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Annual Report 2004-05

Crown Entity

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Crown entity annual report 2004-05

This is the third volume of New South Wales Treasury's Annual Report for 2004-05. This volume includes details of the agencies and the funds administered by New South Wales Treasury for the Crown Entity:

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

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

Crown Entity Charter

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

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

Administration

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

Contact Details

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

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

This report is available on the NSW Treasury (OFM) web site:
www.treasury.nsw.gov.au

Total external costs associated with the production of this annual report were $2,992 (GST included).

28 October 2005
ISSN: 1440-2181

Contents

Highlights 2004-05

Statement of Financial Position ($m)

	2004-05	2003-04	Variation
Liabilities			
Total Liabilities	38,292	36,226	(2,066)
Total Assets	21,902	19,765	2,137
Net Liabilities	16,390	16,461	71

The movement in total liabilities between 2003-04 and 2004-05 is mainly explained by:-

Superannuation

Unfunded superannuation liabilities increased by $1.2 billion due primarily to the additional year of service provided by the scheme's active members.

Borrowings

Crown borrowings increased by $718 million to meet General Government budget dependent agencies recurrent and capital funding requirements.

Insurance Claims

The outstanding claims increase of $364 million is primarily due to higher workers compensation claims due to increased salaries.

Other Liabilities

In 2003-04 there was a liability for the Commonwealth Budget Balance Assistance grant which was received in advance.

There is a nil liability for 2004-05.

The increase in total assets between 2003-04 and 2004-05 is mainly due to:-

Investments

The financial asset increase of $1,919 million resulted from higher General Government Liability Management Fund and New South Wales Self Insurance Corporation asset balances, reflecting higher than assumed investment returns.

Statement of Financial Performance ($m)

	2004-05	2003-04	Variation
Total Revenues	36,705	35,036	1,669
Total Expenses	36,737	34,279	(2,458)
Deficit	**(32)**		**(789)**
Surplus		**757**	

The reduction in the Crown surplus for the year is principally due to a $554 million increase in superannuation expenses.

This mainly results from a higher proportion of retiring members electing to receive a pension rather than a lump sum payout.

The defined benefit scheme consumer price indexed pension has a higher ultimate cost in present circumstances.

Liability Management

Community Insurance Issues

Professional Standards Legislation

In light of the adoption of professional standards legislation nationally, Ministers noted the framework for national cooperation in administering professional standards legislation through common Professional Standards Councils.

Long Term Care for the Catastrophically Injured

PriceWaterhouse Coopers presented to Ministers a final report on long-term care for the catastrophically injured.

This report, titled *Long Term Care – Actuarial Analysis on Long-Term Care for the Catastrophically Injured, March 2005* was subsequently publicly released.

Ministers recognised there were potential benefits in nationally consistent state and territory based long-term care arrangements.

However they noted that further development of long-term care models is a matter for each jurisdiction to decide having regard to their own circumstances and existing arrangements.

On 21 June 2005 the former Premier, Mr Bob Carr, announced a NSW Government proposal for a new scheme to assist people with catastrophic injuries from motor vehicle accidents.

Assistance to Local Councils affected by HIH collapse

The NSW Government has an agreement with the Commonwealth to provide assistance to local councils experiencing financial hardship due to the collapse of HIH for claims determined in 2000-01 to 2004-05. The Commonwealth declined to extend the period of the agreement.

However, the NSW Government announced it will continue to assist local councils in accordance with the framework established by the original agreement for claims determined after 30 June 2005. The NSW Government will also help any affected local councils to approach the Commonwealth for assistance.

HIH Liabilities

To assist the community in the wake of the HIH collapse the Government assumed liability for

- the outstanding compulsory third party claims under policies in force with HIH prior to 31 December 2000, and
- for claims under the home warranty insurance scheme in respect of HIH policies entered into prior to 15 March 2001.

The claim liability assumed by the NSW Government was over $700 million. That has been reduced to $188 million, after actuarial revaluation, as at 30 June 2005.

Over $75 million of claim payments were made to ex-HIH policy holders during the year.

Treasury Managed Fund (TMF) Tender

GIO Australia has managed the TMF since it inception.

When the TMF was established, GIO was owned by the NSW Government.

At the time of its privatisation, GIO was given a five year contract for the management of the TMF.

GIO won this business at two competitive tenders.

The current five year contract expired on 30 June 2005.

Treasury used this opportunity to implement fundamental reforms to how insurance services are provided.

It was decided to move away from a single claims management provider.

Treasury has a target of developing a more open, competitive market for delivering claims management services to the TMF.

From 1 July 2005, three workers compensation providers:

- Employers Mutual Limited,
- Allianz Australia Limited, and
- GIO Australia Limited,

will handle claims management.

The claims management of the Department of Health and other liability claims has been awarded to GIO.

There will also be separate long-term contracts for risk management, reinsurance and actuarial services.

The key objectives of this new structure is to improve TMF performance through:

- generating cost savings and efficiency gains;
- reducing the systemic risk associated with a single provider; and
- enabling comparison and benchmarking between providers.

It is expected that the new management arrangements will generate significant savings for workers' compensation and for legal liability.

Establishment of NSW Self Insurance Corporation

The Insurance Ministerial Corporation (IMC) was created in 1992 to accept the residual assets, liabilities, rights and obligations of government insurance activities.

On 15 December 2004 the NSW Self Insurance Corporation Act 2004 was given assent.

This Act changes the name of the IMC and clarifies its purpose and functions.

The NSW Self Insurance Corporation (NSWSIC) will continue the activities of the former IMC and adopt some of the activities that are undertaken by the current Treasury Managed Fund manager (GIO).

The NSW Self Insurance Corporation's main functions are:

- Administration of the Treasury Managed Fund (TMF), which provides cover for all insurance exposures faced by general government sector budget dependent agencies (other than compulsory third party insurance). TMF memberships are also available to all other public sector agencies on a voluntary basis;
- Management of liabilities from a number of closed schemes: the Governmental Workers' Compensation Account, the Transport Accidents Compensation Fund and the Pre-managed Fund Reserve.
- From 1 July 2005, collection and analysis of data provided by the new TMF claims managers.
- Systems management of the new TMF data warehouse; and
- provision of reporting functions to member agencies; monitoring of claims providers; and provision of financial statements and budget estimates.

