982,596** |
| Other | - | - | - | **1** |
| **Total Current Assets** | **21,779** | **14,937** | **( 407,315)** | **3,986,064** |
| **Non-Current Assets** | | | | |
| Property, Plant and Equipment | - | 5 | - | **6,225,574** |
| Investment in an Associate | - | - | - | **894,024** |
| Financial Assets at Fair Value | - | - | - | **3,721,878** |
| Advances Repayable to the Crown | - | - | - | **887,831** |
| Inventories | 15,594 | 5,754 | - | **21,348** |
| Receivables | 88 | - | ( 83,577) | **317,755** |
| Intangible Assets | - | - | - | **1,759** |
| Other | - | - | - | **34** |
| **Total Non-Current Assets** | **15,682** | **5,759** | **( 83,577)** | **12,070,203** |
| **Total Assets** | **37,461** | **20,696** | **( 490,892)** | **16,056,267** |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Payables | 5,682 | 9,513 | ( 399,248) | **314,219** |
| Bank Overdraft | - | - | - | **2,400,300** |
| Borrowings | - | - | - | **414,943** |
| Unfunded Superannuation | - | - | - | **1,057,400** |
| Employee Benefits and Other Provisions | - | - | - | **3,163,242** |
| Provision for Outstanding Insurance Claims | - | - | - | **751,213** |
| Aboriginal Land Council Claim | - | - | - | **992,271** |
| Other | 1,983 | - | ( 8,067) | **332,496** |
| **Total Current Liabilities** | **7,665** | **9,513** | **( 407,315)** | **9,426,084** |
| **Non-Current Liabilities** | | | | |
| Payables | - | - | - | **25,153** |
| Borrowings | - | - | - | **12,924,943** |
| Unfunded Superannuation | - | - | - | **27,374,282** |
| Employee Benefits and Other Provisions | - | - | - | **166,487** |
| Provision for Outstanding Insurance Claims | - | - | - | **4,333,049** |
| Other | 5,910 | - | ( 83,577) | **332,059** |
| **Total Non-Current Liabilties** | **5,910** | **-** | **( 83,577)** | **45,155,973** |
| **Total Liabilities** | **13,575** | **9,513** | **( 490,892)** | **54,582,057** |
| **Net Liabilities** | **23,886** | **11,183** | **-** | **( 38,525,790)** |

## 37. Transfer Payments

The Crown Entity receives contributions from the Commonwealth Government that are transferred to eligible beneficiaries. The beneficiaries are non-government schools and Local Governments. Payments to non-government schools are paid directly by the Crown Entity while payments to Local Governments are made by the Department of Local Government.

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Payments** | | |
| Non-Government Schools - Recurrent | (1,951,262) | (1,840,266) |
| Non-Government Schools - Targeted Programs | (320,411) | (95,861) |
| Non-Government Schools - Capital | (44,826) | (77,365) |
| Local Government - Financial Assistance | (536,574) | (399,424) |
| Local Government - Roads | (211,414) | (157,464) |
| | **( 3,064,487)** | **( 2,570,380)** |
| **Receipts** | | |
| Non-Government Schools - Recurrent | 1,951,262 | 1,840,266 |
| Non-Government Schools - Targeted Programs | 320,411 | 95,861 |
| Non-Government Schools - Capital | 44,826 | 77,365 |
| Local Government - Financial Assistance | 536,574 | 399,424 |
| Local Government - Roads | 211,414 | 157,464 |
| | **3,064,487** | **2,570,380** |

## 38. Changes in Accounting Policies, Corrections of Errors and Changes in Estimates

| $'000 | | | | | |
|---|---|---|---|---|---|
| **Line Item** | **Notes** | **Previously Reported Figure in 2007-08** | **Changes in Accounting Policy** | **Corrections of Error** | **Comparative Figure Reported in 2008-09** |
| **Operating Statement** | | | | | |
| **Income** | | | | | |
| Taxation, Fines and Regulatory Fees | 1,2 | 19,142,664 | 11,157 | ( 147,462) | **19,006,359** |
| **Total Income** | | **42,479,463** | **11,157** | **( 147,462)** | **42,343,158** |
| **Expenses** | | | | | |
| Superannuation - Defined Benefit Plans | 3 | 4,012,970 | ( 2,848,350) | - | **1,164,620** |
| Finance Costs | 4 | 1,144,847 | - | ( 2,864) | **1,141,983** |
| Other Expenses | 4 | 635,506 | - | 2,864 | **638,370** |
| **Total Expenses** | | **46,300,795** | **( 2,848,350)** | **-** | **43,452,445** |
| **Deficit for the Year** | | **( 3,898,188)** | **2,859,507** | **( 147,462)** | **( 1,186,143)** |
| **Balance Sheet** | | | | | |
| **Assets** | | | | | |
| Current Receivables | 1,5 | 3,108,393 | - | ( 151,816) | **2,956,577** |
| **Total Assets** | | **15,999,774** | **-** | **( 151,816)** | **15,847,958** |
| **Liabilities** | | | | | |
| Current Other | 2 | 182,214 | 103,360 | - | **285,574** |
| Current Payables | 5 | 322,617 | - | ( 4,353) | **318,264** |
| Current Aboriginal Land Council Claims | 6 | - | - | 1,010,273 | **1,010,273** |
| Non-Current Other | 2,6 | 1,042,874 | 113,859 | ( 1,010,273) | **146,460** |
| **Total Liabilities** | | **40,065,682** | **217,219** | **( 4,353)** | **40,278,548** |
| **Net Liabilities** | | **( 24,065,908)** | **( 217,219)** | **( 147,463)** | **( 24,430,590)** |
| **Equity** | | | | | |
| Retained Deficit | 1,2,3 | **( 26,831,709)** | **( 217,219)** | **( 147,463)** | **( 27,196,391)** |
| **Total Equity** | | **( 24,065,908)** | **( 217,219)** | **( 147,463)** | **( 24,430,590)** |

## 38. Changes in Accounting Policies, Corrections of Errors and Changes in Estimates (continued)

**1. Overstatement of administered receivable to the Consolidated Fund**

In prior year fine receivables administered by the Office of State Revenue on behalf of commercial clients (predominantly local councils) were included as fine revenue for the Crown in error. A classification error which affected the prior period allowance for impairment estimate was also identified in 2009. These reduced income and receivable balance by $147.5 million.

**2. Recognition of revenue on multi-year licences**

Crown revenues relating to multi-years driver licences (newly issued and renewals) and building licences were previously recognised when received. These revenues are now recognised on an accrual basis, a change in accounting policy, to comply with Australian Accounting Standards. These mainly relate to revenues collected on behalf of the Crown by agencies such as the Road and Traffic Authority and the Department of Commerce.

The 2007-08 comparatives were amended to effect the change in the accounting policy which resulted in an increase of $11.2 million in taxation, fines and regulatory fees revenue.

Recognition of administered revenue on an accrual basis resulted in increased deferred income balances. Consequently, total liabilities increased by $217.2 million through increases in other current and non-current liabilities of $103.4 million and $113.8 million, respectively.

**3. Recognition of superannuation actuarial gains or losses**

According with NSW Treasury policy, the entity has changed its policy on the recognition of superannuation actuarial gains and losses. Such actuarial gains and losses, $2,848.4 million for 2007-08, are now recognised outside of profit or loss in the 'Statement of Recognised Income and Expense'. Previously, actuarial gains and losses were recognised through profit or loss. Both options are permissible under AASB 119 *Employee Benefits*. Refer to Note 2 for more details.

**4. Reclassification of expenses**

A reclassification of $2.9 million in expenses was made between finance and other costs to better reflect the nature of expenditure.

**5. Reclassification of expenses**

GST receivable of $4.4 million was net-off against total GST payable.

**6. Aboriginal Land Council Claims**

Aboriginal Land Council Claims previously reported within other non-current liabilities is now shown separately as a new line item on the Balance Sheet.

## Crown Entity

## Notes to the Financial Statements for the year ended 30 June 2009

### 39. Events after the Balance Sheet Date

On 13 July 2009 the Premier wrote a letter to the Minister for Lands notifying him that a Property Management Authority would be created from the functions that had been allocated from within the Services, Technology and Administration cluster and also from other clusters. Three of the agencies to be included within this new Management Authority are Land Development Working Account, Crown Land Homesites Program and the Crown Leaseholds Entity.

Accordingly, these three agencies will no longer form part of the Crown Entity after July 2009.

**End of Audited Financial Information**

New South Wales
TREASURY

# Liability Management Ministerial Corporation

Financial Report for the year ended 30 June 2009

GPO BOX 12
Sydney NSW 2001

**INDEPENDENT AUDITOR'S REPORT**

Liability Management Ministerial Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Liability Management Ministerial Corporation ("the Corporation"), which comprises the balance sheet as at 30 June 2009, the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

**Auditor's Opinion**

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2009, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41 B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

**Secretary's Responsibility for the Financial Report**

The Secretary is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether clue to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

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.

**Independence**

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

David Nolan
Director, Financial Audit Services

22 September 2009
SYDNEY

**Liability Management Ministerial Corporation**

**Financial Report for the year ended 30 June 2009**

## Statement by Department Head

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

(a) The accompanying financial report exhibits a true and fair view of the financial position of the Liability Management Ministerial Corporation as at 30 June 2009 and the transactions for the year then ended; and

(b) The financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the Treasurer's Directions.

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

Michael Schur
Secretary
22 September 2009

# Liability Management Ministerial Corporation

## Income Statement
## for the year ended 30 June 2009

| | Note | 2009 $000 | 2008 $000 |
|---|---|---|---|
| **Income** | | | |
| Contributions from the Crown Finance Entity | | - | - |
| Investment Income | | - | - |
| **Total Revenue** | | **-** | **-** |
| **Expenses** | | | |
| Management Fee | | - | - |
| **Total Expenses** | | **-** | **-** |
| **SURPLUS/(DEFICIT) FOR THE YEAR** | | **-** | **-** |

The accompanying notes form part of these financial statements.

## Liability Management Ministerial Corporation

## Statement of Recognised Income & Expenses
## for the year ended 30 June 2009

| | Note | 2009 $000 | 2008 $000 |
|---|---|---|---|
| **TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | | | |
| Surplus/(Deficit) for the Year | | - | - |
| **TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR** | | **-** | **-** |

The accompanying notes form part of these financial statements.

## Liability Management Ministerial Corporation

## Balance Sheet
## as at 30 June 2009

| | Note | 2009 $000 | 2008 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | | - | - |
| Financial Assets at Fair Value | | - | - |
| Derivative Financial Instruments | | - | - |
| **Total Current Assets** | | **-** | **-** |
| **Non-Current Assets** | | | |
| Financial Assets at Fair Value | | - | - |
| **Total Non-Current Assets** | | **-** | **-** |
| **Total Assets** | | **-** | **-** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Payables | | - | - |
| **Total Current Liabilities** | | **-** | **-** |
| **Total Liabilities** | | **-** | **-** |
| **Net Assets** | | **-** | **-** |
| **Equity** | | | |
| Retained Surplus/(Deficit) | | - | - |
| **Total Equity** | | **-** | **-** |

The accompanying notes form part of these financial statements.

# Liability Management Ministerial Corporation

## Cash Flow Statement
## for the year ended 30 June 2009

| | Note | 2009 $000 | 2008 $000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Payments** | | | |
| Management Fee | | - | - |
| **Total Payments** | | **-** | **-** |
| **Receipts** | | | |
| Contributions from the Crown Finance Entity | | - | - |
| Investment Income | | - | - |
| **Total Receipts** | | **-** | **-** |
| **NET CASH FROM/(USED IN) OPERATING ACTIVITIES** | | **-** | **-** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for Purchase of Investments | | - | - |
| Proceeds from Sale of Investments | | - | - |
| **NET CASH FROM/(USED IN) INVESTING ACTIVITIES** | | **-** | **-** |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | | **-** | **-** |
| Cash and Cash Equivalents at Beginning of Year | | - | - |
| **Cash and Cash Equivalents at end of Year** | | **-** | **-** |

The accompanying notes form part of these financial statements.

**Liability Management Ministerial Corporation**

**Notes to the Financial Statements for the year ended 30 June 2009**

## 1. INFORMATION

The Liability Management Ministerial Corporation (LMMC) was established to manage the General Government Liability Management Fund (GGLMF). The Fund invests accumulated Crown funds pending the payment of Crown employer contributions to the SAS Trustee Corporation (State Super). These accounts are aggregated into those of the Crown Entity.

LMMC is a statutory body under the *Public Finance and Audit Act 1983*. It is a not-for-profit entity that largely invests payments it receives from the Crown Finance Entity to reduce the net liabilities of the State. The liabilities it pays are firstly superannuation, then borrowings. Its main business address is 1 Farrer Place, Sydney NSW 2000, Australia.

The NSW Government has a fiscal target to fully fund superannuation liabilities by 2030. In accordance with this funding target, the balance of the General Government Liability Management Fund was transferred to the SAS Trustee Corporation via the Crown Finance Entity during 2006-07. There were no further activities in the LMMC during the years 2007-08 and 2008-09.

This financial report was authorised for issue by the Secretary on the date the accompanying statement was signed by the Secretary.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Preparation**

This financial report is a general purpose financial report which has been prepared on an accruals basis and in accordance with:

- Australian Accounting standards (which include Australian Accounting Interpretations)
- all requirements of the *Public Finance and Audit Act 1983*
- the *Public Finance and Audit Regulations 2005*
- Treasury Accounting Policy Statements.

The financial statements have been prepared on a historical cost basis, except for:

- Derivative financial instruments which are measured at fair value
- Financial assets designated as fair value through profit and loss.

All amounts are rounded to the nearest $1,000 Australian dollars ($'000).

**Use of Estimates and Judgements**

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

Major assumptions and judgements by management are detailed in the relevant notes to this financial report.

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

**Statement of Compliance**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2009. These are listed as follows:-

- AASB 8 and AASB 2007-3 (Feb 2007) regarding operating segments (1 Jan 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 2008-5 and AASB 2008-6 (Jul 2008) regarding annual improvements projects (1 Jan 2009 and
  1 Jul 2009 respectively)
- AASB 2008-9 (Sep 2008) regarding amendments to AASB 1049 for consistency with AASB 101
  (1 Jan 2009)
- AASB 2008-11 (Nov 2008) regarding business combinations among not-for-profit entities (1 Jul 2009)
- Interpretation 17 and AASB 2008-13 (Dec 2008) on distribution of non-cash assets to owners (1 Jul 2009)

It is considered that the impact of these new Standards and Interpretations in future periods will have no material impact on the financial statements of the LMMC.

**INCOME**

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

**Contributions from the Crown Finance Entity**

Contributions received from the Crown Finance Entity are recognised as income when LMMC obtains control of the contributions or the right to receive the contributions, it is probable that economic benefits will flow to the entity and the amount of the contributions can be measured reliably.

**Investment Income**

Investment income includes interest income and net gains or losses from changes in the fair value of investments.

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*. Interest revenue is recognised as interest accrues.

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

### EXPENSES

Finance officers of the Crown Asset and Liability Management branch in the Office of Financial Management, NSW Treasury provide administrative services, including the preparation of financial statements to the LMMC. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

The Crown Entity also pays the entity's audit fees, inclusive of GST, of $5,280 (2008: $5,500).

Management fees are recognised as an expense in the period in which they are incurred.

#### Goods and Services Tax

The amount of goods and services tax (GST) incurred cannot be recovered from the Australian Taxation Office and is recognised as part of an expense or asset.

Contingencies and liabilities are inclusive of GST.

### ASSETS

#### Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise:
- cash at bank
- cash in hand
- other short term deposits with an original maturity of three months or less.

The Cash Flow Statement shows these cash and cash equivalents, net of outstanding bank overdrafts.

#### Investments

Financial assets in the scope of AASB 139 *Financial Instrument: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. LMMC classifies its financial assets after initial recognition and, when allowed and appropriate, it re-evaluates this at each year end.

#### Financial Assets at Fair Value

The fund invests in bonds and TCorp HourGlass facility. All bond investments with a term of maturity of up to 12 months must have at least an A1+ short term issuer credit rating from Standard & Poor's or an equivalent recognised rating.

All long-term securities in the portfolio must have an AA – or better long-term issuer credit rating from Standard & Poor's or an equivalent recognised rating.

These financial assets are designated at fair value through profit and loss as they are managed and their performance is evaluated on a fair value basis. Gains or losses are recognised in the income statement.

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

### Derivative Financial Instruments

LMMC uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains of losses arising from changes in the fair value of derivatives are taken directly to the income statement.

Fair value of interest rate contracts are calculated by reference to the market value for similar contracts.

### TAXATION

The activities of the LMMC are exempt from income tax as granted by the Australian Taxation Office.

## 3. EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to reporting date requiring disclosure.

**End of Audited Financial Information**

New South Wales
TREASURY

# Electricity Tariff Equalisation Ministerial Corporation

Financial Report for the year ended 30 June 2009

GPO BOX 12
Sydney NSW 2001

**INDEPENDENT AUDITOR'S REPORT**

**Electricity Tariff Equalisation Ministerial Corporation**

**To Members of the New South Wales Parliament**

I have audited the accompanying financial report of Electricity Tariff Equalisation Ministerial Corporation (the Corporation), which comprises the balance sheet as at 30 June 2009, the income statement, statement of recognised income and expense, and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

**Auditor's Opinion**

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2009, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

**The Fund Administrator's Responsibility for the Financial Report**

The Fund Administrator is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

**Independence**

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

David Nolan
Director, Financial Audit Services

20 October 2009
SYDNEY

## Electricity Tariff Equalisation Ministerial Corporation

## Financial Report for the year ended 30 June 2009

### Statement by Department Head

Pursuant to Section 41C (1B) 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 2009 and the transactions for the year then ended; and

(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 2005* 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.

Mark Ronsisvalle
Fund Administrator
15 October 2009

## Electricity Tariff Equalisation Ministerial Corporation

## Income Statement
## for the year ended 30 June 2009

| | Note | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Tariffs from Retailers/Generators | | 398,045 | 252,894 |
| Investment Income | | 43 | 915 |
| **Total Revenue** | | **398,088** | **253,809** |
| **Expenses** | | | |
| Tariffs to Retailers/Generators | | 349,249 | 252,865 |
| Other | 3 | 51 | 40 |
| **Total Expenses** | | **349,300** | **252,905** |
| **SURPLUS FOR THE YEAR** | | **48,788** | **904** |

The accompanying notes form part of these financial statements.

**Electricity Tariff Equalisation Ministerial Corporation**

**Cash Flow Statement**
**for the year ended 30 June 2009**

| | Note | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| Surplus for the year | 7 | 48,788 | 904 |
| **TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR** | | **48,788** | **904** |

The accompanying notes form part of these financial statements.

## Electricity Tariff Equalisation Ministerial Corporation

## Balance Sheet
## as at 30 June 2009

| | Note | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | 4 | 28,303 | 100 |
| Receivables | 5 | 31,170 | 12,105 |
| **Total Current Assets** | | **59,473** | **12,205** |
| **Total Assets** | | **59,473** | **12,205** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Payables | 6 | 10,603 | 12,123 |
| **Total Current Liabilities** | | **10,603** | **12,123** |
| **Total Liabilities** | | **10,603** | **12,123** |
| **Net Assets** | | **48,870** | **82** |
| **Equity** | | | |
| Retained Surplus | 7 | 48,870 | 82 |
| **Total Equity** | | **48,870** | **82** |

The accompanying notes form part of these financial statements.

# Electricity Tariff Equalisation Ministerial Corporation

## Cash Flow Statement
## for the year ended 30 June 2009

| | Note | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Payments** | | | |
| Payments to Retailers/Generators | | 350,784 | 675,562 |
| Management Fee | | 21 | 35 |
| Consultant Costs | | - | 2 |
| Other | | 18 | 37 |
| **Total Payments** | | **350,823** | **675,636** |
| | | | |
| **Receipts** | | | |
| Payments from Retailers/Generators | | 378,979 | 361,776 |
| Interest Received | | 42 | 915 |
| GST Recouped | | 5 | 8 |
| **Total Receipts** | | **379,026** | **362,699** |
| | | | |
| **NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES** | 10 | **28,203** | **(312,937)** |
| | | | |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **28,203** | **(312,937)** |
| | | | |
| Opening Cash and Cash Equivalents | | 100 | 313,037 |
| | | | |
| **CLOSING CASH AND CASH EQUIVALENTS** | | **28,303** | **100** |

The accompanying notes form part of these financial statements.

## Electricity Tariff Equalisation Ministerial Corporation

## Notes to the Financial Statements for the year ended 30 June 2009

### 1. INFORMATION

The Electricity Tariff Equalisation Ministerial Corporation (ETEMC) was established under section 43EM of the *Electricity Supply Act 1995* (the Act) and administers the Electricity Tariff Equalisation Fund (ETEF). The Fund manages the purchase-cost risks for electricity retail suppliers of small retail customers in New South Wales.

The Act sets outs rules for payment to and from the ETEF. The Fund pays and collects tariffs from retailers and/or generators based on usage figures from the retailers and/or generators.

ETEMC is statutory body under the *Public Finance and Audit Act 1983*. Its main business address is 1 Farrer Place, Sydney NSW 2000, Australia.

This financial report was authorised for issue by the Fund Administrator on the date the accompanying statement was signed by the Fund Administrator.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Preparation**

This financial report is a general purpose financial report which has been prepared on an accruals basis and in accordance with the requirements of:

- Applicable Australian Accounting Standards which include Australian Accounting Interpretations
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2005*
- Treasury Accounting Policy Statements

The financial statements have been prepared on a historical cost basis.

All amounts are rounded to the nearest $1,000 Australian dollars ($'000).

**Use of Estimates and Judgements**

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

In particular, management have made the following judgements in applying ETEMC's accounting policies:

Amounts recognised as income and expenditure from/to retailers and generators 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 20-30 weeks after the trading week.

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

Due to the lag time between trading and settlement, an estimate is made of the receivable or payable based on the tariff settlements.

**Accounting Standards/Interpretations issued but not yet effective**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2009. These are listed as follows:

- AASB 3, AASB 127 and AASB 2008-3 (Mar 2008) regarding business combinations and consolidations (1 Jul 2009)
- AASB 8 and AASB 2007-3 (Feb 2007) regarding operating segments (1 Jan 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 1039 (Aug 2008) regarding concise financial reports (1 Jan 2009)
- AASB 2008-1 (Feb 2008) regarding share-based payments: vesting conditions and cancellations (1 Jan 2009)
- AASB 2008-2 (Mar 2008) regarding puttable financial instruments (1 Jan 2009)
- AASB 2008-5 and AASB 2008-6 (Jul 2008) regarding annual improvements projects (1 Jan 2009 and 1 Jul 2009 respectively)
- AASB 2008-7 (Jul 2008) regarding cost of an investment in a subsidiary (1 Jan 2009)
- AASB 2008-8 (Aug 2008) regarding eligible hedged items (1 July 2009)
- AASB 2008-9 (Sep 2008) regarding amendments to AASB 1049 for consistency with AASB 101 (1 Jan 2009)
- AASB 2008-11 (Nov 2008) regarding business combinations among not-for-profit entities (1 Jul 2009)
- Interpretation 15 (Aug 2008) on constructions of real estate (1 Jan 2009)
- Interpretation 16 (Aug 2008) on hedges of a net investment in a foreign operation (1 Oct 2008)
- Interpretation 17 and AASB 2008-13 (Dec 2008) on distribution of non-cash assets to owners (1 Jul 2009)

It is considered that the impact of these new Standards and Interpretations in future periods will have no material impact on the financial statements of the ETEMC.

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

### REVENUE

Revenue is recognised as probable economic benefits to ETEMC that can be reliably measured. The following criteria are used to identify revenue:

**Tariff Receipts from Retailers/Generators**

Tariff receipts from retailers/generators are recognised in accordance with the ETEF payment rules when the right to receive the tariff is established.

**Investment Income**

Investment income includes interest income and net gains or losses from changes in the fair value of investments.

Interest income is recognised as interest accrues.

### EXPENSES

**Tariff Payments to Retailers/Generators**

Tariff payments to retailers and generators are recognised in accordance with the ETEF payment rules when the right to pay the tariff has been established.

**Employee Entitlements**

The ETEMC has no employees. Finance officers of the Crown Asset and Liability Management branch in the Office of Financial Management, NSW Treasury provide administration services, including the preparation of financial statements to the ETEMC. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

**Goods and Services Tax (GST)**

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

- for when the GST cannot be recovered from the Australian Taxation Office (ATO), then it is either part of the cost of acquiring an asset, or part of an item expense.
- for receivables and payables which are recognised as including GST.

Cash flows are included in the cash flow statement on a gross basis. However, the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO are classified as  operating cash flows.

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

### Goods and Services Tax (continued)

The net GST recoverable or payable is included as part of receivables or payables.

The Commonwealth has determined that no GST is payable or receivable on tariffs between ETEF and electricity businesses (4th Division 81 Commonwealth GST Determination).

### ASSETS

### Cash and Cash Equivalents

Cash and cash equivalents comprise short term deposits with an original maturity of three months or less, are recognised in the Balance Sheet and are reconciled to the Cash Flow Statement.

### Receivables

Receivables are recognised and carried at the original levied amount less an allowance for impairments. These are held with either the state owned generators and/or retailers and are settled on time by TCorp via Austraclear ensuring that receivables are not impaired.

### Payables

Payables are carried at amortised costs and represent liabilities for goods and services provided but not paid for by the year's end. This occurs when ETEMC must make future payments for the goods and services, even if it has not been billed for them.

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

### Taxation

The activities of the ETEMC are exempt from income tax as granted by the Australian Taxation Office.

### Impairment of Financial Assets

The ETEMC assesses if a financial asset or group of financial assets is impaired at each reporting date. The assets held by the ETEMC include short term deposits with an original maturity of three months or less which are managed by TCorp as well as receivables from the state owned generators and retailers which are settled on time by TCorp via Austraclear.

| | 2009 $'000 | 2008 $'000 |
|---|---|---|

## 3. EXPENSES

**Other**

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Audit Fees | 25 | 27 |
| Consultants Costs | - | 2 |
| Management Fee | 26 | 11 |
| | **51** | **40** |

## 4. CASH AND CASH EQUIVALENTS

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Short Term Deposits** | **28,303** | **100** |

In 2007-08, the Governor approved a Crown Entity financial accommodation from TCorp for $300 million under the Public Authorities (Financial Arrangements) Act 1987. The financing facility is to cover temporary cash deficits which occur during the day of settlement between retailers and generators.

Short term deposits are made for varying periods. The modified duration of the portfolio is limited to no more than 3 months and depends on the immediate cash requirement of ETEMC. There are no restrictions on cash.

## 5. RECEIVABLES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Payments from Retailers/Generators | 31,167 | 12,102 |
| GST Receivable | 3 | 3 |
| | **31,170** | **12,105** |

The payments from retailers/generators represent tariffs receivable from retailers/generators during the financial year and the settlements occur after the year end according to the Australian Energy Market Operator (AEMO) settlement timetable.

The payments from retailers/generators were non-interest bearing during the financial year since payments to and receipts from retailers and generators were settled simultaneously on a predetermined date via Austraclear.

An allowance of impairment loss is recognised when there is objective evidence that the receivable is impaired. All receivables were tested for impairment at 30 June 2009. No indication of impairment was found and no allowance for impairment loss has been made in the Income Statement for 2009 (2008: $Nil).

| | 2009 $'000 | 2008 $'000 |
|---|---|---|

## 6. PAYABLES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Payments to Retailers/Generators | 10,568 | 12,103 |
| Audit Fees | 27 | 20 |
| Management Fee | 8 | - |
| | **10,603** | **12,123** |

The payments to retailers/generators represent tariffs payable to retailers/generators during the financial year and the settlements occur after the year end according to the AEMO settlement timetable. The payments to retailers/generators are non-interest bearing.

## 7. RETAINED SURPLUS

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Balance at the beginning of the financial year** | 82 | (822) |
| **Changes in equity – other than transactions with owners as owners** | | |
| Surplus for the year | 48,788 | 904 |
| **Balance at the end of the financial year** | **48,870** | **82** |

## 8. CONTINGENT LIABILITIES

As at 30 June 2009, ETEMC has no contingent liabilities (2008: $61 million). The 2008 liabilities were due to payments made by the generators to the ETEF. Under the ETEF payment rules, ETEMC is required to repay the generators when funds are available. The future availability of funds within the ETEF is dependent on the amounts payable to or receivable from the state owned retailers, which is based on the interaction of the tariffs determined by the Independent Pricing and Regulatory Tribunal (IPART) for the supply of electricity to small retail customers and the prices for electricity within in the National Electricity Market. Liabilities to the generators were fully repaid during 2008-09.

## 9. CONTINGENT ASSETS

There are no contingent assets.

| | 2009 $'000 | 2008 $'000 |
|---|---|---|

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

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Surplus for the Year | 48,788 | 904 |
| Change in Assets and Liabilities | | |
| (Increase)/Decrease in Receivables | (19,065) | 108,885 |
| (Decrease) in Payables | (1,520) | (422,726) |
| **Net Cash Flows from Operating Activities** | **28,203** | **(312,937)** |

## 11. FINANCIAL INSTRUMENTS

ETEMC's principal financial instruments are outlined in the table below.

The main purpose of these financial instruments is to maintain sufficient funds to fund operations. ETEMC has various other financial assets and liabilities such as payables and receivables from/to retailers and generators.

**Financial Instrument Categories**

| | Note | Category | Carrying Amount 2009 $'000 | Carrying Amount 2008 $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and Cash Equivalents | 4 | N/A | 28,303 | 100 |
| Receivables[1] | 5 | Receivables (measured at amortised cost) | 31,167 | 12,102 |
| **Financial Liabilities** | | | | |
| Payables | 6 | Payables (measured at amortised cost) | 10,603 | 12,123 |

1) Excludes statutory receivables

**Risk Management**

ETEMC has appointed NSW Treasury Corporation (TCorp), the State's central financing authority who has recognised expertise in the management of Treasury related risks, to advise on, and actively manage its asset portfolio. TCorp manages investment risk in line with the Risk and Compliance Framework. These are summarised as follows:

## 11. FINANCIAL INSTRUMENTS (continued)

### (a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

ETEMC's exposure to interest rate risk is limited to the TCorp investment in the short term deposits. The receivables from and payables to retailers/generators are non-interest bearing, and the carrying amounts are not affected by changes in market interest rates.

ETEMC's exposure to interest rate risk on its holding of cash and cash equivalents is outlined in the following table. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

**Interest Rate Risk**
**Sensitivity Analysis**

| | Carrying | - 1% | | + 1% | |
|---|---|---|---|---|---|
| | Amount | Profit | Equity | Profit | Equity |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2009** | | | | | |
| **Financial Assets** | | | | | |
| Cash and Cash Equivalents | 28,303 | (283) | - | 283 | - |
| **2008** | | | | | |
| **Financial Assets** | | | | | |
| Cash and Cash Equivalents | 100 | (1) | - | 1 | - |

### (b) Currency Risk

As at 30 June 2009, the ETEMC has no transactional or structural currency exposures.

### (c) Credit Risk

Credit risk is the risk of financial loss because another party to a contract or a financial position does not meet a financial obligation.

ETEMC's credit risk is confined to the state government owned standard retail suppliers and electricity generators and is considered to be insignificant. There is no collateral held on receivable balances.

**Cash and Cash Equivalents**

Cash comprises cash investment in floating rate notes, short term bank bills and commercial paper. Interest is earned on daily bank balances adjusted for a management fee to NSW Treasury.

## 11. FINANCIAL INSTRUMENTS (continued)

### (c) Credit Risk (continued)

**Concentration of Credit Risk**

| By credit rating | AAA | AA+ | AA | AA- | A+ | A | Other Ratings (1) | Total |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2009** | | | | | | | | |
| Cash and Cash Equivalents | 28,303 | - | - | - | - | - | - | 28,303 |
| Receivables | - | - | - | - | - | - | 31,167 | 31,167 |
| **2008** | | | | | | | | |
| Cash and Cash Equivalents | 100 | - | - | - | - | - | - | 100 |
| Receivables | - | - | - | - | - | - | 12,102 | 12,102 |

1) Short term ratings of A-2 or better, when counterparty has no long term rating or the long term rating is A or lower

| By classification of counterparty | Governments | Bank | Other | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **2009** | | | | |
| Cash and Cash Equivalents | 28,303 | - | - | 28,303 |
| Receivables | 31,167 | - | - | 31,167 |
| **2008** | | | | |
| Cash and Cash Equivalents | 100 | - | - | 100 |
| Receivables | 12,102 | - | - | 12,102 |

## 11. FINANCIAL INSTRUMENTS (continued)

### (d) Liquidity Risk

The table below summarises the maturity profile of ETEMC's financial liabilities.

| | | | Interest Rate Exposure | | | Maturity Dates | | |
|---|---|---|---|---|---|---|---|---|
| | Weighted Average Effective Interest Rate | Nominal Amount | Fixed Interest Rate | Variable Interest Rate | Non-Interest Bearing | < 1 Year | 1 - 5 Years | > 5 Years |
| | % | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2009** | | | | | | | | |
| Payables | - | - | - | - | 10,603 | 10,603 | - | - |
| **Total Financial Liabilities** | **-** | **-** | **-** | **-** | **10,603** | **10,603** | **-** | **-** |
| **2008** | | | | | | | | |
| Payables | - | - | - | - | 12,123 | 12,123 | - | - |
| **Total Financial Liabilities** | **-** | **-** | **-** | **-** | **12,123** | **12,123** | **-** | **-** |

According to the Payment Rules, the cash balance of the fund must never be in deficit meaning that if necessary additional funds are sourced from the generators in order to meet payments to retailers.

The ETEMC has approved financial accommodation from TCorp for $300 million under the *Public Authorities (Financial Arrangements) Act 1987*. The financing facility is to cover temporary cash deficits which occur during the day of settlement between retailers and generators.

No assets have been pledged as collateral. The ETEMC’s exposure to liquidity risk is deemed insignificant based on prior periods’ data and current assessment of risk.

### (e) Fair Value

All financial instruments are carried at fair value, unless otherwise stated. The fair value of ETEMC’s non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

### (f) Market Price Risk

ETEMC is not subject to electricity price risk since any shortfall in cash needed to make payments to retailers as a result of significant fluctuations in energy prices will be met by the generators as per the payment rules.

## 12. EVENTS AFTER THE BALANCE SHEET DATE

The ETEF will begin phasing out after the 30th of June 2010 with the phase out schedule currently pending approval by the Treasurer. The treatment of any surplus funds within the ETEF upon winding up has yet to be formalised.

**End of Audited Financial Information**

New South Wales
TREASURY

# State Rail Authority Residual Holding Corporation

Financial Report for the year ended 30 June 2009

GPO BOX 12
Sydney NSW 2001

**INDEPENDENT AUDITOR'S REPORT**

**State Rail Authority Residual Holding Corporation**

To Members of the New South Wales Parliament

I have audited the accompanying financial report of State Rail Authority Residual Holding Corporation ('the Corporation'), which comprises the balance sheet as at 30 June 2009, the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

**Auditor's Opinion**

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2009, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

**The Secretary of the Treasury's Responsibility for the Financial Report**

The Secretary is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

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.

**Independence**

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

David Nolan
Director, Financial Audit Services

20 October 2009
SYDNEY

**State Rail Authority Residual Holding Corporation**

**Financial Report for the year ended 30 June 2009**

## Statement by Department Head

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

(a) The accompanying consolidated financial report exhibits a true and fair view of the financial position of the Crown Entity as at 30 June 2009 and the transactions for the year then ended; and

(b) The consolidated financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the Treasurer's Directions.

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

Michael Schur
Secretary
20 October 2009

## State Rail Authority Residual Holding Corporation

## Income Statement
## for the year ended 30 June 2009

| | Notes | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| **INCOME** | | | |
| Interest | | - | 19 |
| Other | | - | 94 |
| **Total Income** | | **-** | **113** |
| | | | |
| **EXPENSES** | | | |
| Payment to Rail Corporation | 3 | - | 449 |
| **Total Expenses** | | **-** | **449** |
| **DEFICIT FOR THE YEAR** | | **-** | **(336)** |

The accompanying notes form part of these financial statements.

## State Rail Authority Residual Holding Corporation

## Balance Sheet
## as at 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | | - | - |
| Receivables | | - | - |
| **Total Current Assets** | | **-** | **-** |
| | | | |
| **Non-Current Assets** | | | |
| Property, Plant and Equipment | | - | - |
| **Total Non-Current Assets** | | **-** | **-** |
| **Total Assets** | | **-** | **-** |
| | | | |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Payables | | - | - |
| Provisions | | - | - |
| Tax Liabilities | | - | - |
| **Total Current Liabilities** | | **-** | **-** |
| | | | |
| **Non-Current Liabilities** | | | |
| Provisions | | - | - |
| **Total Non-Current Liabilities** | | **-** | **-** |
| **Total Liabilities** | | **-** | **-** |
| **Net Assets** | | **-** | **-** |
| | | | |
| **EQUITY** | | | |
| Accumulated funds | | **-** | **-** |
| **Total Equity** | | **-** | **-** |

The accompanying notes form part of these financial statements.

## State Rail Authority Residual Holding Corporation

### Statement of Recognised Income And Expense
### for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | | - | - |
| Deficit for the Year | | - | (336) |
| **TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR** | | **-** | **(336)** |

The accompanying notes form part of these financial statements.

# State Rail Authority Residual Holding Corporation

## Cash Flow Statement
## for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Receipts** | | | |
| Government Contributions Received | | - | - |
| Interest Received | | - | - |
| **Total Receipts** | | **-** | **-** |
| **Payments** | | | |
| Payments to Suppliers, Employees and Others | | - | ( 336) |
| Interest Paid | | - | - |
| **Total Payments** | | **-** | **( 336)** |
| **NET CASH FLOWS USED IN OPERATING ACTIVITIES** | | **-** | **( 336)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **Receipts** | | | |
| Investments Redeemed | | - | - |
| **Total Receipts** | | **-** | **-** |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **-** | **-** |
| Vesting of Funds | | - | - |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **-** | **( 336)** |
| Cash and Cash Equivalents at the beginning of the year | | - | 336 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | **-** | **-** |

The accompanying notes form part of these financial statements

## 1. STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION INFORMATION

The State Rail Authority of New South Wales (StateRail) was a statutory body representing the Crown in right of the State of New South Wales, as constituted by the *Transport Administration Act 1988 (TAA).* Since 1 January 2004, pursuant to amendments to the TAA that provided for the restructuring of the Rail Industry, StateRail's principal activities have been to manage the transfer of selected assets, rights and liabilities to Rail Corporation New South Wales (RailCorp), and to manage the disposal of the remainder in consultation with RailCorp.

On 30th June 2007, all remaining functions, assets (including assets related to the cross border rolling stock leases) except for cash of $336,000, rights and liabilities of StateRail with the unique exception of its rights and liabilities relating to specified ongoing cross border rolling stock leases, were transferred, by the operation on that date of a number of vesting orders, to various agencies, including RailCorp, Rail Infrastructure Corporation and the Crown. The remaining cash balance was transferred to RailCorp during 2007-08.

StateRail itself was subject to the enactment of an *Amendment of Transport Administration Act 1988 No 109,* presented as *Schedule 4 of the State Revenue and Other Legislation Amendment (Budget) Act 2007*, which was passed cognate to the Appropriation Act 2007. The commencement date for the Act is 1 July 2007. The effect of the amendment in Schedule 4 is to change the name of StateRail to "State Rail Authority Residual Holding Corporation" (SRA), remove it from the definition of NSW rail authorities and place it under the control of the Treasurer. The sole remaining purpose of the re-named SRA is to hold the cross border rolling stock leases that were excluded from the vesting of all other StateRail assets rights and liabilities.

The SRA is a statutory body under the *Public Finance and Audit Act 1983*. Its main business address is 1 Farrer Place, Sydney NSW 2000, Australia.

Finance officers of the Crown Asset and Liability Management branch in the Office of Financial Management, NSW Treasury provide management services, including the preparation of financial statements to the SRA. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

The financial report was authorised for issue by the Secretary on the date on which the accompanying Statement by the Secretary was signed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

This is a general purpose financial report prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2005*
- Treasury Accounting Policy Statements

The financial statements have been prepared on a historical cost basis, except for:

- property, plant and equipment
- certain provisions
- derivative financial instruments

These are measured at fair value.

The accrual basis of accounting has been adopted in the preparation of the financial report, except for cash flow information.

The financial report is presented in Australian dollars and all amounts are rounded to the nearest thousand dollars ($'000).

SRA is a not-for-profit entity for accounting purposes.

At 30 June 2007, SRA has achieved its statutory objective to wind up all its residual business activities and ceased all operations.

### USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial report requires management to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision effects both current and future period.

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

### STATEMENT OF COMPLIANCE

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2009. Those relevant to the SRA are listed as follows:-

- AASB 8 and AASB 2007-3 (Feb 2007) regarding operating segments (1 Jan 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 2008-5 and AASB 2008-6 (Jul 2008) regarding annual improvements projects (1 Jan 2009 and 1 Jul 2009 respectively)
- AASB 2008-9 (Sep 2008) regarding amendments to AASB 1049 for consistency with AASB 101 (1 Jan 2009)
- AASB 2008-11 (Nov 2008) regarding business combinations among not-for-profit entities (1 Jul 2009)
- Interpretation 17 and AASB 2008-13 (Dec 2008) on distribution of non-cash assets to owners (1 Jul 2009)

It is considered that the impact of these new Standards and Interpretations in future periods will have no material impact on the financial statements of the SRA.

### LEASES

**Details of leasing arrangements**

The SRA had granted various operating leases in relation to real property. These leases have been vested.

**Accounting treatment**

Lease rentals under an operating lease are recognised as income (or expense) on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Initial direct costs incurred as lessor in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

An asset leased to a lessee is presented in the balance sheet according to the nature of the asset and is subject to the depreciation policy for similar but non-leased assets.

### INCOME

Income is measured at the fair value of the consideration or contributions received or receivable. In most cases this is the value of the cash exchanged or exchangeable. Income is only recognised if its receipt is probable and the amount is reliably measurable.

Interest is recognised as it accrues using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

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

### EXPENSE

Finance officers of the Crown Asset and Liability Management branch in the Office of Financial Management, NSW Treasury provide management services, including the preparation of financial statements to the SRA. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

The Crown Entity also pays for the entity's audit fees inclusive of GST of $5,280 (2008: Nil).

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, at call deposits, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### PROPERTY, PLANT AND EQUIPMENT

#### Recognition

An item of property, plant and equipment is recognised as an asset if it has service potential controlled by the SRA is expected at acquisition to be used for more than one year, has a cost or value that can be measured reliably and exceeds the capitalisation threshold.

A component is accounted for separately, if it:

- has a useful life materially different from that of the prime asset and therefore requires separate replacement during the life of the prime asset, or
- is material enough to justify separate tracking, or
- is capable of having a reliable value attributed to it

A dedicated spare part does not normally have a useful life of its own. Dedicated spares purchased specifically for a particular asset or class of assets and which would become redundant if that asset or class were retired or use of that asset or class were discontinued, are considered to form part of the historical cost of that asset or class.

#### Measurement

An item of property, plant and equipment purchased or constructed is initially measured at its cost which is its fair value on acquisition.  This includes the purchase price and any costs directly attributable to bringing it to the location and condition necessary for it to be capable of operating as intended.  An item of property, plant and equipment acquired at no cost or for a nominal cost is initially measured at its fair value.

Property, plant and equipment are revalued at least once every five years to fair value. Fair value is an asset's market price or if such a price is not observable or estimable from market evidence, its replacement cost being the written-down cost of an optimised modern equivalent asset.

An impairment loss is unlikely to arise on any item of property plant and equipment because the carrying amount (usually depreciated replacement cost) is unlikely to ever exceed the recoverable amount.

If an item of property, plant and equipment is revalued the entire class to which it belongs is revalued.

Any accumulated depreciation at the date of a revaluation is restated proportionately with the change in the gross carrying amount of the related asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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

Upon revaluation of a class of property, plant and equipment, a net revaluation increase is credited directly to the Asset Revaluation Reserve for that class and a net revaluation decrease is recognised in the Income Statement except that to the extent it reverses a previous increase or decrease for the same class, it is debited to the Asset Revaluation Reserve or recognised in the income statement respectively.

### Depreciation

Each item of property, plant and equipment (except land) is depreciated on a straight-line basis over its estimated useful life commencing when the item is available for use. A capital spare is depreciated over the useful life of the asset or class of assets to which it relates.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised as an expense unless it is included in the carrying amount of another asset.

In determining an asset's useful life consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence, and legal or similar limits on its use.

The expected useful lives of items of property, plant and equipment are as follows:

| | YEARS |
|---|---|
| Stations and related works | 200 |
| Trackwork and infrastructure | 200 |
| Non-station buildings brick | 80 |
| Non-station buildings non-brick | 50 |
| Rollingstock | 20 - 35 |
| Plant and machinery | 5 - 30 |

Each asset's useful life, residual value and depreciation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate.

### Derecognition

An item of property, plant and equipment is derecognised either on disposal or when its service potential ceases and it is not expected to have any disposal value.

On derecognition of an item of property, plant and equipment any gain or loss or any related compensation receivable is recognised in the income statement. Any revaluation increment remaining in the Asset Revaluation Reserve in respect of a derecognised asset is transferred to accumulated funds.

### PROVISIONS

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement eg employee benefits, workers' compensation claims, public liability claims and litigated (contractual and other) claims.

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

**PROVISIONS (continued)**

A provision is recognised when the following criteria are satisfied:

- there is a likely present legal or constructive obligation as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation

The amount recognised is the best estimate of the expenditure required to settle the present obligation as at reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision. Where the effect of the time value of money is material, a provision is measured using the present value of the expenditures expected to be required to settle the obligation and using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Each provision is reviewed as at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that a settlement will be required, the provision is reversed. A provision is only used for its intended purpose.

An expense and reimbursement in respect of the workers' compensation provision are presented on a net basis in the income statement.

**EQUITY ADJUSTMENTS DUE TO INDUSTRY RESTRUCTURING**

A transfer of assets (or liabilities) to (or from) another NSW public sector entity as a result of a Ministerial order to give effect to industry restructuring is treated as a distribution to (or contribution by) the Government and recognised as a direct adjustment to accumulated funds.

**FINANCIAL INSTRUMENTS**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised at fair value based on the transaction cost or face value. Any changes are accounted for in the Income Statement if impaired.

The SRA believes there are no risks, including credit, market and liquidity risks related to this balance.

There are no receivables that are past due or impaired whose terms have been renegotiated. No collateral is held and no financial guarantees have been granted.

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

### TAXATION

**Income Tax Equivalents**

The Office of State Revenue has advised that StateRail is not subject to the Tax Equivalent Regime (TER) under which it was required to pay a taxation equivalent to the NSW Government based on the accounting result.

**Goods and Services Tax**

Revenues, expenses and assets are generally recognised net of the amount of goods and services tax (GST). However, receivables and payables are stated with the amount of GST included and GST that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the relevant asset or expense.

The net amount of GST recoverable from (or payable to) the ATO is recognised as part of receivables (or payables) in the balance sheet. Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of any cash flow that is recoverable from (or payable to) the ATO is classified as an operating cash flow.

## 3. PAYMENT TO RAIL CORPORATION

During 2007-08, StateRail transferred its total cash balance of $449k to RailCorp.