The NSW Self Insurance Corporation Branch is located at level 17, 201 Elizabeth Street, Sydney.
Photographed below are some of the Branch staff:
back row (left to right):
Janos Ariel, John Camage, Greg O'Donnell, Steve Hunt, Mario Chrisianto, Robert Lloyd
Front row (left to right)
Laurence Frederico, Natasha Lee, Laura Deverson, Dillip Shah, Michael Denlow, John Angelakis
Staff absent on the day of the photo:
Basundhara Dhungel, Jenny George, Kerry Slater, Lisa Rogers, Ric O'Connell and Susan Timmins

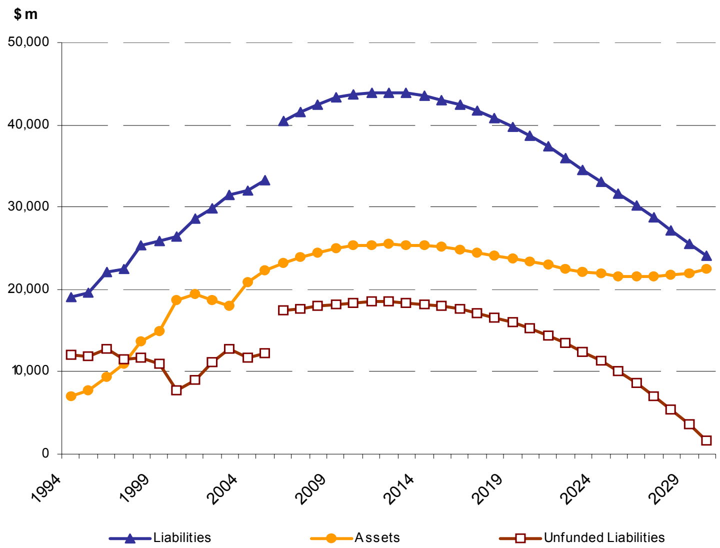
Superannuation Management
Introduction of International Accounting Standards

The adoption of Australian Accounting Standard AASB 119 "Employee Benefits" has increased the amount recorded for unfunded superannuation liabilities by approximately $4.6 billion for the Total State Sector.

The graph below illustrates the long-term position of general government sector superannuation liabilities. It shows that gross liabilities will continue to grow to 2012, and then gradually decline due to the retirement of active members and continued budget contributions up to 2030. By 2030, net liabilities are expected to be nil.

Treasury considers that the underlying economic value of the liabilities has not increased as a result of the changed accounting reporting approach. Employers must now value their liability in a defined benefit superannuation scheme using a risk free government bond discount rate rather than the rate of return rate that the investment assets are expected to earn. Such a risk free discount rate will be well below the estimated long-term superannuation investment earnings rate that is currently assumed in valuing superannuation liabilities.

Projected General Government Defined Benefit Scheme Superannuation Gross Liabilities, Assets and Net Liabilities



In Treasury's view the unfunded superannuation liability should be based on the level of funds needed to be contributed today to meet the liability based on an assumed (and disclosed) investment strategy. The present value of a liability should take into account the most likely earnings capability of the entity. Long-term investment history shows that government bond rate earnings are materially below a growth asset portfolio, and the Pooled Fund has a 74% strategic allocation to growth assets.

The superannuation scheme trustee itself will continue to report the schemes' financial position based on a discount rate which reflects forecast investment earnings. This is because superannuation schemes will remain subject to the existing accounting standard AAS 25, which is not being revised when other new Australian Equivalent International Financial Reporting Standards (AEIFRS), including AASB 119, come into effect.

The adoption of AASB119 for accounting reporting purposes will have no impact on the level of Crown employer cash contributions required to meet the 2030 funding target, as the Government's funding plan will continue to be calculated in accordance with AAS 25. The long-term earning rate of the fund that can be used as a discount rate under AAS 25 is more reflective of the actual performance of superannuation assets over time than the government bond rate required under AASB119.

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

Debt Management

General government sector borrowings are mainly represented by the debt portfolios of the Crown Entity and the Roads and Traffic Authority (RTA). These portfolios are managed by NSW Treasury Corporation (TCorp). Debt management has the twin objectives of:

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

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

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

Risk Management Review

The Crown Asset and Liability Management Branch (CALM) administers the *Public Authorities (Financial Arrangements) Act 1987,* that regulates the power of authorities to enter into financial arrangements, such as borrowing, investments, derivatives, and joint ventures.

In administering this Act, a key activity of CALM is to regularly review agencies financial risk management activities and assess if they are appropriate for the agencies level of financial arrangements. Areas focussed on include the skills and qualifications of staff, risk management systems, internal reporting procedures and policy documents. In 2004 - 05, CALM reviewed around 40 agencies' risk management frameworks. CALM coordinates these reviews, with the work being performed by external risk management consultants.

In 2004 - 05, CALM conducted a tender for risk management services.
The new contract commences on
1 November 2005.

Asset Management

Crown Financial Assets

The Government's approach is to hold financial assets to meet liabilities as they fall due.

Assets are held in superannuation and the General Government Liability Management Fund to enable the Government to meet future State pension and other lump sum superannuation entitlements.

The TMF holds assets to ensure workers' compensation and public liability claims are met in full.

These asset reserves ensure that future levels of agency service provision are not adversely impacted by liability payments.

Assets are accumulated at the time a liability is incurred rather than using the assets available when a liability is to be paid.

This is to ensure the taxpayers of the time meet the liability as it is incurred rather than burdening the taxpayers at the time the liability needs to be paid.

Financial assets held to meet future liabilities generate revenue for the Government to meet these liabilities rather than relying on taxation revenue.

Treasury Managed Fund

The Treasury Managed Fund's (TMF) total assets exceeded the fund's total gross liabilities by $780 million as at 30 June 2005, compared with net assets of $505 million as at 30 June 2004.

This continuing improvement in the TMF's financial position was achieved through better than expected investment returns and improvements in the current claims environment, particularly for public liability, where premiums collected have exceeded cash claim payments.