## 4. CASH AND CASH EQUIVALENTS

### (a) CASH ASSETS

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| Cash at Bank | - | - |
| **Total Cash Assets** | - | - |

### (b) RECONCILIATION OF LOSS FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| **Loss for the Year** | - | ( 336) |
| Amortisation of Loan Premiums | - | - |
| Workers' Compensation Funding | - | - |
| Depreciation | - | - |
| Amortisation of Loan Discounts | - | - |
| Income Tax Equivalent Write Back | - | - |
| **Net Movements in Assets and Liabilities Applicable to Operating Activities** | | |
| (Increase)/Decrease in Receivables | - | - |
| Increase/(Decrease) in Payables | - | - |
| Increase in Provisions | - | - |
| **NET CASH FLOW USED IN OPERATING ACTIVITIES** | - | ( 336) |

## 5. ACCUMULATED FUNDS

### (a) MOVEMENT IN ACCUMULATED FUNDS

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| **Accumulated Loss at the Beginning of Year** | **-** | **336** |
| **Transactions other than with Owners as Owners** | | |
| Loss for the Year | - | ( 336) |
| Transfers from Asset Revaluation Reserve on Asset Disposal | - | - |
| **Total Transactions other than with Owners as Owners** | - | **( 336)** |
| Add Equity Distributions to Government | | |
| Net Liabilities Withdrawn for Transfer to Other Entities | - | - |
| **Total Distributions to Owners** | **-** | **-** |
| **Accumulated Funds at the End of Year** | **-** | **-** |

## 6. PROVISIONS

### (a) WORKERS COMPENSATION

The pre-1.7.1996 workers' compensation provision relates to all claims incurred prior to 1 July 1996, the date of a restructuring of the NSW rail industry. The NSW Treasury has undertaken to fund all such claims.

Commencing from 1 July 2007, the NSW Treasury has also undertaken to fund for all workers' compensation claims incurred on or after 1 July 1996.

### (b) PUBLIC LIABILITY AND LITIGATED CLAIMS

The Public Liability Claims recognises claims against the SRA that arise from personal injuries, or property damage occurring on its premises, or involving its assets.

The Litigated Claims recognises claims against the SRA arising from prosecutions or fines in relation to legislative or contractual breaches or other matters.

For these types of claims, any case incurred on or after 1 July 2007, the date after which StateRail has wound up, will be funded by the NSW Treasury.

## 7. CONTINGENT LIABILITIES

In 1991 and 1992, three Canadian cross border leases were entered into by the State Rail Authority in respect of 44 Tangara rail cars (the leases are now held by SRA Residual Holding Corporation. Total transaction value was CAN 77,163,960 (AUD 82,972,000).

Under the terms of the lease the Crown provides an indemnity to SRA in respect of all financial exposures.

Since the commencement of the Global Financial Crisis, one of the transaction party CIT Group Inc (CIT), has been adversely affected and is currently working on renegotiating and restructuring its debt obligations. Under the terms of interim funding provided to CIT by a group of investors, CIT has until 1 October 2009 to achieve agreement to a debt restructuring. In the event that this is not achieved, CIT is expected to file for Chapter 11 bankruptcy protection in the US.

### Action Taken

As this transaction involves three jurisdictions (Australia, Canada and the US), the impact of any action by CIT is unclear. Due to the potential conflicts between Australian, Canadian and US laws, there is no clear or certain answer to the position that courts would adopt.

In financial terms, the State is however, exposed to a potential contingent liability of AUD 4.722 million. The exposure to this amount could only occur should CIT file for bankruptcy and negotiations with any receiver appointed lead to the early termination of the leases.

As mentioned above there is no certainty as to the final outcome of this matter and the amounts noted above are indicative only. Further, in the event that the CIT Group is able to restructure its debt and carry on business then the existing leases would continue until their scheduled end of term and no payments would be required.

## 8. EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to reporting date requiring disclosure.

**End of Audited Financial Report**

New South Wales
TREASURY

# New South Wales Self Insurance Corporation

Financial Report for the year ended 30 June 2009

GPO BOX 12
Sydney NSW 2001

# INDEPENDENT AUDITOR'S REPORT

## NSW SELF INSURANCE CORPORATION

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the NSW Self Insurance Corporation (the Corporation), which comprises the balance sheet as at 30 June 2009, the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

### Qualified Opinion

In my opinion, except for the effect on the financial report of the matter referred to in the Basis for Qualified Auditor's Opinion paragraph below, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2009, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

### Basis for Qualified Auditor's Opinion

As disclosed in Note 2 'Summary of Significant Accounting Policies' under the heading 'Liabilities, Provisions', the Corporation has applied Accounting Standard AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' to its general insurance contracts because at the whole of government level the Corporation is a self insurance scheme. In my opinion, the Corporation should have applied Accounting Standard AASB 1023 'General Insurance Contracts' to its general insurance contracts as the Corporation meets the definition of a general insurer. While I could not carry out audit procedures to determine the actual effect of this departure, I believe that had the Corporation applied AASB 1023, liabilities would have increased by a material amount and net assets decreased by the same amount. The Corporation would have also had to make additional disclosures about its general insurance contracts. My audit report for 2008 was similarly qualified.

### The Secretary of Treasury's Responsibility for the Financial Report

The Secretary is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

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.

**Independence**

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat
Auditor-General

20 October
2009 SYDNEY

**New South Wales Self Insurance Corporation**

## STATEMENT BY DEPARTMENT HEAD

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

1. The accompanying financial report exhibits a true and fair view of the financial position of the NSW Self Insurance Corporation as at 30 June 2009 and the transactions for the year then ended; and

2. The financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, the Treasurer's Directions and relevant Australian Accounting Standards except for AASB 1023 *General Insurance Contracts*.

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

Michael Schur
Secretary, NSW Treasury and
Manager, NSW Self Insurance Corporation
20 October 2009

# New South Wales Self Insurance Corporation

## Financial Statements for the Year Ended 30 June 2009

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# New South Wales Self Insurance Corporation

## Income Statement
## for the Year Ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **INCOME** | | | |
| Premium Revenue | 3,22 | 807,014 | 795,114 |
| Reinsurance and Other Recoveries Revenue | 4,22 | 183,059 | 29,467 |
| Other | 22 | 23 | 15 |
| **Total Income** | | **990,096** | **824,596** |
| **EXPENSES** | | | |
| Claims Expenses | 6,22 | 1,064,490 | 266,648 |
| Outwards Reinsurance | 22 | 33,773 | 28,884 |
| Depreciation and Amortisation | 14,15,22 | 1,098 | 1,066 |
| Finance Costs | 17,22 | 262,567 | 269,180 |
| Management Fees | 22 | 81,256 | 83,566 |
| Investment Loss | 5,22 | 122,628 | 355,259 |
| Other | 8,22 | 41,359 | 38,307 |
| **Total Expenses** | | **1,607,171** | **1,042,910** |
| **DEFICIT BEFORE GRANT FROM / (PAYMENT TO) THE CROWN ENTITY** | | **( 617,075)** | **( 218,314)** |
| Grant from / (Payment to) the Crown Entity | 7,22 | 430,000 | ( 300,000) |
| **NET DEFICIT FOR THE YEAR** | | **( 187,075)** | **( 518,314)** |

The accompanying notes form part of these financial statements.

## New South Wales Self Insurance Corporation

## Statement of Recognised Income and Expense
## for the Year Ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | | - | - |
| Net Deficit for the Year | 20,22 | (187,075) | (518,314) |
| **TOTAL INCOME AND EXPENSES RECOGNISED FOR THE YEAR** | | **( 187,075)** | **(518,314)** |

The accompanying notes form part of these financial statements.

# New South Wales Self Insurance Corporation

## Balance Sheet
## as at 30 June 2009

| | Notes | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and Cash Equivalents | 21,23,24 | 532,757 | 150,321 |
| Receivables | 9,23,24 | 503,795 | 93,325 |
| Reinsurance and Other Recoveries Receivable | 10,23,24 | 64,688 | 34,223 |
| Financial Assets at Fair Value | 12,23,24 | 79,886 | 81,715 |
| Derivative Financial Instruments | 11,23,24 | 1,519 | 3,168 |
| Other | 13,23 | 1 | 15 |
| **Total Current Assets** | | **1,182,646** | **362,767** |
| **NON-CURRENT ASSETS** | | | |
| Reinsurance and Other Recoveries Receivable | 10,23,24 | 295,786 | 146,284 |
| Financial Assets at Fair Value | 12,23,24 | 3,719,050 | 4,054,035 |
| Property, Plant and Equipment | 14,23 | 213 | 368 |
| Intangibles | 15,23 | 1,638 | 2,432 |
| Other | 13,23 | 33 | 42 |
| **Total Non-Current Assets** | | **4,016,720** | **4,203,161** |
| **TOTAL ASSETS** | | **5,199,366** | **4,565,928** |
| **CURRENT LIABILITIES** | | | |
| Payables | 16,23,24 | 115,218 | 120,452 |
| Provision for Outstanding Claims | 17,23 | 723,321 | 645,643 |
| Other | 19,23 | 3,474 | 8,019 |
| **Total Current Liabilities** | | **842,013** | **774,114** |
| **NON-CURRENT LIABILITIES** | | | |
| Provision for Outstanding Claims | 17,23 | 4,249,351 | 3,461,524 |
| Provision for Restoration | 18,23 | 60 | 56 |
| **Total Non-Current Liabilities** | | **4,249,411** | **3,461,580** |
| **TOTAL LIABILITIES** | | **5,091,424** | **4,235,694** |
| **NET ASSETS** | | **107,942** | **330,234** |
| **EQUITY** | | | |
| Retained Surplus | 20,23 | 107,942 | 330,234 |
| | | **107,942** | **330,234** |

The accompanying notes form part of these financial statements.

# New South Wales Self Insurance Corporation
## Cash Flow Statement
## for the Year Ended 30 June 2009

| | Notes | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **RECEIPTS** | | | |
| Premiums Received | | 930,313 | 942,534 |
| Premiums - Hindsight Adjustment Received | | 42,201 | 99,813 |
| Interest Income | | 3,392 | 3,932 |
| Investment Income | | 210,791 | 229,038 |
| Reinsurance and Other Recoveries | | 3,231 | 35,920 |
| GST Refunds | | 26,677 | 26,594 |
| Grant from the Crown Entity | | 40,000 | - |
| Other | | 23 | 15 |
| **Total Receipts** | | **1,256,628** | **1,337,846** |
| **PAYMENTS** | | | |
| Claims and Expenses Paid | | ( 567,574) | ( 786,111) |
| Premiums - Hindsight Adjustment Paid | | ( 99,448) | ( 139,008) |
| Management Fees Paid | | ( 90,171) | ( 91,924) |
| GST Paid | | ( 83,031) | ( 87,730) |
| Outwards Reinsurance Expense | | ( 35,478) | ( 30,844) |
| Payment to the Crown Entity | | - | ( 300,000) |
| **Total Payments** | | **( 875,702)** | **( 1,435,617)** |
| **NET CASH FLOWS USED IN OPERATING ACTIVITIES** | 21 | **380,926** | **( 97,771)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from Sale of Investments | | 1,304,804 | 948,747 |
| Purchase of Investments | | ( 1,303,146) | ( 800,064) |
| Purchase of Property, Plant and Equipment and Intangibles | | ( 148) | ( 352) |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **1,510** | **148,331** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **382,436** | **50,560** |
| Cash and Cash Equivalents at the Beginning of Year | | 150,321 | 99,761 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 21 | **532,757** | **150,321** |

The accompanying notes form part of these financial statements.

## 1. NSW SELF INSURANCE CORPORATION INFORMATION

The NSW Self Insurance Corporation (SICorp) is a statutory body that largely provides self-insurance coverage for general government budget-dependent agencies. Its main business address is Level 17, 201 Elizabeth Street Sydney NSW 2000.

SICorp is a not-for-profit entity which includes all the assets, liabilities, rights and obligations of the:

- NSW Treasury Managed Fund (TMF)
- Pre-Managed Fund Reserve
- Governmental Workers Compensation Account (GWC)
- Transport Accidents Compensation Fund (TAC)
- Residual Workers Compensation Liabilities of the Crown

SICorp operates under the *NSW Self Insurance Corporation Act 2004* and the *Public Finance and Audit Act 1983*. SICorp was previously the Insurance Ministerial Corporation, under section 24 of the *Government Insurance Office (Privatisation) Act 1991*.

The claims management arrangement of SICorp is shared between:

- GIO General Limited (GIO)
- Allianz Insurance Australia (Allianz)
- Employers Mutual Limited (EML)

The current contract with the existing claims managers commenced on 1 July 2005 and is subject to public tender, which occur at least every five years.

The claim managers receive a management fee to administer the following funds:

### NSW Treasury Managed Fund

The NSW Treasury Managed Fund (TMF) is SICorp's main insurance scheme. It is a self-insurance scheme that protects the insurable assets and exposures of:

- all public sector agencies financially dependent on the Consolidated Fund
- all public hospitals
- various statutory authorities

### Pre-Managed Fund Reserve

The Pre-Managed Fund Reserve holds the reserves previously held in the Fire Risks Account, the Fidelity Fund, and the Public Liability Fund. It has been used to fund claims the NSW Government incurred before 1 July 1989 which the government previously met, in particular GWC claims. These claims are now funded directly from the Consolidated Fund.

Pre-Managed Fund Reserve annual reporting accounts have been consolidated with the TMF from 2000-01.

## 1. NSW SELF INSURANCE CORPORATION INFORMATION (continued)

**Governmental Workers Compensation Account**

The Governmental Workers Compensation Account (GWC) pays the outstanding workers compensation claims liabilities as at 30 June 1989 of the:

- Consolidated Revenue Fund
- Public Hospitals
- RTA Managed Fund

From 1 July 1989, the TMF has handled workers compensation insurance for these agencies.

**Transport Accidents Compensation Fund**

The Transport Accidents Compensation Fund (TAC) pays for motor transport accident claims under the common law system which applied until 30 June 1987 and TransCover system claims costs from then until 30 June 1989. The Intermediate Claims provisions of the Motor Accidents Scheme retrospectively replaced TransCover.

**Residual Workers Compensation Liabilities of the Crown**

Residual workers compensation liabilities include those from the former State Rail Authority of NSW (SRA) and Rail Infrastructure Corporation (RIC).

The liabilities of the SRA were initially vested to the Crown Finance Entity pursuant to amendments to the *Transport Administration Act 1988 (TAA)* that provided for the restructuring of the Rail Industry. The liabilities of RIC were transferred to the Crown Finance Entity following Section 94 and Order No. 2008-01 of the TAA which took effect from 1 October 2008.

SICorp took over the management of SRA's liabilities on 1 July 2008 from the Crown Finance Entity. RIC's liabilities were also transferred to SICorp effective from 1 October 2008.

A transfer of assets or liabilities to or from another NSW public sector entity as a result of a Ministerial Order to give effect to industry restructure is treated as a distribution or contribution by the Government and recognised as a direct adjustment to contributed equity. Refer to Note 20.2 for details.

The accounts are consolidated into SICorp's Parent, the Crown Entity.

This financial report was authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement by the Secretary was signed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Preparation**

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the:

- Public Finance and Audit Act 1983
- Public Finance & Audit Regulation 2005
- Treasury Accounting Policy Statements

The report also complies with applicable Australian Accounting Standards which include Australian Accounting Interpretations except for AASB 1023 *General Insurance Contracts*.

The financial report has been prepared on a historical cost basis, except for:

- Derivative financial instruments
- Financial assets designated as fair value through profit and loss
- Provision for outstanding claims

These have been measured at fair value.

The financial report is presented in Australian dollars and all amounts are rounded to the nearest thousand dollars ($'000).

**Use of Estimates and Judgements**

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made.

*Classification and Valuation of Investments*
SICorp classifies its investments as fair value through profit and loss. The fair value has been determined by reference to the underlying value provided by the Portfolio Manager.

*Valuation of Derivative Financial Instruments*
The fair values of derivatives are determined by reference to the market value for similar instruments.

Where an active market exists, fair values are determined by reference to the specific market quoted prices/yields at the year end. If no active market exists, judgement is used to select the valuation technique which best estimates fair value by discounting the expected future cash flows arising from the securities to their present value using market yields and margins appropriate to the securities. These margins take into account credit quality and liquidity of the securities.

*Reinsurance and Other Recoveries Revenue*
SICorp purchases reinsurance for losses above their predetermined retention levels to avoid the impact of financial losses associated with large claims or incidents. When claims arise above the reinsurance excess level, the cost of claims is recoupable from SICorp's reinsurer.

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

*Provision for Outstanding Claims*
The provision for outstanding claims is determined by the independent actuaries in consultation with the claims managers for NSW Treasury Managed Fund, Transport Accident Compensation Fund, Governmental Workers Compensation Account, RIC and SRA. It is measured as the best estimate of the expected future payments required to settle the present obligation at the reporting date.

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".

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 17.

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

### Comparative

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

### Statement of Compliance

The financial report complies with applicable Australian Accounting Standards including Australian Accounting Interpretations except for AASB 1023 *General Insurance Contracts*.

Certain new standards and interpretations have been published which are not mandatory for 30 June 2009 reporting period. SICorp has decided not to early adopt any of these standards and interpretations. It is considered that the impact of these in future periods will have no material impact on the financial statements of SICorp.

### REVENUE

Revenue is recognised as probable economic benefits to SICorp that can be reliably measured. The following criteria are used to identify revenue:

### Premium Revenue

Premium revenue is the cost to member agencies of insurance cover from 1 July each year.

Premiums are recognised to income over the period of the insured risk.

### Reinsurance and Other Recoveries Revenue

Reinsurance recoveries are recognised as revenue on actuarial assessment. Other recoveries include recoveries of claims paid under:

- sharing agreements
- third party recoveries
- salvage and subrogation

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

**Investment Income**

Investment income includes interest income and net gains or losses from changes in the fair value of investments.

Interest revenue is recognised as interest accrues.

**EXPENSES**

**Outwards Reinsurance Expense**

Premiums ceded to re-insurers are recognised as an expense in line with the indemnity period of the corresponding reinsurance contract.

**Claims Expenses**

Claims expenses are recognised as expenses on actuarial assessment and include movements in outstanding provisions.

**Finance Costs**

Finance costs include the unwinding of discounts for the provision of outstanding claims and restoration costs.

These are recognised as an expense when incurred.

**Depreciation of Property, Plant and Equipment**

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific asset.

The useful lives of depreciable asset categories are:

- office equipment: 7 years
- furniture and fittings: 5 to 10 years
- computer hardware: 4 years

**Amortisation of Intangible Assets**

Computer software costs are amortised on a straight line basis over 5 years.

**Grant from / (Payment to) the Crown Entity**

Pursuant to the Net Assets Holding Level Policy, SICorp will make payments to the Crown Entity or receive funding to maintain the required level of net assets. Further information on the policy is included in Note 7.

The payments are recognised as expenses when they are paid or payable.  Grants are recognised as revenues when they are received or due to be received.

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

### Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*SICorp as a lessee*
The operating lease relates to the rental of office space, the principal business address of SICorp. It is a non-cancellable lease with a term of six years and an option to extend for a further four years. A rental review is taken biannually to effective market prices.

On expiration of the lease, the rental premise is to be returned to its original condition. A provision for restoration has been taken up.

The operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

### Income Tax

Income from the funds of SICorp are exempt from income tax under S23 (d) of the *Income Tax Assessment Act 1936*.

### ASSETS

### Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise:

- deposit held at call with banks
- investments in NSW Treasury Corporation Hour-Glass Cash Facility
- investments in money market instruments

The Cash Flow Statement shows these cash and cash equivalents net of outstanding bank overdraft(s).

### Investments

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value. SICorp classifies its financial assets after initial recognition and, when allowed and appropriate, it re-evaluates this at each year-end.

*Financial assets at fair value*
Financial assets are designated at fair value through profit and loss as they are managed and their performance is evaluated on a fair value basis. Gains and losses are recognised in the Income Statement.

Investments comprise of NSW Treasury Corporation (TCorp) Managed Bond portfolio and Hour-Glass investment facilities and are classified as fair value through profit and loss.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Derivative Financial Instruments*

SICorp uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value at the date on which the derivative contract is entered into and are subsequently measured at fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value for derivatives are shown after net-off of transactions with the same counter-party.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the Income Statement.

Fair values of interest rate contracts are calculated by reference to market values for similar contracts.

**Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets, for example taxes and premiums, are short-term to be carried at original invoice amount as the effect of discounting is immaterial.

The collection of trade receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off as incurred.

**Reinsurance and Other Recoveries Receivable**

Receivables from reinsurance and other recoveries are actuarially assessed.

The amount of reinsurance and other recoveries receivables is equal to gross case estimated costs plus gross payments to date less the retention limit less reinsurance recoveries received to date. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 17).

An explicit allowance has been made in respect of Liability claims arising in respect of Hepatitis C. As recoveries from Hepatitis C claims are funded by the Commonwealth, default risk is considered negligible. In relation to other recoveries, around half of these are recoverable from the Motor Accidents Authority, for which default risk is also negligible.

There has not been any key assumption made around the amounts recoverable that would have a significant risk of causing a material adjustment to the carrying amount of these assets within the next annual reporting period.

**Property, Plant and Equipment**

Office furniture, equipment and computer hardware are recorded at cost plus any incidental acquisition costs. All items are carried at cost less accumulated depreciation, as surrogate for fair value.

The depreciation expense on property, plant and equipment is recognised in the depreciation and amortisation line of the Income Statement.

No revaluation is undertaken on these assets as the difference between fair value in continued use and carrying value is immaterial.

**Intangible assets**

Intangible assets include capitalised expenditures for the Data Warehouse and computer softwares.

Intangibles are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation.

The amortisation expense on intangible assets is recognised in profit or loss in the depreciation and amortisation line of the Income Statement.

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

### Impairment of Assets

As a not-for-profit entity with no cash generating units, SICorp is effectively exempt from AASB 136 *Impairment of Assets* and impairment testing. AASB 136 defines recoverable amount as the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

### LIABILITIES

### Provisions

Provisions are recognised when SICorp has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The liability for claims includes:

- claims incurred but not yet paid
- incurred but not yet reported

When it is virtually certain that some or all of a provision will be reimbursed, as in an insurance contract, the reimbursement is recognised as a separate asset.

Where there is a material effect due to the time value of money, a provision is discounted. The increase in the provision resulting from the passage of time is recognised in finance costs.

Under Australian Accounting Standards, the Pre-Managed Fund Reserve, the GWC, the TAC, RIC and SRA are required to adopt AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. SICorp's main insurance scheme, the TMF, is required to comply with AASB 1023 *General Insurance Contracts*.

However, at the General Government and Total State Sector reporting levels SICorp is considered a public sector self insurance scheme resulting in the adoption of AASB 137 for all of the Corporation's activities. To provide enhanced consistency, reliability, relevance and comparability of the financial information for users of the financial statements, AASB 137 is applied across all SICorp's activities including the TMF.

### Trade and other payables

Trade and other payables are carried at cost and are liabilities for goods and services provided, but not paid for prior to the end of the financial year. This occurs when SICorp becomes obliged to make future payments in respect of goods and services, even if it has not been billed for them.

Like receivables, these are short-term and are carried at original invoice amount as the effect of discounting is immaterial.

### Goods and Service Taxes

Revenue, expenses and assets are recognised net of Goods and Services Tax (GST), except:

- where the GST is either part of the cost of acquiring an asset, or part of an item of expense not recoverable from the Australian Tax Office
- for receivables and payables which are stated with the amount of GST included

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

Cash flows are included in the Cash Flow Statement on a gross basis. The GST recoverable or payable on cash flows from investing and financing activities are classified as operating cash flows.

## 3. PREMIUM REVENUE

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Tariff Premium | 848,176 | 854,401 |
| Hindsight Adjustments | ( 41,162) | ( 59,287) |
| | **807,014** | **795,114** |

Motor vehicle hindsight adjustment for 2006/07, workers compensation final hindsight adjustments for 2002/03 and interim hindsight adjustments for 2004/05 were paid in 2008/09.

Payments of the workers compensation final hindsight adjustments for 2003/04 and interim hindsight adjustments for 2005/06 will be paid in 2009/10.

## 4. REINSURANCE & OTHER RECOVERIES REVENUE

| | | |
|---|---|---|
| Recoveries Revenue | 41,204 | 35,552 |
| Movement in Outstanding Recoveries[1] | 141,855 | ( 6,085) |
| | **183,059** | **29,467** |

1. Movement in outstanding recoveries represent the increase / (decrease) in the actuarially assessed level of reinsurance and other recoveries receivable at reporting date.

The movement in outstanding recoveries for 2009 represents discounted expected future recoveries at 30 June 2009 ($360.5 million) less closing balance at 30 June 2008 ($180.5 million). Refer to Note 10 for further details. The movement excludes the reinsurance recoveries receivable ($38.1 million) from the residual workers compensation liabilities of SRA and RIC that were transferred to SICorp during 2008-09. Refer to Note 1 for further details.