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

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

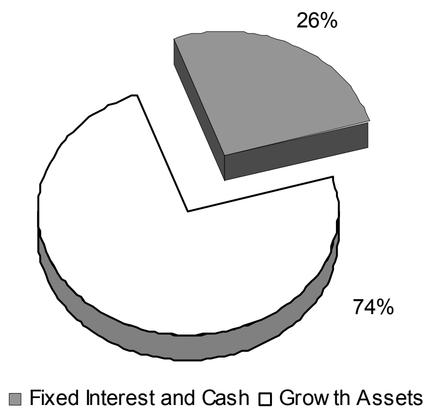
Asset class returns for 2004-05	%
Bonds	7.96
Cash	5.58
Australian shares	25.56
Australian indexed shares	26.14
International shares	(1.53)
International shares indexed	(0.15)
Property Listed	18.76
Total TMF	**9.37**

The investments are held by the NSW Treasury Corporation (TCorp) in its TCorp HourGlass facilities or directly in a managed bond portfolio. A memorandum of understanding between TCorp and Treasury details investment policies and procedures and sets benchmarks for each asset class.

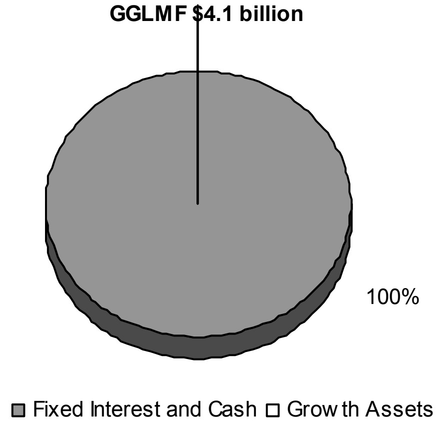
Investment performance is monitored by the Crown Entity Asset Management Committee, which was formed in December 2003 for the purpose of co-ordinating the management of the large amount of funds held centrally by the State. The Committee has representatives from both Treasury and TCorp.

Major asset portfolios' forecast strategic asset allocations, as at 30 June 2005

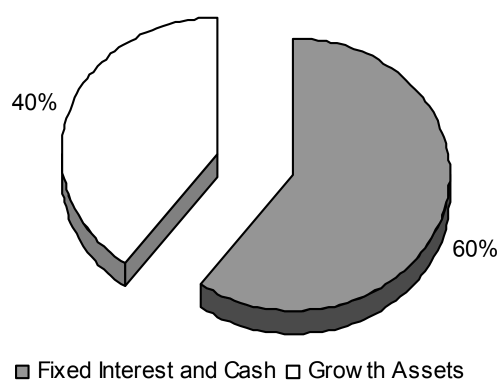
Crown Superannuation $16.6 billion



GGLMF $4.1 billion



TMF Insurance $5.1 billion



Liability Management Ministerial Corporation (LMMC)

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

Legislation establishing the Liability Management Fund provides that the balance in the Fund can only be used to meet superannuation liabilities.

In the case where unfunded superannuation liabilities are extinguished, the balance can be applied to debt reduction.

The Management Committee of the Fund consists of:

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

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

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

The Crown employer contributions to defined benefit superannuation schemes are currently being invested through the General Government Liability Management Fund (GGLMF).

These funds are invested in a fixed interest portfolio managed by TCorp under a memorandum of understanding with Treasury.

The balance of the General Government Liability Management Fund will be paid to the STC Pooled Fund in 2006-07 to ensure appropriate Pooled Fund liquidity is maintained.

At 30 June 2005 the balance of the Fund was $4,055 million, including contributions of $975 million from the Crown Entity and investment income of $198 million.

The Fund's investment return for the year was 5.82%.

Superannuation Trustee Corporation (STC)

The SAS Trustee Corporation (STC) is the trustee for all defined benefit schemes covering the employees of general government agencies and some public trading enterprises.

These schemes are now closed to new entrants.

The trustee reviews the STC Pooled Fund's strategic asset allocation annually.

Currently, the amount invested in growth assets is approximately 74% with the balance in bonds and cash.

The 2004-05 investment return was 13%.

Crown Entity Programs

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

Additional Crown Entity Undertakings

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

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

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

The TMF is a self-insurance scheme owned and underwritten by the Government.

It provides a full range of covers and services for its members.

Fund members include all general government budget dependent agencies, all public hospitals and a number of other government authorities.

Liability Management Ministerial Corporation
The Liability Management Ministerial Corporation was established to manage the General Government Liability Management Fund, (GGLMF).

Crown employer contributions are accumulated in the Fund and invested pending the payment of funds to the Superannuation Trustee Corporation.

Electricity Tariff Equalisation Ministerial Corporation
The Fund manages purchase cost risk for electricity retail suppliers of small retail customers in New South Wales.

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

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

Crown Property Portfolio
Activities relate to management of a portfolio of Crown rental and other real estate assets of the State where ownership or control has not been passed to individual agencies.

This also includes the refurbishment of Crown owned buildings under the Government's CBD Asset Strategy.

Financial Statements for the year ended 30 June 2005

Crown Entity

New South Wales
TREASURY

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

CROWN ENTITY

To Members of the New South Wales Parliament

Qualified Audit Opinion

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

(a) presents fairly the Crown Entity's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

(b) complies with sections 45E of the *Public Finance and Audit Act 1983* (the Act).

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

Qualification

As disclosed in Note 1 Statement of Significant Accounting Policies, the Crown Entity does not recognise Crown land that is dedicated or reserved (the Reserves) under the *Crown Lands Act 1989*. In my opinion, Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments" requires the fair value of the Reserves to be recognised because the State has the capacity to benefit from their use and can regulate the access of others to that benefit. The Management of Treasury estimates that the value of the Reserves may be between $1 billion and $7 billion or even outside this range.

My audit report for the year ended 30 June 2004 was similarly qualified.

The Secretary's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

R Sendt

R J Sendt
Auditor-General

SYDNEY
26 October 2005

New South Wales
TREASURY

STATEMENT OF DEPARTMENT HEAD

Pursuant to Section 45F 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 Crown Entity for the year ended 30 June 2005 and the transactions for the year then ended.

b) The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005, the Treasurer's Direction, Australian Accounting Standards and the Urgent Issues Group Consensus Views.