## 5. INVESTMENT LOSS

| | | |
|---|---|---|
| Bank Interest | 3,392 | 3,931 |
| Revenue from Financial Assets Held at Fair Value | | |
| Bond Portfolio | 99,930 | 141,512 |
| Hour-Glass Facility | ( 353,147) | ( 458,071) |
| Gains/(Losses) from Financial Assets Held at Fair Value | | |
| Derivative Financial Instruments - Held for Trading | 21,115 | ( 9,445) |
| Bond Portfolio - Designated as at Fair Value | 106,082 | ( 33,186) |
| | **( 122,628)** | **( 355,259)** |

## 6. CLAIMS EXPENSES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Claims | 715,680 | 685,103 |
| Movement in Outstanding Claims[1] | 348,810 | ( 418,455) |
| | **1,064,490** | **266,648** |

1. Movement in outstanding claims represent the increase / (decrease) in provision for outstanding claims liabilities excluding the increase in provisions due to the unwinding of discounts during the year. The increase in the carrying amount of a provision due to the passage of time is recognised as a finance cost.

In 2008, there were substantial one-off reductions in the actuarial assessment of the value of outstanding claims due to improved trends in claims experience. In 2009, outstanding claims were increased due to the interest rate adjustment, legislative changes and changes in claims trends.

## 7. GRANT FROM / (PAYMENT TO) THE CROWN ENTITY

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Grant from / (Payment to) the Crown Entity | 430,000 | ( 300,000) |
| | **430,000** | **( 300,000)** |

Pursuant to SICorp's Net Assets Holding Level Policy, the Corporation will make payments to and receive payments from the Crown Entity to maintain the required level of net assets.

The Policy, established in March 2006, takes into consideration the following:

- the probability of poor investment returns for the year(s), and/or
- the possibility of a deterioration in claims experience, and/or
- the impact of a major claim, either not covered by reinsurance protection or exhausting the reinsured retention level

The Policy dictates that the target surplus assets held for SICorp to be the sum of 10 per cent of outstanding claims liabilities of the TMF plus the amount absorbed by the fund of any one claim exceeding the reinsurance retention level. Net assets in surplus of the required holding level are paid to Crown Entity and net assets in deficit will be covered through payments from the Crown Entity. The adequacy of the fund's net assets level is reviewed annually based on the financial results as at 31 December.

## 8. OTHER EXPENSES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Levies Paid to: | | |
| Dust Diseases | 7,032 | 4,352 |
| WorkCover Authority of NSW | 18,493 | 19,115 |
| Investment Management Fees | 1,510 | 1,946 |
| Risk Management Fees | 1,691 | 1,624 |
| Actuarial Expenses | | |
| Pricewaterhouse Coopers | 5,431 | 4,289 |
| Taylor Fry | 268 | 324 |
| Storage Costs | 335 | 384 |
| Maintenance | 1,497 | 1,671 |
| Bank Charges | 34 | 33 |
| Audit Fees - Audit of Financial Report | 157 | 171 |
| Consultancy | 1,814 | 245 |
| Reinsurer Administration Fees | - | 1,103 |
| Personnel Services Fees | 2,046 | 1,809 |
| Operating Lease Rental Expenses | 328 | 316 |
| Recoveries Written-Off | - | 130 |
| Other | 723 | 795 |
| | **41,359** | **38,307** |

## 9. RECEIVABLES

**Current**

| | | |
|---|---|---|
| Premiums Receivable | 102,747 | 87,675 |
| Grant from the Crown Entity | 390,000 | - |
| Other | 11,048 | 5,650 |
| | **503,795** | **93,325** |

Other receivables are non-interest bearing and are generally on 30 day terms.

## 10. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Expected Future Recoveries (Undiscounted) | 490,440 | 264,599 |
| Discount to Present Value | ( 129,929) | ( 84,058) |
| | 360,511 | 180,541 |
| Outstanding Reinsurance and Other Recoveries on Paid Claims | ( 37) | ( 34) |
| | **360,474** | **180,507** |
| Current | 64,688 | 34,223 |
| Non-Current | 295,786 | 146,284 |
| | **360,474** | **180,507** |

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

| | | |
|---|---|---|
| **Current Assets** | | |
| Interest Rate Futures | 1,519 | 3,168 |
| **Amount receivable under derivative financial instruments** | **1,519** | **3,168** |

Interest rate swap contracts were used by SICorp to naturally hedge exposure to fluctuations in interest rates affecting investment returns.

The NSW Treasury Corporation (TCorp) has been appointed to manage SICorp's investments. It is authorised to invest in derivative financial instruments under clearly defined limits. Derivative contracts are not used for speculative purposes.

TCorp may use the following derivative financial instruments:

- Exchange traded interest rate futures contracts
- Exchange traded interest rate options
- Interest rate swaps
- Currency and basis swaps

At 30 June, the nominal principal amounts and period of expiry of the derivatives are as follows:

| | | |
|---|---|---|
| Less than one year | 1,519 | 3,168 |
| | **1,519** | **3,168** |

## 12. FINANCIAL ASSETS AT FAIR VALUE

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | | |
| Bond Portfolio | 79,886 | 81,715 |
| | **79,886** | **81,715** |
| **Non-Current** | | |
| Hour-Glass Investments | | |
| Australian Shares | 811,788 | 677,646 |
| Indexed Australian Shares | 223,873 | 188,593 |
| International Shares | 720,106 | 754,062 |
| Indexed International Shares | 291,534 | 237,636 |
| Listed Property | 213,066 | 199,894 |
| International Bonds | 357,632 | 393,948 |
| Medium-Term Growth | 163,503 | 96,476 |
| Long-Term Growth | 163,851 | 95,573 |
| Bond Portfolio | 773,697 | 1,410,207 |
| | **3,719,050** | **4,054,035** |
| | **3,798,936** | **4,135,750** |

At 30 June 2009, total investments of SICorp are financial assets designated at fair value through profit and loss.

## 13. OTHER ASSETS

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | | |
| Prepayments | 1 | 15 |
| | **1** | **15** |
| **Non-Current** | | |
| Deferred Restoration Costs | 33 | 42 |
| | **33** | **42** |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| **Computer Hardware** | | |
| Cost | 714 | 688 |
| Accumulated Depreciation | ( 600) | ( 438) |
| Net Computer Hardware | **114** | **250** |
| **Office Equipment** | | |
| Cost | 56 | 56 |
| Accumulated Depreciation | ( 21) | ( 13) |
| Net Office Equipment | **35** | **43** |
| **Furniture and Fittings** | | |
| Cost | 107 | 107 |
| Accumulated Depreciation | ( 43) | ( 32) |
| Net Furniture and Fittings | **64** | **75** |
| **Total Property, Plant and Equipment** | | |
| Cost | 877 | 851 |
| Accumulated Depreciation | ( 664) | ( 483) |
| Net Property, Plant and Equipment | **213** | **368** |

**Reconciliations**

*Reconciliations of carrying amount for each class of property, plant & equipment*

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| **Computer Hardware** | | |
| Net Carrying Amount at the Beginning of Year | 250 | 393 |
| Additions | 26 | 24 |
| Depreciation Expense | ( 162) | ( 167) |
| Balance at Year End | **114** | **250** |
| **Office Equipment** | | |
| Net Carrying Amount at the Beginning of Year | 43 | 19 |
| Additions | - | 29 |
| Depreciation Expense | ( 8) | ( 5) |
| Balance at Year End | **35** | **43** |
| **Furniture and Fittings** | | |
| Net Carrying Amount at the Beginning of Year | 75 | 86 |
| Depreciation Expense | ( 11) | ( 11) |
| Balance at Year End | **64** | **75** |
| **Total Property, Plant and Equipment** | | |
| Net Carrying Amount at the Beginning of Year | 368 | 498 |
| Additions | 26 | 53 |
| Depreciation Expense | ( 181) | ( 183) |
| Balance at Year End | **213** | **368** |

## 15. INTANGIBLES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Computer Software** | | |
| Cost | 4,667 | 4,544 |
| Accumulated Amortisation | ( 3,029) | ( 2,112) |
| Net Computer Software | **1,638** | **2,432** |

**Reconciliation**

*Reconciliation of Carrying Amount*

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Computer Software** | | |
| Net Carrying Amount at the Beginning of Year | 2,432 | 3,016 |
| Additions | 123 | 299 |
| Amortisation | ( 917) | ( 883) |
| Balance at Year End | **1,638** | **2,432** |

## 16. PAYABLES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| GST Payable | 83,790 | 76,671 |
| Management Fees Payable | 24,153 | 35,160 |
| Other | 7,275 | 8,621 |
| | **115,218** | **120,452** |

Payables are non-interest bearing and are generally on 30 day terms.

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 for late payment.

## 17. PROVISION FOR OUTSTANDING CLAIMS

| | TMF $'000 | GWC $'000 | TAC $'000 | Other $'000 | 2009 Total $'000 | 2008 Total $'000 |
|---|---|---|---|---|---|---|
| Balance at the Beginning of Year | 3,863,150 | 65,204 | 178,813 | - | 4,107,167 | 4,306,349 |
| Transfer - In | - | - | - | 250,660 | 250,660 | - |
| Additions | 714,867 | - | - | 813 | 715,680 | 685,103 |
| Payments | ( 672,268) | ( 4,900) | ( 13,416) | ( 15,021) | ( 705,605) | ( 735,008) |
| Actuarial (Gain) / Loss[1] | 334,115 | ( 3,104) | 11,272 | ( 80) | 342,203 | ( 418,457) |
| Unwinding of Discounts | 246,413 | 4,070 | 12,084 | - | 262,567 | 269,180 |
| Balance at the End of Year | **4,486,277** | **61,270** | **188,753** | **236,372** | **4,972,672** | **4,107,167** |
| Current | 687,529 | 4,595 | 13,476 | 17,721 | 723,321 | 645,643 |
| Non-Current | 3,798,748 | 56,675 | 175,277 | 218,651 | 4,249,351 | 3,461,524 |
| | **4,486,277** | **61,270** | **188,753** | **236,372** | **4,972,672** | **4,107,167** |

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.44 years for TMF (2008: 6.17 years), 9 years for GWC (2008: 9.32 years) and 20.73 years for TAC Fund (2008: 17.93 years).

(b) The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

| | TMF | | GWC | | TAC | |
|---|---|---|---|---|---|---|
| | 2009 % | 2008 % | 2009 % | 2008 % | 2009 % | 2008 % |
| Not later than one year | | | | | | |
| Inflation Rate | 2.5 - 4.0 | 2.8 - 4.5 | 4.0 | 4.5 | 4.0 | 4.5 |
| Discount Rate[1] | 6.0 | 7.0 | 6.0 | 7.0 | 6.0 | 7.0 |
| Superimposed Inflation* | 0 - 10.0 | 0 - 10.0 | 0 - 2.5 | 0 - 3.0 | 0 - 2.0 | 0 - 2.5 |
| Later than one year | | | | | | |
| Inflation Rate | 2.5 - 4.0 | 2.5 - 4.0 | 4.0 | 4.5 | 4.0 | 4.5 |
| Discount Rate[1] | 6.0 | 7.0 | 6.0 | 7.0 | 6.0 | 7.0 |
| Superimposed Inflation* | 0 - 10.0 | 0 - 10.0 | 0 - 2.5 | 0 - 3.0 | 0 - 2.0 | 0 - 2.5 |

* Dependent on payment type

[1.] The change in discount rate from 7 per cent to 6 percent contributed to the actuarial loss for the current financial year. The actuarial loss is estimated to be $200.4 million for TMF, $4.7 million for GWC and $31.6 million for TAC.

## 18. PROVISION FOR RESTORATION

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Balance at the Beginning of Year | 56 | 53 |
| Unwinding of Discounts | 4 | 3 |
| Balance at the End of Year | **60** | **56** |

## 19. OTHER LIABILITIES

| | | |
|---|---|---|
| Premium Received in Advance | 3,177 | 8,019 |
| Other | 297 | - |
| | **3,474** | **8,019** |

## 20. EQUITY

### 20.1 Retained Surplus

| | | |
|---|---|---|
| **Balance at the Beginning of Year** | 330,234 | 848,548 |
| Vesting of Assets and Liabilities from RIC and SRA (Note 20.2) | ( 35,217) | - |
| Restated Opening Balance | 295,017 | 848,548 |
| Current Year Deficit | ( 187,075) | ( 518,314) |
| **Balance at the End of Year** | **107,942** | **330,234** |

### 20.2 Net Assets and Liabilities Received Through Equity Contributions

(a) As part of the restructure of NSW Rail Industry, the Minister for Transport ordered the transfer of the following assets and liabilities to SICorp during the year. The net transfers have been treated as equity contributions by the Government and recognised as direct adjustments to equity.

(b) Vesting of Assets and Liabilities from RIC and SRA

| | | |
|---|---|---|
| **Assets Transferred In** | | |
| Cash and Cash Equivalents | 1,303 | - |
| Receivables | 76,605 | - |
| Investments | 138,500 | - |
| **Total Assets** | **216,408** | **-** |
| **Liabilities Transferred In** | | |
| Payables | 965 | - |
| Provision (RIC / SRA) | 250,660 | - |
| **Total Liabilities** | **251,625** | **-** |
| **Net Liabilities Received** | **( 35,217)** | **-** |

## 21. NOTES TO THE CASH FLOW STATEMENT

### Reconciliation of Cash and Cash Equivalents

Cash and Cash Equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Cash and Cash Equivalents | | |
| Short Term Money Market Investments | 427,755 | 48,342 |
| Cash Held at Other Financial Institutions | 105,002 | 101,979 |
| | **532,757** | **150,321** |

Included in the cash and cash equivalents is a restricted amount of $Nil (2008: $1.6 million) relating to funds being held on behalf of other parties.

### Reconciliation of Net Deficit for the Year to Net Cash Flows From Operating Activities

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Net Deficit for the Year** | **( 187,075)** | **( 518,314)** |
| Adjustments for: | | |
| Depreciation and Amortisation | 1,098 | 1,066 |
| Unrealised Loss in Investments | 336,805 | 588,185 |
| Unwinding of Discounts | 262,567 | 269,180 |
| Actuarial Loss/(Gain) | 592,863 | ( 418,457) |
| Decrease in Outstanding Claims | ( 25,142) | ( 49,905) |
| Decrease in Payables | ( 5,234) | ( 3,244) |
| (Decrease)/Increase in Other Liabilities | ( 4,545) | 4,688 |
| Increase in Provision for Restoration | 4 | 3 |
| (Increase)/Decrease in Receivables | ( 410,471) | 22,790 |
| (Increase)/Decrease in Reinsurance and Other Recoveries Receivable | ( 179,967) | 6,243 |
| Decrease/(Increase) in Other Assets | 23 | ( 6) |
| **Net Cash Flows from Operating Activities** | **380,926** | **( 97,771)** |

## 22. INCOME STATEMENT OF FUNDS

| | TMF<br>$'000 | GWC<br>$'000 | TAC<br>$'000 | Other<br>$'000 | 2009 Total<br>$'000 | 2008 Total<br>$'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Premiums | 807,014 | - | - | - | 807,014 | 795,114 |
| Reinsurance and Other Recoveries | 183,168 | ( 1,393) | 492 | 792 | 183,059 | 29,467 |
| Other | 16 | - | - | 7 | 23 | 15 |
| **Total Revenue** | **990,198** | **( 1,393)** | **492** | **799** | **990,096** | **824,596** |
| **Expenses** | | | | | | |
| Claims | 1,048,986 | ( 3,104) | 11,272 | 7,336 | 1,064,490 | 266,648 |
| Outwards Reinsurance | 33,773 | - | - | - | 33,773 | 28,884 |
| Depreciation and Amortisation | 1,098 | - | - | - | 1,098 | 1,066 |
| Finance Costs | 246,413 | 4,070 | 12,084 | - | 262,567 | 269,180 |
| Management Fees | 79,056 | - | - | 2,200 | 81,256 | 83,566 |
| Investment Loss | 107,957 | 2,608 | 6,113 | 5,950 | 122,628 | 355,259 |
| Other | 41,035 | 43 | 57 | 224 | 41,359 | 38,307 |
| **Total Expenses** | **1,558,318** | **3,617** | **29,526** | **15,710** | **1,607,171** | **1,042,910** |
| **DEFICIT BEFORE GRANT FROM / (PAYMENT TO) THE CROWN ENTITY** | **( 568,120)** | **( 5,010)** | **( 29,034)** | **( 14,911)** | **( 617,075)** | **( 218,314)** |
| Grant from / (Payment to) the Crown Entity | 405,000 | - | 25,000 | - | 430,000 | ( 300,000) |
| **NET DEFICIT FOR THE YEAR** | **( 163,120)** | **( 5,010)** | **( 4,034)** | **( 14,911)** | **( 187,075)** | **( 518,314)** |

## 23. BALANCE SHEET FOR FUNDS

| | TMF | GWC | TAC | Other | 2009 Total | 2008 Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **CURRENT ASSETS** | | | | | | |
| Cash and Cash Equivalents | 522,968 | 3,015 | 3,331 | 3,443 | 532,757 | 150,321 |
| Receivables | 492,557 | - | - | 11,238 | 503,795 | 93,325 |
| Reinsurance and Other Recoveries Receivable | 63,118 | 125 | 90 | 1,355 | 64,688 | 34,223 |
| Financial Assets at Fair Value | 79,886 | - | - | - | 79,886 | 81,715 |
| Derivative Financial Instruments | 1,519 | - | - | - | 1,519 | 3,168 |
| Other | 1 | - | - | - | 1 | 15 |
| **Total Current Assets** | **1,160,049** | **3,140** | **3,421** | **16,036** | **1,182,646** | **362,767** |
| **NON-CURRENT ASSETS** | | | | | | |
| Reinsurance and Other Recoveries Receivables | 256,792 | 1,131 | 1,103 | 36,760 | 295,786 | 146,284 |
| Financial Assets at Fair Value | 3,391,696 | 53,648 | 139,431 | 134,275 | 3,719,050 | 4,054,035 |
| Property, Plant and Equipment | 213 | - | - | - | 213 | 368 |
| Intangibles | 1,638 | - | - | - | 1,638 | 2,432 |
| Other | 33 | - | - | - | 33 | 42 |
| **Total Non-Current Assets** | **3,650,372** | **54,779** | **140,534** | **171,035** | **4,016,720** | **4,203,161** |
| **TOTAL ASSETS** | **4,810,421** | **57,919** | **143,955** | **187,071** | **5,199,366** | **4,565,928** |
| **CURRENT LIABILITIES** | | | | | | |
| Payables | 114,353 | 16 | 23 | 826 | 115,218 | 120,452 |
| Provision for Outstanding Claims | 687,529 | 4,595 | 13,476 | 17,721 | 723,321 | 645,643 |
| Other | 3,474 | - | - | - | 3,474 | 8,019 |
| **Total Current Liabilities** | **805,356** | **4,611** | **13,499** | **18,547** | **842,013** | **774,114** |
| **NON-CURRENT** | | | | | | |
| Provision for Outstanding Claims | 3,798,748 | 56,675 | 175,277 | 218,651 | 4,249,351 | 3,461,524 |
| Provision for Restoration | 60 | - | - | - | 60 | 56 |
| **Total Non-Current Liabilities** | **3,798,808** | **56,675** | **175,277** | **218,651** | **4,249,411** | **3,461,580** |
| **TOTAL LIABILITIES** | **4,604,164** | **61,286** | **188,776** | **237,198** | **5,091,424** | **4,235,694** |
| **NET ASSETS** | **206,257** | **( 3,367)** | **( 44,821)** | **( 50,127)** | **107,942** | **330,234** |
| **EQUITY** | | | | | | |
| Retained Surplus / (Deficit) | 206,257 | ( 3,367) | ( 44,821) | ( 50,127) | 107,942 | 330,234 |
| | **206,257** | **( 3,367)** | **( 44,821)** | **( 50,127)** | **107,942** | **330,234** |

## 24. FINANCIAL INSTRUMENTS

SICorp's principal financial instruments are outlined below. These financial instruments arise directly from SICorp's operations or are required to finance those operations. SICorp does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

SICorp's main risks arising from financial instruments are outlined below, together with SICorp's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included through this financial report.

Management has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by SICorp, set risk limits and controls, and monitor risks.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund insurance liabilities.

Note 2 details the key accounting policies and methods which include the recognition criteria, the basis of measurement and the income and expenses recognition for each class of financial instrument.

**Financial Instrument Categories**

| | Note | Category | Carrying Amount 2009 $'000 | Carrying Amount 2008 $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and Cash Equivalents | 21 | N/A | 532,757 | 150,321 |
| Financial Assets at Fair Value | 12 | At fair value through profit or loss (designated as such upon initial recognition) | 3,798,936 | 4,135,750 |
| Derivative Financial Instruments | 11 | At fair value through profit or loss (classified as held for trading) | 1,519 | 3,168 |
| Receivables | 9, 10 | Receivables (measured at cost) | 864,269 | 273,832 |
| **Financial Liabilities** | | | | |
| Payables[1] | 16 | Payables (measured at cost) | 30,722 | 43,066 |

1. Excludes statutory payables of $84.5 million (2008: $77.4 million).

## 24. FINANCIAL INSTRUMENTS (continued)

**Risk Management**

The activities of SICorp expose it to a variety of financial risks. These are:

- Market risks
    i. interest rate risk
    ii. currency risk
    iii. other price risk
- Credit risk
- Liquidity risk

SICorp contracts the NSW Treasury Corporation (TCorp), the State's central financing authority which has recognised expertise in the management of financial risks, to advise on, and actively manage these risks in line with the Memorandum of Understanding (MoU) between it and SICorp. TCorp actively manages and reports on the risks associated with the holding of financial instruments.

The MoU are updated annually to include changes in market conditions and/or management's direction and clearly set out investment management objectives, restrictions, and establish performance benchmarks. The MoU are authorised and approved by the Executive of the NSW Treasury.

Proposed changes to the MoU must go through a consultative process within the forum of the Crown Debt and Asset Management Committees. The Crown Debt and the Crown Asset Management Committees, which were established separately, exist to monitor the performance and management of the Crown Entity's debt and asset portfolios (which include SICorp's). Members of the Committees include representatives from both TCorp and the NSW Treasury. The NSW Treasury's representatives on these committees include staff that are qualified and experienced in corporate finance.

TCorp manages and monitors the financial risks within the boundaries of its established Board policies, legislative requirements, management guidelines and MoU. TCorp's operational risks are mitigated through:

- comprehensive and detailed risk management policies
- detailed controls over the security, integrity and accuracy of all key systems
- clear and appropriate reporting lines
- qualified and experienced personnel
- a Risk Management & Compliance function
- regular internal audits

## 24. FINANCIAL INSTRUMENTS (continued)

**Market Risks**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. SICorp's exposures to market risk are primarily through interest rate risks on investments in the TCorp Bond Portfolio and other price risks associated with the movement in the unit price of the Hour-Glass Investment facilities.

The effects on SICorp's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which SICorp operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the balance sheet date. The analysis is performed on the same basis for 2008. The analysis assumes that all other variables remain constant.

- *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Exposure to interest rate risk arises primarily through SICorp's investments in the TCorp Bond Portfolio. TCorp manages the portfolio to agreed benchmarks to minimise the fair value interest rate risk. SICorp does not account for any fixed rate financial instruments as available for sale. Therefore for these financial instruments a change in interest rates would not affect SICorp's equity.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of SICorp. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

| | $'000 | | | | |
|---|---|---|---|---|---|
| | Carrying | -1% | | +1% | |
| | Amount | Profit | Equity | Profit | Equity |
| **2009** | | | | | |
| Cash and Cash Equivalents[1] | 105,002 | ( 1,050) | - | 1,050 | - |
| Bond Portfolio | 1,058,036 | 36,800 | - | ( 36,800) | - |
| **2008** | | | | | |
| Cash and Cash Equivalents[1] | 101,979 | ( 1,020) | - | 1,020 | - |
| Bond Portfolio | 1,522,665 | 58,600 | - | ( 58,600) | - |

1. Excludes the cash and cash equivalents which are in the Hour-Glass and Bond Portfolio. Cash and cash equivalents of the Bond Portfolio is included in the Bond Portfolio line (above). Cash and cash equivalents of the Hour-Glass investment facilities is subject to the overall price risks of the Hour-Glass facilities. Refer to the section on *Other Price Risk*.