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

John Pierce
Secretary
25 October 2005

CROWN ENTITY
Statement of Financial Performance for the Year Ended 30 June 2005

	Notes	2005 $000	2004 $000
Expenses			
Superannuation		1,971,340	1,417,299
Long service leave		453,344	489,255
Maintenance		8,289	9,769
Amortisation and Depreciation	10	56,473	82,367
Grants and subsidies	2(a)	94,779	83,854
Borrowing costs	2(b)	760,085	722,379
Insurance claims	2(c)	1,095,632	1,160,972
Other	2(d)	902,108	725,394
Recurrent appropriations	30	28,918,083	27,183,244
Capital appropriations	30	2,476,936	2,404,841
Total Expenses		**36,737,069**	**34,279,374**
Revenue			
Taxation, fines and regulatory fees	3(a)	15,850,019	15,480,109
Commonwealth grants	3(b)	16,072,110	15,338,620
Financial distributions	3(c)	1,621,336	1,470,186
Sale of goods and services	3(d)	1,130,008	1,089,601
Investment income	3(e)	877,522	708,864
Other	3(f)	1,126,437	1,076,739
Total Revenues		**36,677,432**	**35,164,119**
Gain/(Loss) on Disposal of Non-Current Assets	4	27,565	(127,792)
SURPLUS /(DEFICIT) FOR THE YEAR		**(32,072)**	**756,953**
NON-OWNER TRANSACTION CHANGES IN EQUITY			
Net increase/(decrease) in asset revaluation reserve	18	133,694	642,933
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		**133,694**	**642,933**
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	18	**101,622**	**1,399,886**

The accompanying notes form part of these statements.

CROWN ENTITY
NOTES TO AND FORMING PART OF THE
2004-05 FINANCIAL STATEMENTS

	Notes	2005 $000	2004 $000
ASSETS			
Current Assets			
Cash assets	23	491,934	381,748
Other financial assets	6	179,227	732,096
Advances repayable to the Crown	7	88,281	137,838
Inventories	8	24,022	22,419
Receivables	9	2,064,459	2,116,318
Other		1,670	988
Total Current Assets		**2,849,593**	**3,391,407**
Non-Current Assets			
Property, Plant and Equipment	10	5,404,062	5,387,618
Investments in Associates	5	582,401	560,638
Other financial assets	6	9,103,124	6,741,246
Advances repayable to the Crown	7	1,548,162	1,528,581
Inventories	8	3,866	3,817
Receivables	9	1,989,053	1,731,983
Other - Health Super Growth Fund		421,688	420,358
Total Non-Current Assets		**19,052,356**	**16,374,241**
Total Assets		**21,901,949**	**19,765,648**
LIABILITIES			
Current Liabilities			
Payables	11	328,799	422,518
Bank overdraft	23	2,156,786	2,194,128
Interest bearing liabilities	12	2,393,002	1,361,198
Non-interest bearing liabilities	13	313,493	52,549
Unfunded superannuation	15	103,000	32,000
Employee benefits and other provisions	16	261,289	254,197
Provision for outstanding insurance claims	17	683,159	729,416
Lease incentive	27	3,819	3,818
Other	28	156,042	443,007
Total Current Liabilities		**6,399,389**	**5,492,831**
Non-Current Liabilities			
Payables	11	220,933	229,282
Interest bearing liabilities	12	7,961,608	8,309,178
Non-interest bearing liabilities	13	91,862	318,580
Unfunded superannuation	15	16,336,513	15,208,090
Employee benefits and other provisions	16	2,512,530	2,384,713
Provision for outstanding insurance claims	17	4,228,315	3,817,783
Lease incentive	27	1,909	13,805
Other	28	539,076	451,961
Total Non-Current Liabilties		**31,892,746**	**30,733,392**
Total Liabilities		**38,292,135**	**36,226,223**
Net Liabilities		**(16,390,186)**	**(16,460,575)**
EQUITY			
Reserves	18	1,004,173	870,479
Retained deficit	18	(17,394,359)	(17,331,054)
Total Equity		**(16,390,186)**	**(16,460,575)**

The accompanying notes form part of these statements.

CROWN ENTITY
Statement of Cash Flows for the Year Ended 30 June 2005

	Notes	2005 $000	2004 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee related		(1,253,437)	(1,059,089)
Grants and subsidies		(174,946)	(197,974)
Borrowing costs		(722,587)	(707,981)
Recurrent appropriation	30	(28,918,083)	(27,183,244)
Capital appropriation	30	(2,476,936)	(2,404,841)
Other		(1,882,205)	(1,624,778)
Total Payments		**(35,428,194)**	**(33,177,907)**
Receipts			
Taxation, fines and regulatory fees		15,811,435	15,281,256
Sale of goods and services		1,326,691	1,396,377
Commonwealth grants	30	16,072,110	15,338,620
Interest received		710,176	461,357
Dividend received		63,800	81,200
Financial distribution from Non Budget Sector		1,357,226	1,034,225
Other		1,041,376	1,280,169
Total Receipts		**36,382,814**	**34,873,204**
NET CASH FLOWS FROM OPERATING ACTIVITIES	24	**954,620**	**1,695,297**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		(2,283,470)	(2,951,595)
Purchase of property, plant & equipment		(16,574)	(18,473)
Advance made		(139,036)	(97,710)
Other		(1,991)	(420,358)
Proceeds from sales of investment		(45,887)	3,830
Proceeds from sales of property, plant & equipment		237,300	227,333
Advance repayment received		141,982	98,865
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(2,107,676)**	**(3,158,108)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and advances		1,002,492	8,500
Repayment of borrowings and advances		(331,864)	(734,480)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**670,628**	**(725,980)**
NET CASHFLOW FROM GOVERNMENT		-	-
NET INCREASE/(DECREASE) IN CASH		**(482,428)**	**(2,188,791)**
Opening cash and cash equivalents		(1,080,449)	971,342
Proceeds of capital restructure	30	76,000	137,000
CLOSING CASH AND CASH EQUIVALENTS	23	**(1,486,877)**	**(1,080,449)**

The accompanying notes form part of these statements

CROWN ENTITY
NOTES TO AND FORMING PART OF THE
2004-05 FINANCIAL STATEMENTS

Notes Index

CROWN ENTITY
NOTES TO AND FORMING PART OF THE 2004-05 FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Activities comprising the Crown Entity are summarised below:

- **Crown Finance Entity**
  Payments are made from parliamentary allocations to meet the costs of:
  - debt servicing of the Crown debt portfolio;
  - superannuation employer contributions for general government budget dependent agencies;
  - provision of grants and subsidies to public sector bodies;
  - administering the long service leave liability for general government budget dependent agencies and agencies which have moved from being budget dependent sector to the non-budget dependent sector;
  - performing the functions of residual entities of the State.

  In addition the Entity oversees the leasing of a large number of motor vehicles to other State government agencies.