## 24. FINANCIAL INSTRUMENTS (continued)

- *Currency Risk*

SICorp has some foreign currency risk exposure from its investments in the TCorp Bond Portfolio.

During the year, some investments in the Bond Portfolio (for example, derivative instruments) may be denominated in currencies other than the Australian Dollars. The agreement between SICorp and TCorp requires the manager to effectively hedge that currency exposure fully as and when it arises. TCorp fully hedges all foreign currency exposure for international fixed interest and listed property unit trust investments and foreign currency-denominated bond investments.

As at 30 June 2009, SICorp has no transactional or structural currency exposures (2008: $nil).

- *Other Price Risk*

Exposure to 'other price risk' primarily arises through the investment in the TCorp Hour Glass Investment facilities which are held for strategic rather than trading purposes. SICorp has no direct equity investments.

SICorp holds units in the following Hour-Glass investment facilities:

| Facility | Investment Sectors | Investment Horizon | 2009 $'000 | 2008 $'000 |
|---|---|---|---|---|
| Treasury Managed Fund Facility | Cash, money market instruments, International bonds, listed property, Australian & International shares | Long term | 2,842,524 | 2,472,548 |
| Medium Term Growth Facility | Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares | 4 years to 7 years | 163,503 | 96,476 |
| Long Term Growth Facility | Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares | 7 years and over | 163,851 | 95,573 |

The unit price of each facility is equal to the total fair value of the net assets held by the facility divided by the total number of units on issue for the facility. Unit prices are calculated and published daily.

TCorp as trustee for each of the above facilities is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties.

Since April 2007, TCorp has also acted as manager for the Cash Facility. A significant portion of the administration of the facilities is outsourced to an external custodian.

## 24. FINANCIAL INSTRUMENTS (continued)

Investments in the Hour-Glass facilities limit the SICorp's exposure to risk, as this allows diversification across a pool of funds, with different investment horizons and a mix of investments.

The TCorp Hour-Glass investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). TCorp provides sensitivity analysis information for each of the facilities using historically based volatility information collected over a ten year period, quoted at two standard deviations (i.e. 95% probability). A reasonably possible change is based on the percentage change in unit price multiplied by the redemption price as at 30 June each year for each facility.

| **Hour-Glass Investment Facility** | **Change in Unit Price** | | **Impact on Surplus/(Deficit)** | |
|---|---|---|---|---|
| | **2009 %** | **2008 %** | **2009 $'000** | **2008 $'000** |
| Treasury Managed Fund | +/- 20.0 | +/- 17.5 | 568,505 | 432,696 |
| Medium Term Growth Facility | +/- 7.0 | +/- 7.5 | 11,445 | 7,236 |
| Long Term Growth Facility | +/- 15.0 | +/- 15.0 | 24,578 | 14,336 |

SICorp has no exposure to commodity price risk.

**Credit Risk**

Credit risk arises from the financial assets of SICorp, which comprise cash and cash equivalents, receivables, financial assets at fair value and derivative instruments. SICorp's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at balance date.

*Cash and Cash Equivalents*

Cash comprises cash investment in TCorp Hour-Glass cash facility and bank balances with other financial institutions. Interest is earned on daily bank balances.

*Receivables*

Receivables include trade debtors, and reinsurance and other recoveries receivable.

- *Trade Debtors*

  All trade debtors are recognised as amounts receivable at balance date. The collection of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. No interest is earned on trade debtors. The average credit period on sales, unless otherwise agreed, is 30 days.

## 24. FINANCIAL INSTRUMENTS (continued)

- *Reinsurance and Other Recoveries Receivable*

  Receivables from reinsurance and other recoveries are actuarially assessed.

  When it becomes apparent that a recovery may not be received with virtual certainty, these recoveries are deducted from the recoveries receivable estimate. There is no allowance for impairment for this type of receivables.

SICorp does not receive any collateral for receivables.

The financial assets that are past due or considered impaired are included in the table below.

| | Total $'000 | Past Due but Not Impaired $'000 | | | Considered Impaired $'000 |
|---|---|---|---|---|---|
| | | < 3 months overdue | 3 - 6 months overdue | > 6 months overdue | |
| **2009** | | | | | |
| Receivables | 15,825 | 15,400 | - | 425 | - |
| **2008** | | | | | |
| Receivables | 4,108 | 3,053 | - | 1,055 | - |

*The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7.*

*Financial Assets at Fair Value*

Financial assets at fair value include investments in TCorp's Hour-Glass facilities and the managed assets portfolio. The investments within the Hour-Glass facilities are unit holdings, and as such, do not give rise to credit risk. Credit risk within the Hour-Glass facilities is managed by ensuring there is a wide spread of risks, achieved by engaging a spread of funds managers in a specific asset sector. TCorp, as trustee, contracts with these managers and requires in their mandates a series of controls over the concentration and credit quality of assets.

## 24. FINANCIAL INSTRUMENTS (continued)

Credit risk applicable to investments in TCorp's managed assets portfolio as well as receivables are detailed in the tables below.

*Concentration of Credit Risk*

| By credit rating | AAA<br>$'000 | AA+<br>$'000 | AA<br>$'000 | AA-<br>$'000 | A+<br>$'000 | A<br>$'000 | Other Ratings (1)<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | |
| Receivables | 390,000 | - | - | - | - | 155 | 474,114 | 864,269 |
| Bond Portfolio | 683,100 | 225,100 | 100,700 | 3,600 | 14,300 | 1,500 | 29,736 | 1,058,036 |
| **2008** | | | | | | | | |
| Receivables | 5,468 | - | - | - | - | 144 | 268,220 | 273,832 |
| Bond Portfolio | 1,305,402 | 101,400 | 67,500 | 3,900 | 11,400 | 3,200 | 29,863 | 1,522,665 |

| By classification of counterparty | Governments<br>$'000 | Banks<br>$'000 | Other<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| **2009** | | | | |
| Receivables | 503,795 | - | 360,474 | 864,269 |
| Bond Portfolio | 798,636 | 119,100 | 140,300 | 1,058,036 |
| **2008** | | | | |
| Receivables | 87,675 | - | 186,157 | 273,832 |
| Bond Portfolio | 1,145,365 | 77,800 | 299,500 | 1,522,665 |

1) Short term ratings of A-2 or better, when counterparty has no long term rating or the long term rating is A or lower. Most receivables are from government agencies with no credit rating.

### Liquidity Risk

The liquidity of SICorp's investments is assured by the high-credit nature of the fixed interest investments and the fact that all Hour-Glass share and property investments are required to be listed on a recognised stock exchange.

In accordance with the Memorandum of Understanding, TCorp is to consider its ability to exit the Portfolio's holdings in an orderly manner, in the context of the aggregate holdings of each security contained in the Portfolio and the market turnover of each security.

During the current and prior years, there were no defaults on payables. No assets have been pledged as collateral. SICorp's exposure to liquidity risk is deemed insignificant based on prior periods' data and the current assessment of risk.

## 24. FINANCIAL INSTRUMENTS (continued)

The 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 (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. There has been no interest awarded for late payment to date.

The table below summarises the maturity profile of SICorp's financial liabilities.

| | | | Interest Rate Exposure | | | Maturity Dates | | |
|---|---|---|---|---|---|---|---|---|
| | Weighted Average Effective Interest Rate % | Nominal Amount $'000 | Fixed Interest Rate $'000 | Variable Interest Rate $'000 | Non-Interest Bearing $'000 | < 1 Year | 1 - 5 Years | > 5 Years |
| **2009** | | | | | | | | |
| Payables | - | - | - | - | 30,722 | 30,722 | - | - |
| **Total Financial Liabilities** | | - | - | - | **30,722** | **30,722** | - | - |
| **2008** | | | | | | | | |
| Payables | - | - | - | - | 43,066 | 43,066 | - | - |
| **Total Financial Liabilities** | | - | - | - | **43,066** | **43,066** | - | - |

## 25. COMMITMENTS FOR EXPENDITURE

SICorp has one commercial lease. This lease has a six year life with renewal option included in the contract. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Operating Lease Commitments - Lessee** | | |
| - Not later than one year | 336 | 336 |
| - Later than one year and not later than five years | 958 | 1,293 |
| | **1,294** | **1,629** |

Operating lease commitments are inclusive of GST. The total amount above includes input tax credits of $117.6k (2008: $148.1k) that are expected to be recovered from the Australian Taxation Office.

## 26. CONTINGENT ASSETS

There are no known contingent assets at balance date (2008: $Nil).

## 27. CONTINGENT LIABILITIES

Under the Claims Management Agreement between SICorp and its claims providers, there are five annual periods of assessment of the tail management incentive fees. The periods are as follows:

Period 1: 31/12/05 to 31/12/06
Period 2: 31/12/06 to 31/12/07
Period 3: 31/12/07 to 31/12/08
Period 4: 31/12/08 to 31/12/09
Period 5: 31/12/09 to 31/12/10

The incentive fees are actuarially assessed. As at 30 June 2009, included within the total management fees is an incentive fees amount of $4.9 million (excl. GST) which was for Period 2 payments. Tail incentive fees for Period 3 will be paid during 2009/10. It is impractical to determine the incentive amount payable as the actuarial report is not yet available.

## 28. EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to reporting date requiring disclosure.

**End of Audited Financial Report**

New South Wales
TREASURY

# Crown Lands Homesites Program

Financial Statements for the year ended 30 June 2009

GPO BOX 12
Sydney NSW 2001

**INDEPENDENT AUDITOR'S REPORT**

**Crown Lands Homesites Program**

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Lands Homesites Program (the Program), which comprises the balance sheet as at 30 June 2009, the income statement, the statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

## Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Program as at 30 June 2009, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

## The Secretary of the Treasury's Responsibility for the Financial Report

The Secretary is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

**Independence**

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

David Nolan
Director, Financial Audit Services

20 October
2009 SYDNEY

## Crown Lands Homesites Program

## Financial Report for the year ended 30 June 2009

**Statement by Department Head**

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

1. The accompanying financial report exhibits a true and fair view of the financial position of the Crown Lands Homesites Program as at 30 June 2009 and the financial performance for the year then ended.

2. The financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, and the Treasurer's Directions.

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

Michael Schur
Secretary
20 October 2009

# Crown Lands Homesites Program

## Income Statement
## for the year ended 30 June 2009

| | Notes | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Sales revenue | | 7,541 | 11,704 |
| Cost of sales | | (5,248) | (5,894) |
| **Gross profit** | | **2,293** | **5,810** |
| Other income | 2 | 338 | 433 |
| **Expenses** | | | |
| Marketing expenses | 3 | (1,182) | (1,105) |
| Other operating expenses | 4 | (1,428) | (1,781) |
| **Total expenses** | | **(2,610)** | **(2,886)** |
| **Net surplus for the year** | 9 | **21** | **3,357** |

The accompanying notes form part of these financial statements.

## Crown Lands Homesites Program

## Balance Sheet
## as at 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 10 | 3,355 | 7,302 |
| Trade and other receivables | 5 | 173 | - |
| Inventories | 6 | 18,051 | 13,438 |
| **Total Current Assets** | | **21,579** | **20,740** |
| **Non-Current Assets** | | | |
| Trade and other receivables | 5 | 88 | 170 |
| Inventories | 6 | 15,540 | 17,113 |
| **Total Non-Current Assets** | | **15,628** | **17,283** |
| **TOTAL ASSETS** | | **37,207** | **38,023** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 7 | 5,574 | 5,335 |
| Provisions | 8 | 2,002 | 653 |
| **Total Current Liabilities** | | **7,576** | **5,988** |
| **Non-Current Liabilities** | | | |
| Trade and other payables | 7 | 5,734 | 6,759 |
| Provisions | 8 | 88 | 1,488 |
| **Total Non-Current Liabilities** | | **5,822** | **8,247** |
| **TOTAL LIABILITIES** | | **13,398** | **14,235** |
| **NET ASSETS** | | **23,809** | **23,788** |
| **EQUITY** | | | |
| Retained surplus | 9 | 23,809 | 23,788 |
| **TOTAL EQUITY** | | **23,809** | **23,788** |

The accompanying notes form part of these financial statements.

## Crown Lands Homesites Program

## Cash Flow Statement
## for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 7,453 | 13,862 |
| Interest received | | - | 1 |
| Payments to suppliers | | (11,400) | (11,012) |
| Other | | - | (63) |
| **Net cash flows (used in) / from operating activities** | 10(b) | **(3,947)** | **2,788** |
| **Net increase / (decrease) in cash and cash equivalents** | | **(3,947)** | **2,788** |
| **Cash and cash equivalents at the beginning of period** | | **7,302** | **4,514** |
| **Cash and cash equivalents at the end of period** | 10(a) | **3,355** | **7,302** |

The accompanying notes form part of these financial statements.

## Crown Lands Homesites Program

### Statement of Recognised Income and Expense
### for the year ended 30 June 2009

| | Notes | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| **Surplus for the year** | | **21** | **3,357** |
| **Total income and expense recognised for the year** | | **21** | **3,357** |

The accompanying notes form part of these financial statements.

## Crown Lands Homesites Program

## Notes to the financial statements for the year ended 30 June 2009

### REPORTING ENTITY

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. The CLHP is a not-for-profit entity as profit is not its principle objective. The reporting entity is consolidated as part of the Crown Entity.

This financial report was authorised for issue by the Secretary of NSW Treasury on the date of accompanying statement by the Secretary was signed.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The financial report is a general-purpose financial report which has been prepared in accordance with:

- applicable Australian Accounting Standards (including Australian Accounting Interpretations); and
- the requirements of the *Public Finance and Audit Act 1983,* the *Public Finance and Audit Regulation 2005,* and the Treasurer's Directions.

The financial report items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations that management has made are disclosed in the relevant notes to the financial report.

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

#### (b) Statement of Compliance

The financial statement and notes comply with the Australian Accounting Standards, which include Australian Accounting Interpretations.

The accounting policies have been consistently applied, unless stated otherwise.

#### (c) Income Recognition

Income is measured at the fair value of the consideration or contribution received or receivable.

i Revenue from sale of land is recognised when the significant risks and rewards of ownership of the land have passed to the buyer and can be measured reliably. Specifically, with respect to property sales, the risks and rewards are considered passed to the buyer at the time of settlement.

ii Interest income is recognised as the interest accrues.

iii Other income is 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.

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

### (d) Cost of Sales

The cost of sales includes costs of land and development costs incurred in bringing the raw land to "Developed Land".

### (e) Expenditure Recognition

Operating and working expenses are expensed in the year in which they are incurred. Where they are directly attributable to the management of construction contracts, a proportion is capitalised to land under development (works in progress).

### (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 item of expense; and

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.

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

Commitments and contingencies and other amounts disclosed in the financial statements are inclusive of the amount of GST recoverable from, or payable to, the Australian Taxation Office.

### (g) Inventories

Inventories comprise Developed Land for Sale, Works 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.

Current 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. Undeveloped land is classified as a non-current asset.

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

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. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (h) Financial Instruments

Financial instruments give rise to positions that are a financial asset of the 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 *AASB 7 Financial Instruments: Disclosure* and *AASB 132 Financial Instruments: Presentation* information is disclosed in Note 11, in respect of the credit risk and interest rate risk of financial instruments. All such amounts are carried in the accounts at fair value unless otherwise stated. The accounting policy for each class of financial instrument is stated hereunder.

The Crown Lands Homesites Program does not enter into or trade in financial instruments for speculative purposes.

**Cash and Cash Equivalents**
Cash comprises cash on hand and cash at bank.

**Trade and Other Receivables**
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the Income Statement when impaired, derecognised or through the amortisation process.

Short-term receivables with no stated interest rate are measured at transaction cost or face value.

Interest is charged on overdue settlement monies where agreed settlement dates are not met. The rate of interest applied varied during the year and is currently 10.94% (2008: 13.0%). Sales are made on varying terms, but generally on a 30-day exchange and 30-day settlement basis. During the year ended 30 June 2009 interest on overdue settlements of $1,000 was received (2008: $1,000).

**Trade and Other payables**
These amounts represent liabilities for goods and services provided to Crown Lands Homesites Program. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequently measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

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

### (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 2009 Crown Lands Homesites returned $Nil to Consolidated Fund (2008: $Nil).

### (j) Provisions

Provisions are recognised when the entity has a present legal or constructive obligation to make future sacrifice of economic benefits to other entities as a result of past transactions or 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.

If the time value of money is material, provisions are discounted at the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

The unwinding of this discounting rate is recognised as other income or other operating expenses in the income statement.

**Provision to complete projects**
The provision to complete projects represents all unpaid development costs which were included in the original land development schedule. It is raised as an estimate based on known costs at the time when the land is ready for sales release. The provision also includes the value of works completed as at 30 June 2009 of any performance building contracts entered into by the Crown Lands Homesites Program.

**Provision for rebates**
Provision for rebates is recognised when a lot is sold. As part of the condition of sale, the Crown Lands Homesites Program may be committed to make a payment to the purchaser provided certain design criteria are met and applied for within a specified period by the purchaser, usually between 18-24 months. This payment represents reimbursement for additional costs incurred by the purchaser in complying with the design criteria set by the Crown Lands Homesites Program.

### (k) Comparatives
No comparative figures had to be repositioned or reclassified in the financial statements to conform with the basis of presentation and classification used in the current year.

### (l) Accounting Standards/Interpretations issued but not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the entity's financial report:

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

| Standard | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8' Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101' | 1 January 2009 | 30 June 2010 |

Initial application of the following standards/interpretations is not expected to have any material impact on the financial report of the Crown Lands Homesites Program.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | 1 January 2009 | 30 June 2010 |
| AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | 1 January 2009 | 30 June 2010 |
| AASB 2008-9 (Sept 08) Regarding amendments to AASB 1049 for consistency with AASB 101 | 1 January 2009 | 30 June 2010 |
| AASB Interpretation 17 'Distributions of Non-cash Assets to Owners', AASB 2008-13 'Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners' | 1 July 2009 | 30 June 2010 |
| Interpretation 18 'Transfers of Assets from Customers | 1 July 2009 | 30 June 2010 |
| AASB 2009-2 Amendments to Australian Accounting Standards – Improving disclosures about Fonancial Instruments | Applies to annual reporting periods beginning on or after 1 January 2009 and ending on or after 30 April 2009 | 30 June 2010 |
| Interpretation 15 Agreements for the construction of Real Estate | Applies retrospectively to annual reporting periods beginning on or after 1 January 2009 | 30 June 2010 |

**Crown Lands Homesites Program**

**Notes to the financial statements for the year ended 30 June 2009**

## 2. OTHER INCOME

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Forfeited sales deposits | 2 | 3 |
| Unwinding of discounts | 335 | 425 |
| Other | 1 | 5 |
| | **338** | **433** |

## 3. MARKETING EXPENSES

| | | |
|---|---|---|
| Agents' commission | 250 | 288 |
| Advertising and promotion | 932 | 817 |
| | **1,182** | **1,105** |

## 4 OTHER OPERATING EXPENSES

| | | |
|---|---|---|
| Estate maintenance | 179 | 154 |
| Management/support fee | 538 | 1,376 |
| Project costs written off | 357 | 63 |
| Auditor's remuneration | 30 | 21 |
| Consultant costs | 28 | 32 |
| Rates | 4 | 8 |
| Rental expense | 102 | 56 |
| Other | 190 | 71 |
| | **1,428** | **1,781** |

Management/support 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.

## 5. TRADE AND OTHER RECEIVABLES

| | | |
|---|---|---|
| **Current** | | |
| Other receivables | 173 | - |
| | **173** | **-** |
| **Non Current** | | |
| Development bonds | 88 | 170 |
| | **88** | **170** |

Development bonds are amounts held by councils as security for satisfactory completion of development works

## 6. INVENTORIES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | | |
| Works in progress | 8,518 | 7,726 |
| Developed land | 9,533 | 5,712 |
| | **18,051** | **13,438** |
| **Non-Current** | | |
| Developed land | 602 | 1,052 |
| Undeveloped land | 14,938 | 16,061 |
| | **15,540** | **17,113** |
| | **33,591** | **30,551** |
| **Details are:** | | |
| Acquisition cost | 10,076 | 9,988 |
| Development costs | 23,515 | 20,563 |
| | **33,591** | **30,551** |

## 7. TRADE AND OTHER PAYABLES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | | |
| The Crown Core liability | 2,506 | 1,846 |
| Trade payables | 2,218 | 2,013 |
| GST payable | 278 | 95 |
| Deposits held | 205 | 7 |
| Accrued expenses | 367 | 1,374 |
| | **5,574** | **5,335** |
| **Non Current** | | |
| The Crown Core liability | 5,674 | 6,669 |
| Other | 60 | 90 |
| | **5,734** | **6,759** |
| | **11,308** | **12,094** |

The Crown Core liability represents the cost of Crown Lands acquired at fair value by the Crown Lands Homesites Program. The fair value was determined using market prices at the time of acquisition. 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. The non-current liability represents the present value of future cash flows.

## Crown Lands Homesites Program

## Notes to the financial statements for the year ended 30 June 2009

### 8. PROVISIONS

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Current** | | |
| Provision to complete projects | 1,914 | 554 |
| Provision for rebates | 88 | 99 |
| | **2,002** | **653** |
| **Non Current** | | |
| Provision for rebates | 88 | - |
| Provision to complete projects | - | 1,488 |
| | **88** | **1,488** |
| | **2,090** | **2,141** |

| **2009 Movement** | **Provision for rebates $'000** | **Provision to complete projects $'000** |
|---|---|---|
| Carrying amount at beginning of year | 99 | 2,042 |
| Additional provisions recognised | 176 | 251 |
| Reductions in provisions from payments | - | (379) |
| Reductions in provisions from remeasurement | (99) | - |
| **Carrying amount at end of year** | **176** | **1,914** |

### 9. RETAINED SURPLUS

| | | |
|---|---|---|
| Balance at the beginning of financial year | 23,788 | 20,431 |
| Surplus for the year | 21 | 3,357 |
| **Balance at the end of financial year** | **23,809** | **23,788** |

## 10. CASH FLOW STATEMENT

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| (a) For the purpose of the Cash Flow Statement, cash and cash equivalent includes cash on hand and cash at bank. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows: | | |
| Cash and cash equivalents | **3,355** | **7,302** |
| (b) Reconciliation from the net surplus for the year to the net cash flows from operations: | | |
| Net surplus for the year | 21 | 3,357 |
| Unwinding of discounts income | (335) | (425) |
| **Change in assets and liabilities** | | |
| (Increase)/decrease in receivables | (91) | 1,116 |
| Increase in inventories | (3,040) | (2,301) |
| Decrease in provisions | (51) | (1,460) |
| Increase/(decrease) in payables | (451) | 2,501 |
| **Net cash (used in) / from operating activities** | **(3,947)** | **2,788** |

## 11. FINANCIAL INSTRUMENTS

(This note is to be read in conjunction with Note 1(h))

The Crown Lands Homesites Program's principal financial instruments and risks are outlined below together with its processes for managing risk. These financial instruments arise directly from its operations. It does not enter into or trade in financial instruments for speculative purposes.

Landcom's Audit and Risk Committee has overall responsibility for the establishment and oversight of risk management and reviews, and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Crown Lands Homesites Program to set the risk limits and controls to monitor risks. Compliance with policies is reviewed by the Audit and Risk Committee on a continuous basis.

**Financial Instrument Categories**

| **Financial Assets** | **Notes** | **Category** | **Carrying amount 2009 $'000** | **Carrying amount 2008 $'000** |
|---|---|---|---|---|
| **Class** | | | | |
| Cash and cash equivalent assets | 10 | N/A | 3,355 | 7,302 |
| Trade and other receivables | 5 | Loans and receivables (at amortised cost) | 261 | 170 |
| **Financial Liabilities** | | | | |
| **Class** | | | | |
| Trade and other payables | 7 | Financial liabilities (at amortised cost) | 10,765 | 11,902 |

Note: This analysis excludes statutory receivables and payables, prepayments, and unearned revenue as these are not within the scope of *AASB 7 Financial Instruments: Disclosure*.

### (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.

There are no financial instruments subject to interest rates.