- **Consolidated Fund**
  Activities represent the collection of state taxation, Commonwealth grants and financial distributions from the non-budget dependent sector agencies on behalf of the State of New South Wales. Payments comprise recurrent and capital appropriation payments to Budget dependent agencies. Details of receipts and payments of the Consolidated Fund are disclosed in Note 30.

Other Crown entities are:

- **NSW Self Insurance Corporation**
  On 1 April 2005 the NSW Self Insurance Corporation Act 2004 No.106 commenced. This Act changes the name of the Insurance Ministerial Corporation to New South Wales Self Insurance Corporation (NSW SICORP) and clarifies its purpose and functions. The NSW SICORP will continue the activities of the former Insurance Ministerial Corporation.

  The Corporation provides self insurance coverage for general government budget dependent agencies. It comprises the Treasury Managed Fund and Pre Managed Fund Reserve, Government Workers Compensation Account and the Transport Accident Compensation Fund. These were managed until 30 June 2005 by GIO General Limited. From 1 July 2005 the funds will be managed by a combination of GIO General Ltd, Allianz Australia Insurance Limited and Employers Mutual Limited.

- **Crown Lands Homesites Program**
  Develops and sells residential Crown land homesites in urban areas.

- **Land Development Working Account**
  Develops and sells Crown land for residential purposes in country New South Wales and for commercial purposes on a State wide basis.

- **Crown Property Portfolio**
  Manages the Crown property portfolio, comprising multiple occupancy buildings for sub lease to public sector agencies, heritage properties and industrial sites.

- **Electricity Tariff Equalisation Ministerial Corporation**
  Oversees the Electricity Tariff Equalisation Fund's management of the purchase cost risk for electricity retail suppliers of small retail customers in New South Wales.

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

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

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

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

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

CROWN ENTITY
NOTES TO AND FORMING PART OF THE 2004-05 FINANCIAL STATEMENTS

Basis of Accounting

The Crown Entity's financial statements are a general purpose financial report prepared on an accrual basis, except for revenue from taxes fees and fines, in accordance with Australian Accounting Standards, authoritative pronouncements of the Australian Accounting Standards Board, the Urgent Issues Group Consensus Views, relevant requirements of the *Public Finance and Audit Act 1983* and Public Finance and Audit Regulations and Treasury Accounting Policy Statements. The Crown Entity has been granted exemption from the Financial Reporting Code.

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

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

EXPENSES

Employee Benefits

The Crown Entity has no employees. Its work is done by staff of the Department of Commerce, the Department of Lands, Landcom, NSW Treasury Corporation and NSW Treasury. GIO General Ltd is contracted to administer the NSW Self Insurance Corporation. From 1 July 2005 the funds will be administered by a combination of GIO General Limited, Allianz Australia Insurance Limited, and Employers Mutual Limited.

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

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

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

Goods and Services Tax

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

- where the amount of GST incurred is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an item expense;

- for receivables and payables which are recognised inclusive of GST.

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

Leased Assets

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

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

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

Grants and Subsidies

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

Depreciation of Physical Non-Current Assets

Depreciation is on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each depreciable asset as it is consumed over its estimated useful life. Land is not a depreciable asset. Depreciation on buildings is at 2.5%, motor vehicles 12.5%, and computer equipment at 33.3%.

Amortisation of Physical Non-Current Assets

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

CROWN ENTITY
NOTES TO AND FORMING PART OF THE 2004-05 FINANCIAL STATEMENTS

REVENUE

State Taxation

State taxation is recognised as follows:

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

Commonwealth Grants

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

Financial Distributions

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

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

ASSETS

Cash

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

Investments

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

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

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

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

Valuation/Revaluation of Physical Non-Current Assets

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

Revaluation of Land

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

- **Leasehold Land**

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

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

(i) Increase in rentals and annual CPI based rental increases;

(ii) New leases and licences granted over vacant Crown land and identification of further chargeable occupancies; and

(iii) Movements in leaseholds occurring upon conversion to freehold.

- **Vacant Crown Land**

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

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

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

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

- **Offset of Revaluation Increments and Decrements**

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

- **Crown Reserves**

There are approximately 37,000 Crown reserves in New South Wales. Some of these reserves are managed by NSW Government and others by local governments and trusts.

The Department of Lands is in the preliminary stages of a project to identify and value Crown reserves controlled by the NSW Government.

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

Inventories

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

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

Parliamentary Appropriations and Contributions from Other Bodies

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

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

LIABILITIES

Payables

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

Insurance Claims Liability

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

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

Superimposed inflation refers to factors such as trends in court awards, for example, the increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date. Discount rates are used based on the estimated long term investment earnings of the insurance asset portfolio.

Borrowings

Borrowings represent funds raised from the following sources:

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

Borrowings are carried at current capital value representing face value less unamortised discount or plus unamortised premium. Discount/premiums are treated as finance charges and amortised over the term of the debt.

Gains and losses arising from foreign exchange and debt restructuring transactions, are included in the Statement of Financial Performance in the period arisen. Borrowing costs are recognised as expenses in the period incurred.

Financial Instruments

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

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

Classes of instruments recorded at cost comprise:

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

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

Hedging Policy

The Crown Entity undertakes hedging for both its debt portfolio and investments. TCorp as the managers of the debt and investment portfolios are mandated to utilise derivative instruments. The derivatives are to be used within an appropriate control environment and within authorised and clearly defined limits. Derivative contracts are not used for speculative purposes and are not hedged.

Long Service Leave

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

Superannuation

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

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

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

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

Changes in Accounting Practice

The have been no significant changes in Accounting Practice.

Comparative Figures

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

2. EXPENSES

	2005 $000	2004 $000
(a) Grants and Subsidies		
Natural Disaster Relief	6,967	30,778
Snowy River Water Rights	15,000	30,000
Health Capital Grant	22,700	12,575
Australian Inland Energy - Operating Subsidy	5,300	5,300
Sydney Harbour Foreshore Authority (Australian Technology Park)	41,267	-
Other	3,545	5,201
	94,779	**83,854**
(b) Borrowing Costs		
Finance Charges Incurred to:		
NSW Treasury Corporation	587,107	541,661
Commonwealth Government	78,229	81,834
NSW Budget-Dependent Agencies	49,311	49,276
Other	45,438	49,608
	760,085	**722,379**
(c) Insurance Claims		
Claims Paid	632,124	632,809
Increase in Outstanding Claims	379,931	443,607
Management Fees to GIO General Ltd and Legal Expenses	67,683	60,273
Provision for HIH Insurance Claims	15,894	24,283
	1,095,632	**1,160,972**
(d) Other Expenses		
Asset Revaluation Adjustment	11,750	
Head Leases	112,614	130,968
State Bank Post Sale Expenses	4,358	-
Remissions/Refunds Crown Revenue	66,232	51,012
First Home Purchase Discounts	-	3
Bad Debts Write Off	28,482	-
Outward Reinsurance Expense	22,926	22,247
Audit Fees - Financial Statements (Crown Entity and Total Sector State Account)	684	669
Audit Fees - Performance Audits	1,500	1,450
Production of Auditor-General's Reports to Parliament	1,345	1,310
Electricity Tariff Equalisation Payments to Generators and Retailers	391,513	266,553
GST Administration Costs	197,830	181,238
Freight Rail Sale Costs	-	131
Stamp Duty and Taxes	-	14,259
Other	62,874	55,554
	902,108	**725,394**

CROWN ENTITY
NOTES TO AND FORMING PART OF THE 2004-05 FINANCIAL STATEMENTS

	2005 $000	2004 $000
3. REVENUE		
(a) State Taxation		
Payroll Tax	5,405,229	4,904,828
Stamp Duties	4,801,953	5,501,965
Petroleum, Tobacco and Liquor Licences	2,226	1,806
Gambling and Betting	1,428,678	1,310,099
Land Tax	1,642,369	1,363,930
Motor Vehicle Taxes and Fees	1,407,071	1,296,541
Debits Tax	81	1,384
Fees and Fines	355,819	337,119
Fire Insurance Levy	317,068	286,337
Other	489,525	476,100
	15,850,019	**15,480,109**
(b) Commonwealth Grants		
National Competition Payments	233,601	203,548
Revenue Replacement	25,677	21,596
Budget Balancing Assistance	-	68,786
Specific Purpose -Recurrent	4,873,905	4,536,411
- Capital	991,205	841,198
GST Revenue	9,947,722	9,667,081
	16,072,110	**15,338,620**
(c) Financial Distributions		
Dividends	998,487	962,009
Income Tax Equivalents	622,849	507,692
Sales Tax Equivalents	-	485
	1,621,336	**1,470,186**
Tax of agencies in the TER (calculated at 30% for 2005)	590,477	587,287
Tax Effect of Permanent Differences	32,372	(79,595)
Tax Expense of Agencies in the TER	**622,849**	**507,692**
(d) Sales of Goods and Services		
Property Rental	155,188	163,338
Insurance Premium Revenue	974,359	921,849
Reinsurance and Other Recoveries Revenue	461	4,414
	1,130,008	**1,089,601**
(e) Investment Income		
Interest		
- Health Super Advances	24,470	13,108
- Advances	77,220	79,663
- Snowy Hydro - Investment Return	21,762	10,941
- Short Term Money Market Deposit	1,923	31,145
- Other	9,101	7,059
Market Value Increment/(Decrement) on Investments	743,046	566,948
	877,522	**708,864**

CROWN ENTITY
NOTES TO AND FORMING PART OF THE 2004-05 FINANCIAL STATEMENTS

	2005 $000	2004 $000
(f) Other Revenue		
Royalty on Minerals	396,349	248,738
Electricity Tariff Equalisation Contributions from Generators and Retailers	341,988	396,594
Revenue from Crown Leasehold Assets	41,394	34,432
Contribution from Environmental Trust	2,960	2,682
Fire Brigade Levy from Local Government	52,861	49,439
Crown Share of Budget Agency Asset Sales	19,840	20,373
Builders Warranty Premium Revenue	1,205	4,352
Repayments of Previous Years Appropriation	63,190	88,603
Long Service Leave Contributions	32,021	25,152
Employers Superannuation Contribution	4,480	25,067
Unclaimed Monies	26,246	20,152
Bona Vacantia - Public Trustee	7,256	7,730
Motor Vehicle Rental Income	66,824	103,568
Other	69,823	49,856
	1,126,437	**1,076,739**

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

Proceeds from Sale	297,383	312,490
Written Down Value of Property, Plant and Equipment Sold	269,818	440,282
Net Gain/(Loss) on Disposal of Property, Plant and Equipment	**27,565**	**(127,792)**

	2005 $000	2004 $000

5. INVESTMENT IN ASSOCIATE - SNOWY HYDRO LTD

	2005 $000	2004 $000
Balance 1 July	560,638	549,698
Add: NSW Share of After Tax Profit	85,563	92,140
Less: Dividends Received	(63,800)	(81,200)
Balance 30 June	**582,401**	**560,638**

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

Reconciliation of New South Wales share in Snowy Hydro Limited profits

	2005 $000	2004 $000
Retained Profit - Opening Balance	**87,309**	**76,369**
Dividends Received during the year	(63,800)	(81,200)
Profit from Ordinary Activities before Income Tax	115,208	124,435
Income Tax Expense relating to Ordinary Activities	(29,645)	(32,295)
Profit from Ordinary Activities after Income Tax	85,563	92,140
Retained Profit - Closing Balance	**109,072**	**87,309**

6. OTHER FINANCIAL ASSETS

	2005 $000	2004 $000
Current:		
Short Term Money Market Investment	33	6,872
Deposits at Call	177,943	725,058
Other	1,251	166
	179,227	**732,096**
Non -Current:		
"Hour Glass" Investments		
- Australian Shares	695,957	611,914
- Indexed Australian Shares	246,196	184,845
- International Shares	849,732	648,733
- Indexed International Shares	249,449	255,488
- Listed Property	200,041	155,165
Bond Portfolio	6,861,075	4,881,724
Other	674	3,377
	9,103,124	**6,741,246**

CROWN ENTITY
NOTES TO AND FORMING PART OF THE
2004-05 FINANCIAL STATEMENTS

7. ADVANCES REPAYABLE TO THE CROWN

	2005 $000	2004 $000
Current:	**88,281**	**137,838**
Non-Current:	1,568,692	1,528,581
Less: Provision for Doubtful Debts	(20,530)	-
	1,548,162	**1,528,581**
Total Advances	**1,636,443**	**1,666,419**
Represented by:		
Rural Assistance Authority	84,620	86,050
Sydney Water Corporation	41,614	43,945
Commonwealth Housing Advances	1,280,790	1,314,924
Administered Advances	18,829	27,725
Department of Primary Industries	35,728	22,531
Department of Education	65,749	82,649
NSW Business Link	13,500	13,500
NSW Health Department	33,600	-
Department of Environment and Conservation	39,103	17,403
Other	43,440	57,692
	1,656,973	**1,666,419**
Per Financial Statement Disclosure		
Current	88,281	137,838
Non-Current	1,548,162	1,528,581
	1,636,443	1,666,419