### (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 balance sheet. No collateral is held and no financial guarantees have been granted.

## 11. FINANCIAL INSTRUMENTS (continued)

There is no significant concentration of credit risk arising in respect of receivables. All trade debtors are recognised as amounts receivable at balance date and are reviewed regularly for collectibility on an ongoing basis. No debts are considered unrecoverable, generally being resolved within 30 days. No interest is earned on trade debtors.

There are no trade debtors that are past due or impaired whose terms have been renegotiated in the 'receivables' category of the balance sheet.

### (c) Liquidity Risk

Liquidity risk arises if the Crown Lands Homesites Program is unable to meet its payment obligations when they fall due. During the current and prior years there were no defaults or breaches. No assets have been pledged as collateral. Exposure to liquidity risk is deemed insignificant.

The table below summarises the maturity profile of the Crown Lands Homesites Program's financial liabilities and interest rate exposure.

**Maturity Analysis of Financial Liabilities**

| | | | Interest Rate Exposure | | | Maturity Dates | | |
|---|---|---|---|---|---|---|---|---|
| | Weighted Average Effective Interest Rate | Nominal Amount $'000 | Fixed Interest Rate $'000 | Variable Interest Rate $'000 | Non Interest Bearing $'000 | < 1 Year $'000 | 1 – 5 Years $'000 | > 5 Years $'000 |
| **2009** | | | | | | | | |
| Trade and other payables | - | 12,425 | - | - | 12,425 | 5,101 | 5,207 | 2,117 |
| **2008** | | | | | | | | |
| Trade and other payables | - | 13,157 | - | - | 13,157 | 5,233 | 7,711 | 213 |

Note: The nominal amounts disclosed are the contractual undiscounted cash flows of each class of financial liability. Therefore the amounts disclosed will not reconcile to the balance sheet. This analysis also excludes statutory payables, as these are not within the scope of *AASB 7 Financial Instruments: Disclosure*.

### (d) Market Risk

*Currency Risk*
The Crown Lands Homesites Program does not have any investments or loans nor is there any exposure to foreign currency risk.

### (e) Net Fair Value

All financial instruments are carried at amortised cost, unless stated otherwise.

## 12. EXPENDITURE COMMITMENTS

The Crown Lands Homesites Program does not have any capital or operating lease commitments (2008: $Nil). The total expenditure commitments contracted for at balance date but not provided for:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Not later than one year | 24 | 43 |
| **Total (including GST)** | **24** | **43** |

The total expenditure commitments above include input tax credits of $2,150 that are expected to be recoverable from the Australian Taxation Office (2008: $3,888).

## 13. CONTINGENT LIABILITIES

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.

## 14. POST BALANCE SHEET EVENTS

On 13 July 2009 the Premier wrote a letter to the Minister for Lands notifying him that a Property Management Authority would be created from the functions that that had been allocated from within the Services, Technology and Administration cluster and also from other clusters. Accordingly the Crown Lands Homesite Program will no longer form part of the Crown Entity after July 2009.

There have been no material post balance sheet events which would require disclosure or adjustments to the 30 June 2009 Financial Statements.

**End of Audited Financial Statements**

New South Wales
TREASURY

# Land Development Working Account

Financial Report for the year ended 30 June 2009

GPO BOX 12
Sydney NSW 2001

**INDEPENDENT AUDITOR'S REPORT**

**LAND DEVELOPMENT WORKING ACCOUNT**

To Members of the New South Wales Parliament

I have audited the accompanying financial report of Land Development Working Account (the Entity), which comprises the balance sheet as at 30 June 2009, the operating statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

## Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Entity as at 30 June 2009, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005

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

## Secretary of The Treasury's Responsibility for the Financial Report

The Secretary is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

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

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

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

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.

**Independence**

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

Scott Stanton
Director, Financial Audit Services

20 October 2009
SYDNEY

## Land Development Working Account

## Financial Report for the year ended 30 June 2009

### STATEMENT BY DEPARTMENT HEAD

Pursuant to Section 45F (1B) of the *Public Finance and Audit Act* 1983 and clause 11 of *the Public Finance and Audit Regulation 2005,* I declare that in my opinion:

(a) the accompanying financial report exhibits a true and fair view of the financial position of the Land Development Working Account at 30 June 2009 and the financial performance for the year then ended; and

(b) the financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005,* Treasurer's Directions and Australian Accounting Standards.

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

Michael Schur
Secretary
20 October 2009

# Land Development Working Account

## Operating Statement
## for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of goods and services | 2 (a) | 13,096 | 17,735 |
| Other revenue | 2 (b) | - | 49 |
| **Total revenue** | | **13,096** | **17,784** |
| **Expenses** | | | |
| Operating expenses | 3 (a) | 8,806 | 9,475 |
| Other expenses | 3 (b) | 4,700 | - |
| Depreciation | 7 | 3 | 3 |
| **Total expenses** | | **13,509** | **9,478** |
| **(DEFICIT)/SURPLUS FOR THE YEAR** | | **(413)** | **8,306** |

The accompanying notes form part of these financial statements.

## Land Development Working Account

## Balance Sheet
## As at 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 12,377 | 30,208 |
| Receivables | 5 (a) | 3,671 | 3,243 |
| Inventories | 6 | 251 | 691 |
| **Total current assets** | | **16,299** | **34,142** |
| | | | |
| **Non-current assets** | | | |
| Inventories | 6 | 5,472 | 5,472 |
| Receivables | 5 (b) | 283 | - |
| Plant and equipment | 7 | 5 | 8 |
| **Total non-current assets** | | **5,760** | **5,480** |
| | | | |
| **Total assets** | | **22,059** | **39,622** |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payables | 8 | 2,799 | 3,532 |
| Contribution payable | 9 | - | 9,000 |
| Other | 10 | 3,790 | 15,907 |
| Provisions | 11 | 4,700 | - |
| **Total current liabilities** | | **11,289** | **28,439** |
| | | | |
| **Total liabilities** | | **11,289** | **28,439** |
| | | | |
| **Net assets** | | **10,770** | **11,183** |
| | | | |
| **EQUITY** | | | |
| Accumulated funds | 13 | 10,770 | 11,183 |
| | | | |
| **Total equity** | | **10,770** | **11,183** |

The accompanying notes form part of these financial statements.

# Land Development Working Account

## Statement of Recognised Income and Expense
## For the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | | **-** | **-** |
| (Deficit)/surplus for the year | 13 | (413) | 8,306 |
| **TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR** | | **(413)** | **8,306** |

The accompanying notes form part of these financial statements.

## Land Development Working Account

### Cash Flow Statement
### for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 12,257 | 28,918 |
| Payment to suppliers | | (21,088) | (15,801) |
| **NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES** | 12 (b) | **(8,831)** | **13,117** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **-** | **-** |
| **CASH FLOWS USED IN FINANCING ACTIVITIES** | | | |
| Distribution to Consolidated Fund of NSW | | (9,000) | (9,000) |
| **NET CASH FLOWS USED IN FINANCIAL ACTIVITIES** | | **(9,000)** | **(9,000)** |
| **NET (DECREASE)/INCREASE IN CASH** | | **(17,831)** | **4,117** |
| Opening cash and cash equivalents | | 30,208 | 26,091 |
| **CLOSING CASH AND CASH EQUIVALENTS** | 12 (a) | **12,377** | **30,208** |

The accompanying notes form part of these financial statements.

**Notes to the Financial Statements for the year ended 30 June 2009**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) Reporting entity*

The Land Development Working Account (LDWA) is a Public Trading Enterprise within the Crown Entity, undertaking the development and sale of Crown land for residential purposes in country New South Wales and for commercial purposes on a State wide basis. All Crown land sold by the LDWA is initially acquired by the LDWA from the Crown Leaseholds Entity. The registered office is 1 Farrer Place, Sydney NSW 2000. These activities, administered by the Department of Lands on behalf of the Crown Entity are reported separately from the Department of Lands operational activities, in accordance with NSW Treasury policy.

LDWA is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

The financial report for the year ended 30 June 2009 has been authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement by the Secretary was signed.

### *(b) Basis of preparation*

LDWA's financial report is a general purpose financial report which has been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2005* and
- financial reporting directions issued by the Treasurer.

The financial report has been prepared on an accrual basis and is based on historical cost, unless stated otherwise.

Property, plant and equipment, and financial assets at 'fair value through profit or loss' and available for sale are measured at fair value. Other financial report items are prepared in accordance with the historical cost convention.

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

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial report.

### *(c) Statement of compliance*

LDWA financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

**Notes to the Financial Statements for the year ended 30 June 2009**

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

***(d) Income recognition***

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

- Revenue from the sale of developed and undeveloped land is recognised on settlement when LDWA transfers the significant risks and rewards of ownership of the assets. A 10% deposit of the sale price is normally paid on the date of exchange of contract and is recognised as a liability until the settlement of the sale.
- Revenue from land sold to Government agencies as a result of the land acquisition process is recognised upon the publication of the acquisition notice in the NSW Government Gazette.

***(e) Sale of surplus land controlled by other government agencies***

LDWA acts as an agent for other government agencies in regard to the sale of surplus Crown land. After deducting LDWA's selling expenses, the proceeds from the sale are remitted to the selling government agency, which is responsible for transferring any Crown share of proceeds to the Consolidated Fund. These proceeds are therefore not recognised as revenue in this financial report.

***(f) Cost of sales***

The cost of sales includes the cost of land for all land sales and development costs incurred for developed land.

***(g) Employee related expenses***

LDWA has no employees. All of LDWA'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 entitlements, payroll tax and workers' compensation insurance) and administration costs.

***(h) Inventories - property held for sale***

Inventories include land development projects at different stages of completion. Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of land and related development expenses. Registered valuers are engaged in determining the realisable value of property where there is an indication that the net realisable value may have fallen below cost. All direct expenditures and appropriate development overheads are charged to the relevant projects. Crown land acquired by LDWA is transferred from the Crown Leaseholds Entity.

***(h) Inventories - property held for sale (continued)***

Land for sale as developed land is recognised initially as inventory with a corresponding liability to the Crown Leaseholds Entity at the time the decision is made to develop the land. The value of the land is measured at fair value on acquisition as determined by registered valuers. Payment of the liability owing to the Crown Leaseholds Entity occurs after settlement. The liability that is owed to the Crown Leaseholds Entity is non interest bearing.

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

### *(i) Acquisition of fixed assets*

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the agency. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

### *(j) Capitalisation threshold*

Plant and equipment costing $5,000 and above individually (or forming part of a network costing more than $5,000) is capitalised.

### *(k) Revaluation of plant and equipment*

Physical non-current assets are valued in accordance with the NSW Treasury policy "Valuation of Physical Non-Current Assets at Fair Value" (TPP 07-1). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment.*

Plant and equipment is revalued 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. Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

### *(l) 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 per *AASB 116 – Property, Plant and Equipment*.

**Depreciation rates:**

| | |
|---|---|
| Plant and equipment | 20% |

### *(m) Cash and cash equivalents*

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest accrued on bank balances is paid directly to NSW Treasury and not reported in this financial report.

### *(n) Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the operating statement when impaired, derecognised or through the amortisation process. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

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

### *(o) Payables*

These amounts represent liabilities for goods and services provided to LDWA and other amounts, including interest. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

### *(p) Accounting for the Goods and Services Tax (GST)*

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

- the amount of GST incurred by LDWA as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the acquisition cost of an asset, or as part of an item of expense;
- receivables and payables are stated with the amount of GST included.

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

Cash flows are included in the cash flow statement on a gross basis. However, the GST components of cash flows arising from investing and financial activities which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flow.

### *(q) Comparatives*

Comparative figures are, where appropriate, reclassified to conform with the basis of presentation and classification used in the current year. In the comparative figures the following reclassifications have been made to aid in understanding the report.

- $42,000 of revenue relating to interest charges from land acquisition transactions has been reclassified from investment revenue to land sales, as the transactions are not investment related.
- $5,000 of revenue relating to rental from surplus government properties transactions has been reclassified to other revenue, as the transactions are not investment related.
- $312,000 has been reclassified from cash and cash equivalents to receivables as the amounts are between legally separated entities.
- The current and non-current distinction for land development inventory has been reclassified as several of the parcels should be classified as non-current. The change increases non-current inventory by $1,930,000 and decreases current inventory by $1,930,000.

### *(r) Contributions to Consolidated Fund of NSW*

LDWA is required to pay an annual contribution to the Consolidated Fund of NSW, calculated at 100% of the accounting profit at financial year end, subject to maintenance of a minimum working capital limit, as determined annually.

The contribution for the current period is transferred to contribution payable and paid in the following year. The contribution is to be paid in accordance with the NSW Commercial Policy Framework.

The calculation of the contribution was changed during 2009 as agreed with NSW Treasury.

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

### *(s) New Australian Accounting Standards issued but not effective*

The following new Australian Accounting Standards and Interpretations have not been applied and are not yet effective for the period ending 30 June 2009. NSW Treasury TC 09/03 has mandated that agencies do not early adopt any of the new standards or interpretations.

- AASB 3, *Business Combinations* (issued March 2008)
- AASB 8 *Operating Segments* (issued February 2007)
- AASB 101 *Presentation of financial statements* (issued September 2007)
- AASB 123 *Borrowing costs* (issued June 2007), AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (issued June 2007)
- AASB 127 *Consolidated and Separate Financial Statements* (issued March 2008)
- AASB 1039 *Concise Financial Reports* (issued August 2008)
- AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* (issued February 2007)
- AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* (issued September 2007)
- AASB 2007-10 *Further Amendments to Australian Accounting Standards arising from AASB 101* (issued December 2007)
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share based Payments: Vesting Conditions and Cancellations [AASB 2]* (issued February 2008)
- AASB 2008-*2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* (issued March 2008)
- AASB 2008-3 *Amendments to Australian Accounting Standards and Interpretations arising from AASB 3 and AASB 127* (issued March 2008)
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process Project* (issued July 2008)
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (issued July 2008)
- AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (issued July 2008)
- AASB 2008-8 *Amendments to Australian Accounting Standards - Eligible Hedged Items* (issued August 2008)
- AASB 2008-9 *Amendments to AASB 1049 for consistency with AASB 101* (issued September 2008)
- AASB 2008-11 *Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities* (issued November 2008)
- AASB 2009-1 *Amendments to Australian Accounting Standards - Borrowing Costs of Not-for-Profit Public Sector Entities* (issued April 2009)
- AASB 2009-2 *Amendments to Australian Accounting Standards Improving Disclosures about Financial Instruments* (issued April 2009)
- Interpretation 15 *Agreements for the Construction of Real Estate* (issued August 2008)
- Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* (issued August 2008)
- Interpretation 17 *Distributions of Non-Cash Assets to Owners* (issued December 2008) and AASB 2008- 13 *Amendments to Australian Accounting Standards arising from AASB Interpretation 17 - Distributions of Non-Cash Assets to Owners* (issued December 2008)
- Interpretation 18 *Transfers of Assets from Customers* (issued March 2009)

It is considered that the impact of these new Standards and Interpretations in future periods will have no material impact on the financial statements of the LDWA.

# Land Development Working Account

## Notes to the Financial Statements for the year ended 30 June 2009

### 2. REVENUE

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| ***(a) Sale of goods and services*** | | |
| Land sales | 12,786 | 17,550 |
| Rendering of services | 310 | 185 |
| | **13,096** | **17,735** |
| Land sales include: | | |
| Developed land | 1,347 | 1,105 |
| Undeveloped land | 6,049 | 12,140 |
| Land sold to Government agencies | 5,390 | 4,305 |
| | **12,786** | **17,550** |
| ***(b) Other revenue*** | | |
| Rents | - | 5 |
| Other | - | 44 |
| | **-** | **49** |

### 3. EXPENSES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| ***(a) Operating expenses*** | | |
| Cost of sales | 6,538 | 7,708 |
| Selling costs | 211 | 126 |
| Valuation expenses | 16 | 11 |
| Property expenses | 185 | 125 |
| Inventory costs written down | 285 | 30 |
| Audit fees | 23 | 15 |
| Administration expenses | 66 | 56 |
| Bad debts expense | 162 | 88 |
| Contractors and consultants | 141 | 253 |
| Management/support fees | 1,179 | 1,063 |
| | **8,806** | **9,475** |

Management/support fees represent charges by Department of Lands for the cost of operational management and corporate support services. Total audit fee for the 2009 audit is $20,000 (2008 $23,400).

## 3 EXPENSES *(continued)*

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| ***(b) Other expenses*** | | |
| Compensation - Native Title Claim | 4,700 | - |
| | **4,700** | **-** |

For further details refer to note 11.

## 4. CASH AND CASH EQUIVALENTS

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Cash at bank and on hand | **12,377** | **30,208** |

## 5. CURRENT/NON-CURRENT ASSETS - RECEIVABLES

***(a) Current***

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Sale of goods and services | 3,870 | 3,385 |
| Less: allowance for impairment | (199) | (142) |
| | **3,671** | **3,243** |
| Movement in the allowance for impairment | | |
| Balance at 1 July | 142 | 55 |
| Amounts written off during the year | (106) | - |
| Amounts recovered during the year | - | - |
| Increase/(decrease) in allowance recognised in profit or loss | 163 | 88 |
| Balance at 30 June | **199** | **142** |

***(b) Non-current***

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Sale of goods and services | 283 | - |
| | **283** | **-** |

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired are included in Note 17.

## 6. INVENTORIES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Development land** | | |
| Current | 251 | 691 |
| Non-current | 5,472 | 5,472 |
| | **5,723** | **6,163** |
| **Development land includes:** | | |
| Acquisition cost - land | 4,399 | 4,705 |
| Direct development expenses capitalised (work in progress) | 1,324 | 1,458 |
| **Carrying amount** | **5,723** | **6,163** |

The basis for inventory valuation is set out in Note 1(h).

## 7. PLANT AND EQUIPMENT

| | 2009 | 2008 |
|---|---|---|
| At 1 July - fair value | | |
| Gross carrying amount | 13 | 13 |
| Accumulated Depreciation & Impairment | (5) | (2) |
| Net carrying amount | **8** | **11** |
| At 30 June - fair value | | |
| Gross carrying amount | 13 | 13 |
| Accumulated Depreciation & Impairment | (8) | (5) |
| Net carrying amount | **5** | **8** |

Reconciliation of the carrying amount of plant and equipment at the beginning and end of the reporting periods is set out below.

| | 2009 | 2008 |
|---|---|---|
| Net carrying amount at start of year | 8 | 11 |
| Additions | - | - |
| Disposals | - | - |
| Depreciation expense | (3) | (3) |
| Net carrying amount at end of year | **5** | **8** |

### 8. PAYABLES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Due to other Government agencies (Note 1(e)) | 1,950 | 2,520 |
| Due to Australian Taxation Office | 488 | 549 |
| Creditors | 312 | 287 |
| Revenue received in advance | 49 | 176 |
| | **2,799** | **3,532** |

### 9. CONTRIBUTIONS PAYABLE

| | | |
|---|---|---|
| **Contribution to the Consolidated Fund of NSW** (Note 1(r)) | | |
| Balance at 1 July | 9,000 | 9,000 |
| Payments made during the year | (9,000) | (9,000) |
| Provided during the year | - | 9,000 |
| Balance at 30 June | **-** | **9,000** |

As there was a deficit for 2009, no contribution is payable for the current year.

### 10. CURRENT LIABILITIES OTHER

| | | |
|---|---|---|
| **Amount due to Crown Leaseholds Entity** | | |
| Balance at 1 July | 15,907 | 8,073 |
| Value of land transferred in | 6,189 | 7,834 |
| Payments made during the year | (18,306) | - |
| Balance at 30 June | **3,790** | **15,907** |

## 11 CURRENT LIABILITIES - PROVISIONS

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Provision - Native Title Claim | 4,700 | - |
| | **4,700** | **-** |

**Dunghetti Crescent Head Agreement**
In 1996, a native title claim on a proposed residential development site at Crescent Head resulted in a consent determination being made in the Federal Court. The general terms of the consent determination required that if the land in Lot B had not been developed within 10 years of the anniversary of the deed of agreement attached to the consent determination, the State would pay the market value of the land, as determined by the Valuer-General, to a Native Title body corporate, established for the purpose of holding the compensation. At the time of the 10th anniversary of the deed of agreement, the Valuer-General determined the land had a value of $4.7 million. It is understood that while the Native Title body corporate has been established, its composition has yet to be formulated. Payment of compensation cannot be made until the formulation of the body corporate has been set and the body corporate formally seeks payment of the compensation from the State. Lands has no knowledge as to the likely time by which these actions will be completed. A provision has therefore been made for this liability, estimated based on the valuation determined at the 10th anniversary.

## 12. NOTES TO CASH FLOW STATEMENT

***(a) Reconciliation of cash and cash equivalents***

For the purpose of the Cash Flow Statement, cash includes cash held at bank and on hand. Cash & cash equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

| | | |
|---|---|---|
| Cash at bank and on hand | **12,377** | **30,208** |

## 12. NOTES TO CASH FLOW STATEMENT *(continued)*

***(b) Reconciliation of profit for the year to net cash flows from operating activities***

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| (Deficit)/surplus for the Year | (413) | 8,306 |
| **Adjustment for non-cash items** | | |
| Depreciation | 3 | 3 |
| **Movement in assets and liabilities** | | |
| Decrease/(increase) in inventories | 440 | (154) |
| (Decrease)/increase in creditors | (733) | (524) |
| (Decrease)/increase in amount due to the Crown Leaseholds Entity | (12,117) | 7,834 |
| (Increase)/decrease in receivables | (711) | (2,348) |
| Increase/(decrease) in provision | 4,700 | - |
| **Net cash (used in)/provided by operating activities** | **(8,831)** | **13,117** |

## 13. EQUITY

| | 2009 | 2008 |
|---|---|---|
| **Balance at the beginning of the year** | 11,183 | 11,877 |
| **Changes in equity - transactions with owners as owners** | | |
| Contribution to the Consolidated Fund of NSW | - | (9,000) |
| **Changes in equity - other than transactions with owners as owners** | | |
| (Deficit)/surplus for the year | (413) | 8,306 |
| **Closing balance** | **10,770** | **11,183** |

## 14. COMMITMENTS FOR EXPENDITURE

***(a) Capital commitments***

At 30 June 2009 there were no capital commitments (2008: $Nil).

## 14. COMMITMENTS FOR EXPENDITURE *(continued)*

***(b) Other expenditure commitments***

Aggregate other expenditure for audit fees contracted for at balance date and not provided for:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Not later than one year | 22 | 14 |
| Later than one year and not later than five years | - | - |
| Later than five years | - | - |
| Total (including GST) | **22** | **14** |

The total 'other expenditure commitments' amount above includes input tax credits of $2,000 (2008 - $1,240) that are expected to be recoverable from the Australian Taxation Office.

***(c) Operating lease commitments***

At 30 June 2009 there were no operating lease commitments (2008: $Nil).

## 15. CONTINGENT LIABILITIES

**Nedoni**
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 Minister for Lands is liable to pay compensation for land to be resumed for a road at Byron Bay. The land has not been resumed as yet and negotiations are continuing with Nedoni & Byron Bay Shire Council on what, if any, of the land will actually be required for the road. The liability has therefore not been recognised.

## 16. NATIVE TITLE

Under the provisions of the Commonwealth's *Native Title Act 1993* 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 legislation, are complex issues and are not directly related to the inventory value disclosed in the financial report. In accordance with the legislation, any future compensation claim which might arise in regard to land disposals is accepted by the Crown rather than LDWA. Therefore, there is no impact on the value of inventories disclosed in the financial report.

## 17. FINANCIAL INSTRUMENTS

LDWA's principal financial instruments are outlined below. These financial instruments arise directly from the LDWA operations or are required to finance the LDWA operations. The entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

LDWA's main risks arising from financial instruments are outlined below, together with its objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout this financial report.

The Secretary of the Treasury has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the LDWA, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the Audit Committee on an ongoing basis.

### *(a) Financial instrument categories*

| | Notes | Category | 2009 $'000 Carrying Amount | 2008 $'000 Carrying Amount |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Class** | | | | |
| Cash and Cash Equivalents | 4 | N/A | 12,377 | 30,208 |
| Receivables[1] | 5 | Receivables measured at amortised cost | 3,954 | 3,243 |
| **Financial Liabilities** | | | | |
| **Class** | | | | |
| Payables[2] | 8 | Financial liabilities measured at amortised cost | 2,262 | 2,807 |

*Notes:*
1. Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).
2. Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

### *(b) Credit risk*

Credit risk arises when there is the possibility of the LDWA's debtors defaulting on their contractual obligations, resulting in a financial loss to the LDWA. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the LDWA, including cash and receivables. No collateral is held by LDWA. LDWA has not granted any financial guarantees.

## 17. FINANCIAL INSTRUMENTS *(continued)*

### *(b) Credit risk (continued)*

Credit risk associated with the LDWA's financial assets is managed through the selection of counterparties, establishment of minimum credit rating standards and management of customer credit arrangements.

*Cash*
Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate, adjusted for a management fee. It is paid directly to the Crown Entity and not to LDWA.

*Receivables - trade debtors*
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 uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment).

The LDWA is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Credit is usually only provided to State and Local Government entities on land acquisitions. Payment for undeveloped land and developed land sales is due on settlement of land transactions. Debtors that are passed due and considered impaired are included in the table below.

| Receivables | Total $'000 | Past Due but Not Impaired $'000 | Considered Impaired $'000 |
|---|---|---|---|
| **2009** | | | |
| <3 months overdue | - | - | - |
| 3-6 months overdue | 82 | 82 | - |
| >6 months overdue | 336 | 137 | 199 |
| Total | 418 | 219 | 199 |
| **2008** | | | |
| <3 months overdue | 10 | 10 | - |
| 3-6 months overdue | - | - | - |
| >6 months overdue | 495 | 353 | 142 |
| Total | 505 | 363 | 142 |

*Notes:*
1. The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore the "total" will not reconcile to the receivables total recognised in the balance sheet.

**17. FINANCIAL INSTRUMENTS *(continued)***

***(c) Liquidity risk***

Liquidity risk is the risk that the LDWA will be unable to meet its payment obligations when they fall due. The LDWA continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility without the need for the use of overdrafts, loans and other advances.

The LDWA has no existing loans, or credit standby arrangements. The LDWA's exposure to liquidity risk is deemed insignificant based on prior period data and current assessment of risk.

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 of Lands to award interest for late payment.

The table below summarises the maturity profile of the Lands Development Working Account financial liabilities, together with the interest rate exposure.

| | Weighted Average Effective Interest Rate | Nominal Amount | Interest Rate Exposure | | | Maturity Dates | |
|---|---|---|---|---|---|---|---|
| | | | Fixed Interest Rate | Variable Interest Rate | Non-Interest Bearing | 1 year or less | 1 to 5 years |
| | % | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2009** | | | | | | | |
| Payables | - | 2,262 | - | - | 2,262 | 2,262 | - |
| **Total Financial Liabilities** | | **2,262** | **-** | **-** | **2,262** | **2,262** | **-** |
| **2008** | | | | | | | |
| Payables | - | 2,807 | - | - | 2,807 | 2,807 | - |
| **Total Financial Liabilities** | | **2,807** | **-** | **-** | **2,807** | **2,807** | **-** |

*Notes*:
1. The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities and therefore will not reconcile to the receivables total reconcile to the balance sheet;
2. The amounts exclude statutory liabilities and revenue received in advance.

## 17. FINANCIAL INSTRUMENTS *(continued)*

### *(d) Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The LDWA has no exposure to foreign currency risk and does not enter into commodity contracts.

*Interest rate risk*
The LDWA does not account for any fixed rate financial instruments at fair value through the Profit and Loss or as available for sale. Therefore, for these financial instruments a change in interest rates would not affect surplus, deficit or equity. A reasonable possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The LDWA's exposure to interest risk is set out below.

| | | -1% | | 1% | |
|---|---|---|---|---|---|
| | Carrying Amount $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| **2009** | | | | | |
| **Financial Assets:** | | | | | |
| Cash and Cash Equivalents | 12,377 | (124) | - | 124 | - |
| Receivables | 3,954 | - | - | - | - |
| **Financial Liabilities:** | | | | | |
| Payables | 2,262 | - | - | - | - |
| **2008** | | | | | |
| **Financial Assets:** | | | | | |
| Cash and Cash Equivalents | 30,208 | (302) | - | 302 | - |
| Receivables | 3,243 | - | - | - | - |
| **Financial Liabilities:** | | | | | |
| Payables | 2,807 | - | - | - | - |

## 18. AFTER BALANCE DATE EVENTS

On 13 July 2009 the Premier wrote a letter to the Minister for Lands notifying him that a Property Management Authority would be created from the functions that had been allocated from within the Services, Technology and Administration clusters and also from other clusters. The LDWA will be included within this new Management Authority. Accordingly, the LDWA will no longer form part of the Crown Entity after July 2009.

**End of Audited Financial Report**

New South Wales
TREASURY

# Crown Leaseholds Entity

Financial Report for the year ended 30 June 2009

GPO BOX 12
Sydney NSW 2001

# INDEPENDENT AUDITOR'S REPORT

## CROWN LEASEHOLDS ENTITY

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Leaseholds Entity (the Entity) which comprises the balance sheet as at 30 June 2009, the operating statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

### Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Entity as at 30 June 2009, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

### Secretary of The Treasury's Responsibility for the Financial Report

The Secretary is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

**Independence**

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

Scott Stanton
Director, Financial Audit Services

30 October 2009
SYDNEY

## Crown Leaseholds Entity

## Financial Report for the year ended 30 June 2009

### Statement by Department Head

Pursuant to Section 45F (1B) of the *Public Finance and Audit Act 1983* and clause 4 of the *Public Finance and Audit Regulation 2005,* I declare that in my opinion:

(a) the accompanying financial report exhibits a true and fair view of the financial position of the Crown Leaseholds Entity for the year ended 30 June 2009 and the financial performance for the year then ended; and

(b) The financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, Treasurer's Directions and Australian Accounting Standards (including Australian Accounting Interpretations).

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

Michael Schur
Secretary
29 October 2009

# Crown Leaseholds Entity

## Operating Statement
## for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Leases and licences | 2 (a) | 52,933 | 48,531 |
| Investment revenue | 2 (b) | 2,208 | 2,013 |
| Other revenue | 2 (c) | 12,931 | 82,814 |
| **Total revenue** | | **68,072** | **133,358** |
| **Expenses** | | | |
| Operating expenses | 3 (a) | 757 | 229 |
| Grants and subsidies | 3 (b) | 17,251 | 17,766 |
| Other expenses | 3 (c) | 11,949 | 13,910 |
| **Total expenses** | | **29,957** | **31,905** |
| **Loss on disposal of assets** | 4 | **(21,116)** | **(88,807)** |
| **Other losses** | 5 | **(7,923)** | **(35,444)** |
| **SURPLUS / (DEFICIT) FOR THE YEAR** | | **9,076** | **(22,798)** |

The accompanying notes form part of these financial statements.

# Crown Leaseholds Entity

## Balance Sheet
## As at 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 8,729 | 5,470 |
| Receivables | 7 | 14,055 | 22,716 |
| **Total current assets** | | **22,784** | **28,186** |
| **Non-current assets** | | | |
| Receivables | 8 | 21,881 | 21,540 |
| Property | 9 | 6,250,822 | 6,271,212 |
| **Total non-current assets** | | **6,272,703** | **6,292,752** |
| **Total assets** | | **6,295,487** | **6,320,938** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payables | 10 | 4,675 | 5,314 |
| Other | 11 | 17,428 | 19,536 |
| Provisions | 12 | 967,506 | 984,966 |
| **Total current liabilities** | | **989,609** | **1,009,816** |
| **Non-current liabilities** | | | |
| **Total non-current liabilities** | | **-** | **-** |
| **Total liabilities** | | **989,609** | **1,009,816** |
| **Net assets** | | **5,305,878** | **5,311,122** |
| **EQUITY** | | | |
| Accumulated funds | 13 | 2,499,690 | 2,546,127 |
| Reserves | 13 | 2,806,188 | 2,764,995 |
| **Total equity** | | **5,305,878** | **5,311,122** |

The accompanying notes form part of these financial statements.

# Crown Leaseholds Entity

## Statement of Recognised Income and Expense
## for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| Net asset revaluation increments | | 57,321 | 235,673 |
| **TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY** | 13 | 57,321 | 235,673 |
| Surplus / (deficit) for the year | 13 | 9,076 | (22,798) |
| **TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR** | | **66,397** | **212,875** |
| **Effect of changes in accounting policies and correction of errors** | | | |
| Accumulated funds | | - | (26,990) |
| | | - | (26,990) |

The accompanying notes form part of these financial statements.

# Crown Leaseholds Entity

## Cash Flow Statement
## for the year ended 30 June 2009

| | Notes | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Payments** | | | |
| Goods and services | | (761) | (364) |
| GST to ATO | | (1,881) | (2,289) |
| **Total payments** | | **(2,642)** | **(2,653)** |
| **Receipts** | | | |
| Receipts from customers | | 33,287 | 42,238 |
| Interest received | | 1,991 | 2,355 |
| Other receipts | | 5,584 | 4,052 |
| **Total receipts** | | **40,862** | **48,645** |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 18 | **38,220** | **45,992** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of crown land | | 34,097 | 11,881 |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **34,097** | **11,881** |
| **CASH FLOWS USED IN FINANCING ACTIVITIES** | | | |
| Distribution to Consolidated Fund of NSW | 13 | (69,058) | (64,574) |
| **NET CASH FLOWS USED IN FINANCING ACTIVITIES** | | **(69,058)** | **(64,574)** |
| **NET INCREASE / (DECREASE) IN CASH** | | **3,259** | **(6,701)** |
| Opening cash and cash equivalents | | 5,470 | 12,171 |
| **CLOSING CASH AND CASH EQUIVALENTS** | 6 | **8,729** | **5,470** |

The accompanying notes form part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) Reporting entity*

The Crown Leaseholds Entity (CLE) is a not-for-profit entity (as profit is not its principle objective) responsible for collecting revenue from Crown land leases, licences, permissive occupancies and disposals of Crown land. It reports the value of untenured and tenured Crown land. The CLE's activities are administered by the Department of Lands on behalf of the Crown Entity. The registered office is 1 Farrer Place, Sydney NSW 2000.

This reporting entity is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

This financial report for the year ended 30 June 2009 has been authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement by the Secretary was signed.

### *(b) Basis of preparation*

This financial report is a general purpose financial report which has been prepared in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the *Public Finance and Audit Act 1983 and Regulation* and
- financial reporting directions issued by the Treasurer.

Properties available for sale are measured at fair value. Other financial report items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations made by management, are disclosed in the relevant notes to the financial report.

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

### *(c) Statement of compliance*

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

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

### *(d) Accounting for the Goods and Services Tax (GST)*

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

- the amount of GST incurred by CLE as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition cost of an asset, or as part of an item of expense and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. However, the GST components of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

### *(e) Income recognition*

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below:

**i. Interest revenue**
Interest revenue is recognised as it accrues using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement.*

**ii. Revenue from leases**
Rental revenue is recognised in accordance with AASB 117 *Leases* on a straight-line basis over the lease term. This may be offset by rebates, which are recognised in accordance with AASB 118 *Revenue*.

**iii. Revenue from royalties, licences and permissive occupancies**
Revenue is recognised in accordance with AASB 118 *Revenue* on an accrual basis in accordance with the substance of the relevant agreement.

**iv. Land taken on as Crown land**
Land declared to be Crown or returned to Crown as per revenue note 2(c) is recognised upon gazettal at fair value.

**v. Sale of Crown land**
Revenue from the sale of land is recognised on settlement when CLE transfers the significant risks and rewards of ownership of the assets.

**vi. Land acquisition sales**
Revenue from land acquisition sales, for land acquired by other Government agencies and Local Governments, is recognised upon the publication of the acquisition notice in the NSW Government Gazette.

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

### *(f) Assets*

**i. Acquisition of assets**

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the CLE. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted at an asset-specific rate.

**ii. Land assets**

The CLE has two broad categories of land which are reported as assets.

- Land Under Tenure

Crown land under tenure represents all parcels of Crown land which have a lease, licence, permissive occupancy or enclosure permit in place.

- Untenured Crown Land

Untenured Crown land includes all Crown land assets, except for those with tenure arrangements in place or Crown reserves under management by Reserve Trusts. Untenured Crown land includes Crown reserves for which no formal trust has been established; unoccupied Crown land; certain Crown Roads; land granted under Aboriginal Land Claims awaiting transfer; waterways and New South Wales land on the continental shelf within the 3 Nautical Mile Zone.

**iii. Reservation of Crown land**

Pursuant to Section 87 of the *Crown Lands Act 1989*, all the Crown land in the Eastern and Central Divisions of the State (including the New South Wales land on the continental shelf within the 3 Nautical Mile Zone) that was not within a reserve or part of any holding, was reserved under reserve No. R1011448 for the purpose of future public requirement as gazetted on 31 March 2006. To facilitate administration of those parcels, action was taken for land within reserve No. 1011448 to be further allocated to separate reserves within each Parish in the Eastern and Central Divisions of the State as gazetted on the 29th June 2007. These lands are referred to, classified and valued as untenured Crown land.

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

### *(f) Assets (continued)*

**iv. Revaluation of property**

Crown land assets reported by the CLE are valued in accordance with the NSW Treasury *Valuation of Physical Non-Current Assets at Fair Value* Policy and Guidelines Paper (TPP 07-1). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment.*

Property is measured on an existing use basis, where there are no known alternative uses in the existing natural, legal, financial and socio-political environment. However, in circumstances where there are known feasible alternative uses, property is valued at its highest and best use. Fair value of property is determined based on the best available market evidence, including current market selling prices for the same or similar assets.

Land assets reported within the CLE are re-valued annually by the Valuation Services within the Department of Lands. A revaluation was carried out as at 30 June 2009 and resulted in a net adjustment across all land assets of $57.3 million, to reflect the revaluation and the total land value of $6.3 billion.

The method of revaluing the land assets utilises mass valuation techniques, for the two broad categories of land which are reported as assets.

- <u>*Land under Tenure*</u>

  The CLE's interest in land under tenure is limited by the existence of agreements, which in many cases will deny the CLE occupancy of the land for many years or even in perpetuity. The CLE's interest in these leases is generally limited to the right to receive the income stream from the rentals combined with (in the case of term leases) the present value of the market value of the land deferred for the lease term. Consequently, the basis of valuation is capitalisation of the income stream from the different classifications of land within each Local Government Area (LGA), appropriately taking into account the conditions attached to the leases.

  In 2007, individual capitalisation rates were determined by the valuers for different types of tenure arrangements within different LGAs. These were in the range of 2% to 12% and applied to the income stream to determine the land values.

  In revaluing the land in 2008 and 2009, a single value movement factor was determined for each LGA, to capture the overall annual movement of capitalisation rates. This factor was applied to the capitalisation rate for each category of land in the LGA. The revised capitalisation rate was then applied to the total income for each tenure type to determine the revised land values. The factor was determined by the valuers from general market analysis and research of each LGA.

  The only exception to this relates to Crown land under enclosure permit, which is valued on the same basis as untenured Crown land.

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

### *(f) Assets (continued)*

### iv. Revaluation of property *(continued)*

- <u>*Untenured Crown Land*</u>
  The determination of global rates per hectare for a variety of land classifications for each LGA is considered the most appropriate approach to determine a value for untenured Crown land. This methodology has the advantages of being a practical way to cost effectively arrive at a market based value for lands where the CLE holds the full interest.

  In 2007 a valuation rate per hectare was provided for each land category type, within each LGA. The land was valued at the highest and best use taking into account zoning and other restrictions, access to services, infrastructure and property market demand. These value elements were considered in a global way when formulating a level to apply to the particular land category. The rates per hectare for each land category were determined following a consideration of sales of comparable land in the locality. Where significantly different classes of land were identified within a category, these were accounted for in compiling the overall rate per hectare for the land category.

  In revaluing the land in 2008 and 2009, a single value movement factor was determined for each LGA, to capture the overall annual land value movement. This factor was applied to the rate per hectare for each Crown land type within each respective LGA, to determine the 2009 valuation. The factor was determined by the valuers from general market analysis and research of each LGA.

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 surplus or deficit, the increment is recognised immediately as revenue in the surplus or deficit.

Revaluation decrements are recognised immediately as expenses in surplus or deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve. As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to the accumulated fund. The balance in the asset revaluation reserve represents an accumulation of various effects, which cannot be individually measured. These include:

- increase in rentals and annual CPI based rental increases
- new leases and licenses granted over untenured Crown land and identification of further chargeable occupancies and
- movements in leaseholds occurring upon conversion to freehold.

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

### *(f) Assets (continued)*

**v. Recognition of land under roads**
The CLE has recognised land under roads at a value per hectare rate based on the value of adjoining land. As per Treasury circular 09/02 *Land Under Roads*, where an agency previously recognised and is continuing to recognise land under roads, the same valuation methodology used in 2007/08 must be applied to all land under roads, until otherwise advised. The CLE has elected to continue to recognise land under roads under the same valuation methodology used in 2007/08. As such, the introduction of AASB 1051 *Land Under Roads* has no effect on the asset base of the CLE.

**vi. Impairment of property**
As a not-for-profit entity with no cash generating units, the CLE is effectively exempt from AASB 136 *Impairment of Assets* and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

**vii. Assets not able to be reliably measured**
The CLE holds certain assets that have not been recognised in the balance sheet because the CLE is unable to reliably measure the value for the assets. These assets include:

- Some minor infrastructure, such as redundant minor dams, is on Crown land. As these items do not generate any future economic benefit to the CLE, the land value is included in the untenured Crown land valuation, but the dams are not recognised as separate assets. Approximately $0.3m was spent by the Department of Lands on maintaining the dams in the reporting period. Some minor dams are heritage listed
- Other infrastructure on Crown land. Due to the size and nature of the Crown Estate, the value of infrastructure assets on Crown land is not currently captured. Work is currently underway so that in future the CLE should be in a position to determine a more reliable estimate of these values. Some infrastructure is likely to be of heritage significance.

**viii. Depreciation of property**
The CLE assets reported are limited to land, which is not a depreciable asset.

**ix. Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the operating statement when impaired, derecognised, through the amortisation process or expensed directly as the debt may warrant.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

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

### *(f) Assets (continued)*

**x. Impairment of financial assets**

All financial assets, except those measured at fair value through profit and loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the CLE will not be able to collect all amounts due. For financial assets carried at amortised cost, the amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the operating statement. Reversals of impairment losses are generally reversed through the operating statement, where there is objective evidence. However reversals of impairment losses on an investment in an equity instrument classified as "available for sale" must be made through the reserve. Reversals of impairment losses of financial assets carried at amortised cost cannot result in a carrying amount that exceeds what the carrying amount would have been, had there not been an impairment loss.

**xi. De-recognition of financial assets and financial liabilities**

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire; or if the CLE transfers the financial asset:

- where substantially all the risks and rewards have been transferred or
- where the CLE has not transferred substantially all the risks and rewards, if the CLE has not retained control.

Where the CLE has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the CLE's continuing involvement in the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

**xii. Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand.

### *(g) Liabilities*

**i. Payables**

These amounts represent liabilities for goods and services provided to the CLE and other amounts, including interest. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

**ii. Other provisions**

Other provisions exist when:

- the CLE has a present legal or constructive obligation as a result of a past event
- it is probable that an outflow of resources will be required to settle the obligation and
- a reliable estimate can be made of the amount of the obligation.

The CLE has provided for the liability of land claims which have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983* as at 30 June 2009, but not yet transferred. The amount, representing fair value of land granted based on estimated size of the land, is expensed when granted. Until the land is surveyed, the precise area to be transferred is unknown.

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

### *(g) Liabilities (continued)*

**ii. Other provisions *(continued)***

These parcels of land remain under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared. Once this action occurs, freehold title can be issued to the respective local Aboriginal Land Councils and the value transferred from the provision.

### *(h) Equity transfers*

The accounting treatment for transfers of land between CLE and other NSW State government agencies which are not due to an administrative restructure or transfers of programs/functions or parts thereof, is carried out in accordance with NSW Treasury *Contributions by Owners Made to Wholly-Owned Public Sector Entities* Policy and Guidelines Paper (TPP 09-3). This policy adopts requirements of AASB 1004 *Contributions* and Australian Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

The approach under this policy results in gains or losses for the CLE due to differences in value between the carrying amounts recognised by the transferor and the transferee. As per section 6.1 of TPP 09-3, the transferred assets or liabilities are to be recognised at the fair value to the transferee.

Where the existing use is the same, the carrying amounts of the transferor's assets and liabilities will generally not be materially different from the fair value to the transferee. However, where the existing use of physical assets is different between the two entities, the transferor's fair value prior to the transfer will be different to the fair value of the asset recognised by the transferee. In these circumstances and where the CLE is the transferor, it recognises these differences in values within other gains and losses in the financial report. All other equity transfers are recognised at fair value.

Any balance remaining in the asset revaluation reserve of the CLE in respect of those assets transferred is moved to the accumulated fund. Assets transferred as a result of an equity adjustment constitute a separate "class" of assets for the transferor, for the purpose of AASB 116 *Property, Plant and Equipment* paragraph 37. Valuing transferred assets as a separate class avoids the need to revalue all assets in the class where they originally belonged.

### *(i) Reclassification and correction of prior period errors*

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. AASB 108 *Accounting Policies Changes in Accounting Estimates and Errors* requires the correction of material prior period errors retrospectively to the extent practicable. Note 15 details changes made to 2008 comparatives information, due to reclassifications and the correcting of prior period errors in accordance with AASB 108. The reclassifications have been made to better align the financial report with requirements of Australian Accounting Standards.

### *(j) Contributions to Consolidated Fund of NSW*

Cash received by the CLE is distributed to the Consolidated Fund of NSW on a monthly basis. These distributions are net of costs paid by the CLE and do not include moneys held as deposits, held in trust, or funds which have yet to be credited against customer accounts.

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

### *(k) New Australian Accounting Standards issued but not effective*

The following new Accounting Standards and Interpretations have not been applied and are not yet effective for the period ending 30 June 2009. NSW Treasury TC 09/03 has mandated that agencies do not early adopt any of the new standards or interpretations.

- AASB 3 Business Combinations (issued March 2008)
- AASB 8 Operating Segments (issued February 2007)
- AASB 101 Presentation of financial statements (issued September 2007)
- AASB 123 Borrowing costs (issued June 2007), AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (issued June 2007)
- AASB 127 Consolidated and Separate Financial Statements (issued March 2008)
- AASB 1039 Concise Financial Reports (issued August 2008)
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 (issued February 2007)
- AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 (issued September 2007)
- AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101 (issued December 2007)
- AASB 2008-1 Amendments to Australian Accounting Standard – Share based Payments: Vesting Conditions and Cancellations [AASB 2] (issued February 2008)
- AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation (issued March 2008)
- AASB 2008-3 Amendments to Australian Accounting Standards and Interpretations arising from AASB 3 and AASB 127 (issued March 2008)
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process Project (issued July 2008)
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (issued July 2008)
- AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (issued July 2008)
- AASB 2008-8 Amendments to Australian Accounting Standards – Eligible Hedged Items (issued August 2008)
- AASB 2008-9 Amendments to AASB 1049 for consistency with AASB 101 (issued September 2008)
- AASB 2008-11 Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities (issued November 2008)
- AASB 2009-1 Amendments to Australian Accounting Standards – Borrowing Costs of Not for-Profit Public Sector Entities (issued April 2009)
- AASB 2009-2 Amendments to Australian Accounting Standards Improving Disclosures about Financial Instruments (issued April 2009)
- Interpretation 15 *Agreements for the Construction of Real Estate* (issued August 2008)
- Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* (issued August 2008)
- Interpretation 17 *Distributions of Non-Cash Assets to Owners* (issued December 2008) and AASB 2008-13 *Amendments to Australian Accounting Standards arising from AASB Interpretation 17 - Distributions of Non- Cash Assets to Owners* (issued December 2008)
- Interpretation 18 *Transfers of Assets from Customers* (issued March 2009)

It is considered that the impact of these new Standards and Interpretations in future periods will have no material impact on the financial statements of the CLE.