8. INVENTORIES

	2005 $000	2004 $000
Current:		
Developed Land Held for Sale - At Valuation	17,384	13,203
Land Development Works in Progress - At Valuation	6,638	9,216
	24,022	**22,419**
Non-Current:		
Developed Land Held for Sale - At Valuation	3,866	3,817
	3,866	**3,817**

9. RECEIVABLES

	2005 $000	2004 $000
Current:		
Taxes, Fees and Fines	748,464	731,169
Less: Provision for Doubtful Debts	(47,789)	(47,888)
	700,675	683,281
Dividends	983,125	965,132
Tax Equivalents	161,084	184,593
Reinsurance and Other Recoveries Receivable	28,117	28,211
Unspent Appropriations	44,005	77,203
Insurance	716	418
Other	146,737	177,480
	2,064,459	**2,116,318**
Non-Current:		
Provision for Deferred Income Tax	1,810,667	1,559,288
Reinsurance and Other Recoveries Receivable	144,256	129,417
Motor Vehicle Lease Reserve	-	16,088
Other	34,130	27,190
	1,989,053	**1,731,983**

10. PROPERTY, PLANT AND EQUIPMENT

(A) Property, Plant & Equipment - Finance Lease

	Building $000	Leasehold Land & Bldg $000	Motor Vehicles $000	Total $000
Gross Value				
Opening balance 1 July 2004	94,000	7,500	457,409	558,909
Add: Acquisition	-	-	123,445	123,445
Less: Transfer of McKell Bldg to Owned Property	(94,000)	-	-	(94,000)
Less: Disposals	-	-	(293,593)	(293,593)
Closing Balance 30 June 2005	**-**	**7,500**	**287,261**	**294,761**
Accumulated Depreciation/Amortisation				
Opening balance 1 July 2004	2,467	441	77,346	80,254
Add: Charge for the year	2,467	441	50,888	53,796
Less: Disposals	-	-	(81,308)	(81,308)
Less: Reversal due to Asset Revaluation	(4,934)	-	-	(4,934)
Closing Balance 30 June 2005	**-**	**882**	**46,926**	**47,808**
Written Down Value				
Balance 1 July 2004	91,533	7,059	380,063	478,655
Balance 30 June 2005	**-**	**6,618**	**240,335**	**246,953**

(B) Property, Plant & Equipment - Owned

	Land $000	Building $000	Work in Progress $000	Leasehold Land $000	Intangible $000	Computer Equipment $000	Total $000
Gross Value							
Opening balance 1 July 2004	3,983,532	312,176	-	616,230	2,200	36	4,914,174
Add: Acquisition	15,105	-	6,744	-	-	2	21,851
Add: Assets Received Free of Charge	390	-	-	-	-	-	390
Add: Transfer of McKell Bldg from Finance Lease	-	81,544	-	-	-	-	81,544
Less: Disposals	(31,662)	(156)	-	(4,187)	-	-	(36,005)
Add: Valuation Increments	37,487	12,456	-	140,328	-	-	190,271
Add: Transfer from Work in Progress	-	-	-	-	-	-	-
Add: Capitalised Expenditure	-	9,819	-	-	-	-	9,819
Less: Valuation Decrements	-	-	-	(11,750)	-	-	(11,750)
Less: Transfer to Other Government Agencies	(100)	-	-	(5,200)	-	-	(5,300)
Less: Transfer between classes	(30,301)	-	-	30,301	-	-	-
Less: Transfer to Intangible asset	-	(2,200)	-	-	-	-	(2,200)
Closing Balance 30 June 2005	**3,974,451**	**413,639**	**6,744**	**765,722**	**2,200**	**38**	**5,162,794**
Accumulated Depreciation/Amortisation							
Opening balance 1 July 2004	-	2,932	-	-	55	24	3,011
Add: Charge for the year	-	2,609	-	-	55	13	2,677
Less: Reversal due to Asset Revaluation	-	(3)	-	-	-	-	(3)
Closing Balance 30 June 2005	**-**	**5,538**	**-**	**-**	**110**	**37**	**5,685**
Written Down Value							
Balance 1 July 2004	3,983,532	309,189	-	616,230	-	12	4,908,963
Balance 30 June 2005	**3,974,451**	**408,101**	**6,744**	**765,722**	**2,090**	**1**	**5,157,109**

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

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

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

The finance lease of land and buildings relates to Noel Park House, Marius Street, Tamworth which is being written off over the life of the lease.

11. PAYABLES

	2005 $000	2004 $000
Current:		
SRA - Workers Compensation	3,662	15,970
Creditors	127,284	88,105
Financial Charges	152,078	122,222
Superannuation Accrued	-	25,104
GST Payable to Commonwealth	-	95,393
Motor Accident Authority - HIH Liability to Nominal Claimants	32,992	58,805
Accrued ETEF Tariffs	1,739	-
Other	11,044	16,919
	328,799	**422,518**
Non-Current:		
SRA - Workers Compensation	134,439	124,090
Motor Accident Authority - HIH Liability to Nominal Claimants	86,494	105,192
	220,933	**229,282**

12. INTEREST BEARING LIABILITIES

	2005 $000	2004 $000
Current:	2,393,002	1,361,198
Non-Current:	7,961,608	8,309,178
	10,354,610	**9,670,376**
Analysed as:		
New South Wales Treasury Corporation	8,456,733	7,493,620
Commonwealth Financial Agreement	97,947	97,968
Commonwealth Specific Purpose Advances	1,530,983	1,574,269
Finance Leases	249,317	475,995
Administered Loans	18,829	27,724
Other	800	800
Total Borrowings at Current Capital Value	**10,354,610**	**9,670,376**
Repayment of Borrowings at:		
Not later than one year	2,393,003	1,361,198
Between one and five years	1,911,441	3,082,588
Later than five years	6,050,166	5,226,590
	10,354,610	**9,670,376**

13. NON-INTEREST BEARING LIABILITIES

	2005 $000	2004 $000
Current:	313,493	52,549
Non-Current:	91,862	318,580
	405,355	**371,129**
Analysed as:		
New South Wales Treasury Corporation	405,355	371,129
Total Borrowings at Current Capital Value	**405,355**	**371,129**
Repayment of Borrowings at:		
Not later than one year	313,493	52,549
Between one and five years	12,733	234,885
Later than five years	79,129	83,695
	405,355	**371,129**

14. FINANCIAL INSTRUMENTS

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

(a) Derivative Financial Instruments

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

Net Exposure – Debt Portfolio

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

The Crown Entity has entered into interest rate future contracts at a face value of $1,309 million (2003-04 $278.6 million) to hedge against unfavourable interest rate movements and to maintain the portfolio duration within the agreed time band. The contracts had maturity dates to September 2005.