## 2. REVENUE

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| ***(a) Leases and licences*** | | |
| Leases and licences revenue | 58,290 | 54,126 |
| Less: rebates | (5,357) | (5,595) |
| | **52,933** | **48,531** |
| ***(b) Investment revenue*** | | |
| Interest on land sales | 1,577 | 1,695 |
| Interest on assets not at fair value | 631 | 318 |
| | **2,208** | **2,013** |
| ***(c) Other revenue*** | | |
| Land acquired for no consideration | | |
| Land transferred from Reserve Trust to untenured land | 6,730 | 36,032 |
| Land declared to be Crown land | 178 | 41,670 |
| Royalties | 2,548 | 2,213 |
| Natural Disaster Grants | 233 | 411 |
| Other land receipts | 3,242 | 2,488 |
| | **12,931** | **82,814** |

## 3. EXPENSES

| | | |
|---|---|---|
| ***(a) Operating expenses*** | | |
| Audit fees | 93 | 60 |
| Bad debts expense | 627 | 113 |
| Other | 37 | 56 |
| | **757** | **229** |

The audit fee for the CLE audit of the 2009 financial report is $83,600 (2008 $96,800).

| | | |
|---|---|---|
| ***(b) Grants and subsidies*** | | |
| Waivers | 16,475 | 15,429 |
| Loan grant expense (low and interest free loans) | 543 | 1,926 |
| Natural disaster grants | 233 | 411 |
| | **17,251** | **17,766** |
| ***(c) Other expenses*** | | |
| Aboriginal Land Council (ALC) claims granted | 3,240 | 1,749 |
| ALC provision revaluation increment / (decrement) | 8,709 | 12,161 |
| | **11,949** | **13,910** |

The ALC provision revaluation amount adjusts the provision, to reflect the outcome of the land asset revaluations (refer to note 12) and other changes of estimates.

## 4. LOSS ON DISPOSAL OF ASSETS

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| ***(a) Net (loss)/gain on disposal of land*** | | |
| Proceeds from sale of land | | |
| General land sales | 7,722 | 3,238 |
| Land acquired by Government agencies | 2,455 | 498 |
| Sale of land to Land Development Working Account | 6,189 | 7,834 |
| Conversion of perpetual leases to freehold | 7,221 | 8,472 |
| Total proceeds | 23,587 | 20,042 |
| Less: carrying value of land | (29,395) | (22,650) |
| Net (loss)/gain on disposal of land | (5,808) | (2,608) |
| ***(b) Disposal of land for no consideration*** | | |
| Land transferred to Reserve Trusts | (11,635) | (68,243) |
| Crown Roads transferred to Local Government | (3,673) | (17,956) |
| | (15,308) | (86,199) |
| **Total loss on disposal of assets** | **(21,116)** | **(88,807)** |

## 5. OTHER LOSSES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Revaluation (decrement)/increment on transfer of land to other NSW Government agencies (eg. National Parks) | (7,923) | (35,444) |
| | **(7,923)** | **(35,444)** |

## 6. CASH AND CASH EQUIVALENTS

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Cash at bank and on hand | **8,729** | **5,470** |

Cash and cash equivalents comprises cash at bank, security deposits and receipts collected by the Department. An amount of $7.488 million (2008 – $4.476 million) is held in a bank remitting account pending distribution.

## 7. CURRENT ASSETS - RECEIVABLES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Sale of goods and services | 12,943 | 21,857 |
| Amounts due on conversions | 1,690 | 1,609 |
| Less: allowance for impairment | (578) | (750) |
| | **14,055** | **22,716** |
| Movement in the allowance for impairment | | |
| Balance at 1 July | (750) | (752) |
| Amounts written off during the year | 391 | 2 |
| Amounts recovered during the year | - | - |
| Increase/(decrease) in allowance recognised in surplus/(deficit) | (219) | - |
| Balance at 30 June | **(578)** | **(750)** |

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired are included in Note 19.

## 8. NON-CURRENT ASSETS - RECEIVABLES

| | | |
|---|---|---|
| Amounts due on conversions | **21,881** | **21,540** |

## 9. NON-CURRENT ASSETS – PROPERTY

**Reconciliation**

A reconciliation of the carrying amount of each class of property at the beginning and end of the reporting year is set out below.

| **Year ended 30 June 2009** | **Untenured Crown Land $'000** | **Crown Land Under Tenure $'000** | **Total Carrying Amount $'000** |
|---|---|---|---|
| ***Net carrying amount at start of year*** | **5,714,653** | **556,559** | **6,271,212** |
| Additions | 6,908 | - | 6,908 |
| Disposals | (62,097) | (12,016) | (74,113) |
| Transfer between classes | (94,738) | 94,738 | - |
| Net revaluation increments less revaluation decrements | 37,971 | 19,350 | 57,321 |
| Asset transfers (to) / from other government agencies | (10,506) | - | (10,506) |
| **Net carrying amount at end of year** | **5,592,191** | **658,631** | **6,250,822** |

**Reconciliation**

A reconciliation of the carrying amount of each class of property at the beginning and end of the reporting year is set out below.

| **Year ended 30 June 2008** | **Untenured Crown Land $'000** | **Crown Land Under Tenure $'000** | **Total Carrying Amount $'000** |
|---|---|---|---|
| ***Net carrying amount at start of year*** | **5,603,757** | **551,578** | **6,155,335** |
| Additions | 73,538 | - | 73,538 |
| Disposals [(1)] | (98,247) | (11,207) | (109,454) |
| Transfer between classes | (35,253) | 35,253 | - |
| Net revaluation increment less revaluation decrements | 254,738 | (19,065) | 235,673 |
| Asset transfers (to) / from other government agencies | (83,880) | - | (83,880) |
| **Net carrying amount at end of year** | **5,714,653** | **556,559** | **6,271,212** |

*Notes:*

1. The carrying amount of property for 2008 includes a number of adjustments made since the 2008 financial report. Refer to note 15 for further details.

## 10. PAYABLES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Security deposits | 1,479 | 1,505 |
| Payments received in advance | 1,330 | 2,478 |
| Others | 1,866 | 1,331 |
| | **4,675** | **5,314** |

In addition to the cash security deposits, the CLE is holding non-cash guarantees of $5.277 million (2008 – $5.187 million) in the form of bank guarantees. These bank guarantees are required in connection with a lease or licence of land for the provision of restoration costs that CLE may incur, if after the expiry of the lease or licence, work has to be done to restore the land to its original state or to demolish any structures that the customer may have left. These bank guarantees can also be used to cover unpaid rent although this is not the main reason for holding the guarantees. When the lease or licence expires or is terminated, if the land is in satisfactory condition and no money needs to be spent, the bank guarantee is returned to the customer.

Payments received in advance represent credits in customer accounts, where invoices for services have not yet been raised.

## 11. OTHER CURRENT LIABILITIES

| | | |
|---|---|---|
| Revenue received in advance | **17,428** | **19,536** |

Revenue received in advance represents invoices raised and payments received in the current financial period for services provided in future financial periods.

## 12. CURRENT PROVISIONS

The CLE has provided for the liability of claims which have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983* as at 30 June 2009 but not yet transferred. The amount of land valued at $968 million (2008-$985 million), represents fair value of land granted based on estimated size of the land. These parcels of land remain under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared. Once this action occurs, freehold title can be issued to the respective local Aboriginal Land Councils. At that point the care, control and management of the land will be transferred from the Crown. Until the land is surveyed, the precise area to be transferred is unknown.

| | | |
|---|---|---|
| Opening balance of Aboriginal Land Council claims granted | 984,966 | 975,713 |
| Claims granted during the year | 3,240 | 1,749 |
| Revaluation (decrement)/increment | 8,709 | 12,161 |
| Claims transferred out during the year from provision | (29,409) | (4,657) |
| Closing balance of Aboriginal Land Council provision | **967,506** | **984,966** |

## 13. EQUITY

| | Accumulated Funds | | Asset Revaluation Reserve | | Total Equity | |
|---|---|---|---|---|---|---|
| | **2009 $'000** | **2008 $'000** | **2009 $'000** | **2008 $'000** | **2009 $'000** | **2008 $'000** |
| **Balance at the beginning of the financial year** | **2,546,127** | **2,611,745** | **2,764,995** | **2,565,866** | **5,311,122** | **5,177,611** |
| Correction of errors | - | 33,646 | - | - | - | 33,646 |
| **Restated opening balance** | **2,546,127** | **2,645,391** | **2,764,995** | **2,565,866** | **5,311,122** | **5,211,257** |
| *Changes in Equity – transactions with owners as owners* | | | | | | |
| Increase / decrease in net assets from equity transfers (note 14) | 2,290 | (12,698) | - | - | 2,290 | (12,698) |
| Distribution to Consolidated Fund of NSW | (69,058) | (64,574) | - | - | (69,058) | (64,574) |
| **Total** | **(66,768)** | **(77,272)** | **-** | **-** | **(66,768)** | **(77,272)** |
| *Changes in Equity – other than transactions with owners as owners* | | | | | | |
| Surplus/(deficit) for the year [(1)] | 9,076 | (22,798) | - | - | 9,076 | (22,798) |
| Transfer on disposal of land | - | - | (4,873) | (35,738) | (4,873) | (35,738) |
| Increment / (decrement) on revaluation of land | - | - | 57,321 | 235,673 | 57,321 | 235,673 |
| **Total** | **9,076** | **(22,798)** | **52,448** | **199,935** | **61,524** | **177,137** |
| *Transfers within equity* | | | | | | |
| Asset revaluation reserve balance transferred to accumulated funds on disposal of asset | 11,255 | 806 | (11,255) | (806) | - | - |
| **Total** | **11,255** | **806** | **(11,255)** | **(806)** | **-** | **-** |
| **Balance at the end of the financial year** | **2,499,690** | **2,546,127** | **2,806,188** | **2,764,995** | **5,305,878** | **5,311,122** |

*Notes:*

1. The 2008 deficit ($22.798 million) includes a number of adjustments made since the 2008 financial report. Refer to note 15 for further details. Originally a surplus of $4.192 million was reported.

## 14. INCREASE/ (DECREASE) IN NET ASSETS FROM EQUITY TRANSFERS

During the current reporting period, land assets were transferred between the CLE and other Government agencies. These asset transfers are designated by NSW Treasury as contributions by owners, in terms of Interpretation 1038 *Contributions by owners to wholly-owned public sector entities*. In accordance with NSW Treasury TPP 09-3 equity transfers between public sector entities are generally required to be valued at fair value to the transferee.

Details of assets and liabilities transferred to and from other Government agencies (note 9) and a reconciliation to changes in equity resulting from these transfers (note 13) is set out below.

| | Notes | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| **Transfer of property assets from / (to) other agencies** | | | |
| Land transfers to other government agencies | | (12,937) | (84,053) |
| Land transfers from other government agencies | | 2,431 | 173 |
| Change in net assets from equity transfers | 9 | (10,506) | (83,880) |
| **Changes in equity from asset transfers** | | | |
| **Land transfers to other government agencies** | | | |
| Asset value prior to transfer | | (12,937) | (84,053) |
| Reduction from Asset Revaluation Reserve | 13 | 4,873 | 35,738 |
| Write down of asset value to fair value | 5 | 7,923 | 35,444 |
| Total equity transferred out | | (141) | (12,871) |
| **Land transfers from other government agencies** | | | |
| Total equity transferred in | | 2,431 | 173 |
| **Total change in accumulated funds from transfers** | 13 | **2,290** | **(12,698)** |

## 15. PRIOR PERIOD ERRORS AND RECLASSIFICATIONS

| Operating Statement | Previously reported figure for 2007-08 $'000 | Prior period error correction $'000 | Reclassification $'000 | Comparative figure reported in 2008-09 $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Investment revenue (a) | 2,674 | - | (661) | 2,013 |
| Other revenue (a)(b)(e) | 77,578 | 4,164 | 1,072 | 82,814 |
| **Total Revenue** | **128,783** | **4,164** | **411** | **133,358** |
| **Expenses** | | | | |
| Operating expenses (c) | 2,155 | - | (1,926) | 229 |
| Grants & subsidies (b)(c) | 15,429 | - | 2,337 | 17,766 |
| Other expenses (f) | 13,397 | 513 | - | 13,910 |
| **Total Expenses** | **30,981** | **513** | **411** | **31,905** |
| Loss on disposal of assets (g)(h) | (58,166) | (30,641) | - | (88,807) |
| **SURPLUS / (DEFICIT)** | **4,192** | **(26,990)** | **-** | **(22,798)** |

| Balance Sheet | Previously reported figure for 2007-08 $'000 | Prior period error correction $'000 | Reclassification $'000 | Comparative figure reported in 2008-09 $'000 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Receivables (i) | 25,807 | (3,091) | - | 22,716 |
| **Total current assets** | **31,277** | **(3,091)** | **-** | **28,186** |
| **Non-current assets** | | | | |
| Property (e)(g)(h)(j) | 6,300,734 | (29,522) | - | 6,271,212 |
| **Total non-current assets** | **6,322,274** | **(29,522)** | **-** | **6,292,752** |
| **Total Assets** | **6,353,551** | **(32,613)** | **-** | **6,320,938** |
| **Current Liabilities** | | | | |
| Other (i) | 22,627 | (3,091) | - | 19,536 |
| Provisions (d) | - | - | 984,966 | 984,966 |
| **Total current liabilities** | **27,941** | **(3,091)** | **984,966** | **1,009,816** |
| **Non-Current Liabilities** | | | | |
| Provisions (d)(f)(j)(k)(l) | 1,021,144 | (36,178) | (984,966) | - |
| **Total non-current liabilities** | **1,021,144** | **(36,178)** | **(984,966)** | **-** |
| **Total Liabilities** | **1,049,085** | **(39,269)** | **-** | **1,009,816** |
| **NET ASSETS** | **5,304,466** | **6,656** | **-** | **5,311,122** |
| **EQUITY** | | | | |
| Accumulated funds (e)(f)(g)(h)(k)(l) | 2,539,471 | 6,656 | - | 2,546,127 |
| **TOTAL EQUITY** | **5,304,466** | **6,656** | **-** | **5,311,122** |

## 15. PRIOR PERIOD ERRORS AND RECLASSIFICATIONS *(continued)*

The following notes provide further information about the adjustments made.

**Reclassifications** – the following reclassifications have been made in order to provide better reporting of information in line with Australia Accounting Standards.

(a) $0.661 million interest penalty on lease income has been reclassified from investment revenue to other revenue.

(b) $0.411 million for natural disaster grants has been reclassified as both other revenue and grants, rather than being offset within grant expenses.

(c) $1.926 million loan granting expenses have been reclassified from operating expenses, to grants and subsidies.

(d) The Aboriginal Land Council (ALC) provision has been reclassified from a non current liability, to a current liability, as the transfer of land is not conditional in terms of the definition within AASB 137 *Provisions, Contingents liabilities and Contingent Assets*.

**Errors in 2008 financial year** – the effective dates of a number of transactions processed during 2009, were determined to be in the 2008 financial year. These errors have been corrected retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimate and Errors*.

(e) $4.164 million of revenue related to reserve trust land transferred to vacant crown land.

(f) $0.513 million increase in other expenses for ALC claims granted.

(g) $22.427 million increase in book value of land transferred to Reserve Trusts.

(h) $8.214 million increase in book value of land sold, due to a calculation error in the carrying value of perpetual leasehold land converted to freehold land.

(i) $3.091 million adjustment between receivables and liabilities for revenue received in advance. This is due to recalculation of the split between invoices paid and unpaid, following the development of an automated report during 2009.

(j) $3.045 million for lands transferred to Aboriginal Land Councils.

**Errors prior to 2008 financial year** – the following Aboriginal Land Council transactions occurred prior to 2007/08.

(k) The value of two areas totaling $38.6 million was incorrectly included in the value of total grants recognised, at the inception of the ALC provision in 2007.

(l) $4.955 million worth of ALC grants recognised in 2009 related to earlier than July 2007.

## 16. COMMITMENTS

### a) *Operating lease commitments – Crown Leaseholds Entity as lessor*

The CLE has entered into operating leases on its land under tenure (note 1 (e)(ii)). All the non-cancellable leases rental charges are increased annually on the *Consumer Price Index* basis and the lease terms range from one to 99 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Not later than one year | 18,484 | 18,098 |
| Later than one year but not greater than five years | 79,280 | 77,480 |
| Later than five years but not greater than 10 years | 100,540 | 98,239 |
| | **198,304** | **193,817** |

Comparatives for 2008 have changed due to a change in the calculation method.

The leases and the lease conditions applicable to the above are classified into the following categories:

***Crown Lands Act 1989* (CLA):**

- **Lease**
  This type of lease can be granted for a period up to 99 years and conditions are imposed in accordance with the specific requirements of the leased area. In most instances, the land only is leased and it is recognised that the improvements belong to the lessee or there is a right for the lessee to remove improvements at the termination of the lease (with the consent of the Minister for Lands).
- **Licence**
  These tenures are terminable at will by the Minister for Lands and generally have no set term. These are not included in preceding commitment table.
- **Enclosure permit**
  This is a permit to enclose a Crown road or watercourse and is attached to land that is either freehold or under perpetual lease, but not a licence. These are not included in preceding commitment table.

***Crown Lands (Continued Tenures) Act 1989* (CTA):**

- **Perpetual lease**
  This is the lease held in perpetuity over land (i.e. it does not expire) subject to compliance with conditions including payment of annual rent, etc. Many of these can be purchased at a low value. If the lease is surrendered or terminated, no compensation is payable to the holder.
- **Term lease**
  This is a lease held for a stated period of time. It is also held over land only and the land may be purchased if the Minister for Lands agrees. The purchase price for the land would be market value.
- **Special lease**
  These leases were granted for a period up to 40 years under previous legislation for a variety of purposes. The land can only be used for the purpose for which the lease was granted.
- **Commonwealth leases**
  These leases are generally tenures granted for a specific purpose such as telecommunications or rifle ranges, etc.

## 16. COMMITMENTS *(continued)*

### *(b) Commitments for expenditure*

There is one commitment for expenditure as at 30 June 2009 of $50,600 for audit fees (2008 – $42,900), which includes $4,600 for GST (2008 – $3,900).

## 17. CONTINGENT LIABILITIES

Applications for native title under the *Native Title Act 1993* and *Aboriginal Land Rights Act 1983* have been made over various areas of land and water in New South Wales, which might ultimately result in land being transferred for no financial consideration, or for direct financial compensation being awarded. These applications have not been finalised and it is therefore not possible to estimate the financial impact or result of the claims.

It is likely that some parcels of Crown land may have been contaminated at some stage in the past. The Department of Lands has identified at least 442 sites on untenured Crown land which are likely to be contaminated to some degree. Work is still to be undertaken to determine the nature and extent of any such contamination. This work will also assist in determining the likely impact of any contamination on the value of the land holdings. However, it is considered that the existence of contaminated sites will not have a material impact on the overall value of the CLE land holdings.

## 18. RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| Surplus/(deficit) for the year | 9,076 | (22,798) |
| ***Adjustment for non-cash items*** | | |
| Loss on land disposed of | 21,116 | 88,807 |
| Interest free loan adjustments | (88) | 1,608 |
| (Gain) on non-cash acquisition of land | (6,908) | (77,702) |
| Asset valuation on transfer out to other Governement agencies | 7,923 | 35,444 |
| ALC claims granted | 11,949 | 13,910 |
| ***Change in assets and liabilities*** | | |
| (Increase)/decrease in receivables | (2,101) | 5,561 |
| (Decrease)/increase in liabilities | (2,747) | 1,162 |
| **Net cash flow from operating activities** | **38,220** | **45,992** |

## 19. FINANCIAL INSTRUMENTS

The CLE's principal financial instruments are outlined below. These financial instruments arise directly from the CLE's operations or are required to finance the CLE's operations. The CLE does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The CLE's main risks arising from financial instruments are outlined below, together with the CLE's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout this financial report.

The Secretary of the Treasury has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the CLE, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the Audit Committee on an ongoing basis.

### *(a) Financial instrument categories*

| Classes | Note | Category | Carrying amount 2009 $'000 | 2008 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 6 | N/A | 8,729 | 5,470 |
| Receivables | 7 | Receivables measured at cost | 12,364 | 21,107 |
| Other financial assets | 7,8 | Receivables measured at amortised cost | 23,571 | 23,149 |
| **Financial liabilities** | | | | |
| Payables | 10 | Financial liabilities measured at amortised cost | 1,477 | 1,209 |

*Notes:*
1. Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).
2. Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

### *(b) Credit risk*

Credit risk arises when there is the possibility of the CLE's debtors defaulting on their contractual obligations, resulting in a financial loss to the CLE. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the CLE, including cash and receivables. The CLE has not granted any financial guarantees.

Credit risk associated with the CLE's financial assets, is managed through the selection of counterparties, establishment of minimum credit rating standards and careful management of customer credit arrangements. Bank guarantees are also held as collateral, for customers with large regular dealings with the CLE.

*Cash*
Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

## 19. FINANCIAL INSTRUMENTS *(continued)*

### *(b) Credit risk (continued)*

*Receivables – trade debtors*
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 uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance or impairment).

The CLE is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Debtors that are passed due and considered impaired are included in the table below.

| | Total<br>$'000 | Past due but not impaired<br>$'000 | Considered impaired<br>$'000 |
|---|---|---|---|
| **2009** | | | |
| <3 months overdue | 1,628 | 1,547 | 81 |
| 3-6 months overdue | 1,322 | 1,298 | 24 |
| > 6 months overdue | 3,965 | 3,492 | 473 |
| **Total** | **6,915** | **6,337** | **578** |
| **2008** | | | |
| <3 months overdue | 2,776 | 2,776 | - |
| 3-6 months overdue | 1,910 | 1,910 | - |
| >6 months overdue | 19,032 | 18,282 | 750 |
| **Total** | **23,718** | **22,968** | **750** |

*Notes:*
1. The aging analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore the "total" will not reconcile to the receivables total recognised in the balance sheet.

### *(c) Liquidity risk*

Liquidity risk is the risk that the CLE will be unable to meet its payment obligations when they fall due. The CLE continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility without the need for the use of overdrafts, loans and other advances.

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 for Lands to award interest for late payment.

## 19. FINANCIAL INSTRUMENTS *(continued)*

### *(c) Liquidity risk (continued)*

The table below summarises the maturity profile of the CLE's financial liabilities, together with the interest rate exposure.

| Financial liabilities | Weighted average effective interest rate | Nominal amount | Interest rate exposure | | | Maturity dates | | |
|---|---|---|---|---|---|---|---|---|
| | | | Fixed interest rate | Variable interest rate | Non-interest bearing | 1 year or less | 1 to 5 years | Over 5 years |
| | % | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2009** | | | | | | | | |
| Payables | - | 1,477 | - | - | 1,477 | 1,477 | - | - |
| | | **1,477** | **-** | **-** | **1,477** | **1,477** | **-** | **-** |
| **2008** | | | | | | | | |
| Payables | - | 1,209 | - | - | 1,209 | 1,209 | - | - |
| | | **1,209** | **-** | **-** | **1,209** | **1,209** | **-** | **-** |

*Notes*:
1. The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities.
2. The amounts exclude statutory liabilities and revenue received in advance.

### *(d) Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The CLE has no exposure to foreign currency risk and does not enter into commodity contracts.

*Interest rate risk*
The CLE is not exposed to interest rate risk for any fixed rate financial instruments, because a change in interest rates would not affect surplus or deficit or equity. A reasonable possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The CLE's exposure to interest risk is set out below.

| | | $'000 | | | |
|---|---|---|---|---|---|
| | **Amount** | **Profit** | **Equity** | **Profit** | **Equity** |
| 2009 - Cash and cash equivalents | 8,729 | (87) | (87) | 87 | 87 |
| 2008 - Cash and cash equivalents | 5,470 | (55) | (55) | 55 | 55 |

## 20. AFTER BALANCE DATE EVENTS

On 13 July 2009 the Premier wrote a letter to the Minister for Lands notifying him that a Property Management Authority would be created from the functions that had been allocated from within the Services, Technology and Administration clusters and also from other clusters. The CLE will be included within this new Management Authority. Accordingly, the CLE will no longer form part of the Crown Entity after July 2009.

**End of Audited Financial Report**