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

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

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

	2005 $000	2004 $000
Derivative Financial Instruments Receivable		
Floating Interest Rate Swap	102,002	102,002
Futures Marked to Market	138	60
	102,140	**102,062**
Derivative Financial Instruments Payable		
Fixed Interest Rate Swap	106,136	108,985
Forward Contracts	-	230
	106,136	**109,215**
Net Amount Receivable/(Payable) under Derivative Financial Instruments	**(3,996)**	**(7,153)**

Net Exposure – Investment Portfolio

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

Derivatives which may be used are:

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

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The Crown Entity has one type of derivative as at 30 June 2005, these are Foreign Exchange Contracts. As at 30 June 2005 there are two foreign currency bonds in the investment portfolio. The policy is that all foreign currency bonds are fully hedged for both principal and coupon payments. The foreign exchange contracts have no net market value as all flows associated with the bonds are fully hedged. The payment part of the swap equals the amounts received from the underlying physical bond. Details are:

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

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(b) Interest Rate Risk

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

Financial Instruments	**Floating interest rate**	**Fixed interest rate maturing in:**			**Non-interest bearing**	**Total carrying amount as per Statement of Financial Position**	**Weighted average effective interest rate**
2005		**1 year or less**	**Over 1 to 5 years**	**More than 5 years**			
	2005	**2005**	**2005**	**2005**	**2005**	**2005**	**2005**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**%**
(i) Financial Assets							
Cash	490,934					**490,934**	5.28
Investments							
- Hour Glass Facility	2,241,375					**2,241,375**	9.24
- Bond Portfolio		362,450	1,426,000	1,073,090		**2,861,540**	5.63
- Others	33	1,972,393	2,627,924	591,066	774	**5,192,190**	6.93
Advances Repayable to the Crown							
- Commonwealth Specific Purpose Advances		37,631	159,477	1,127,255		**1,324,363**	4.73
- Others		29,854	191,200	39,076	53,650	**313,780**	4.69
- Administered Borrowings		7,896	10,708	225		**18,829**	5.99
Receivables					1,442,765	**1,442,765**	
Total Financial Assets	**2,732,342**	**2,410,224**	**4,415,309**	**2,830,712**	**1,497,189**	**13,885,775**	
(ii) Financial Liabilities							
Payables		-	-	-	547,424	**547,424**	-
Bank Overdrafts (1)	2,156,786	-	-	-	-	**2,156,786**	Note (1)
Interest Bearing Borrowings							
- Finance Leases	-	147,264	99,046	3,007	-	**249,317**	5.25
- TCorp Borrowings	-	2,095,153	1,617,248	4,744,333	-	**8,456,733**	6.29
- Commonwealth General Purpose Borrowings	-	97,947	-	-	-	**97,947**	5.97
Borrowings	-	44,743	184,438	1,301,801	-	**1,530,983**	4.49
- Own Name Borrowings	-	-	-	800	-	**800**	6.82
- Administered Borrowings	-	7,896	10,708	225	-	**18,829**	6.08
- TCorp Borrowings	-	313,493	12,732	79,129	-	**405,354**	-
Non-Interest Bearing Borrowings							
- Other Liabilities	-	-	-	-	237,003	**237,003**	-
Total Financial Liabilities	**2,156,786**	**2,706,497**	**1,924,171**	**6,129,297**	**784,426**	**13,701,177**	
(iii) Off Balance Sheet Financial Instruments							
Derivatives Receivable	-		-		-		
Derivatives Payable	-		(106,137)				
Net Derivatives Financial Instrument	**-**	**-**	**(106,137)**	**-**	**-**		

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

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Financial Instruments	**Floating interest rate**	**Fixed interest rate maturing in:**			**Non-interest bearing**	**Total carrying amount as per Statement of Financial Position**	**Weighted average effective interest rate**
2004		**1 year or less**	**Over 1 to 5 years**	**More than 5 years**			
	2004	**2004**	**2004**	**2004**	**2004**	**2004**	**2004**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**%**
(i) Financial Assets							
Cash	381,748	-	-	-	-	**381,748**	4.99
Investments							
- Hour Glass Facility	1,856,146	-	-	-	-	**1,856,146**	5.25
- Bond Portfolio	-	162,376	1,729,260	625,987	-	**2,517,623**	5.68
- Others	6,873	851,358	296,733	2,924,740	867	**4,080,571**	7.05
Advances Repayable to the Crown							
- Commonwealth Specific Purpose Advances	-	36,710	155,654	1,168,702	-	**1,361,066**	4.66
- Others	-	79,810	104,037	56,820	36,960	**277,627**	3.37
- Administered Borrowings	-	7,896	17,176	2,653	-	**27,725**	6.35
Receivables	-	-	-	-	1,559,391	**1,559,391**	-
Total Financial Assets	**2,244,767**	**1,138,150**	**2,302,860**	**4,778,902**	**1,597,218**	**12,061,897**	
(ii) Financial Liabilities							
Payables		-	-	-	538,533	**538,533**	-
Bank Overdrafts (1)	2,194,128	-	-	-	-	**2,194,128**	Note (1)
Interest Bearing Borrowings							
- Finance Leases	-	286,153	183,555	6,287	-	**475,995**	7.78
- TCorp Borrowings	-	1,022,852	2,653,332	3,817,436	-	**7,493,620**	6.34
- Commonwealth General Purpose Borrowings	-	20	89,795	8,153	-	**97,968**	5.97
Borrowings	-	44,278	138,730	1,391,261	-	**1,574,269**	4.56
- Own Name Borrowings	-	-	-	800	-	**800**	6.82
- Administered Borrowings	-	7,896	17,176	2,653	-	**27,725**	5.10
- TCorp Borrowings	-	52,549	234,885	83,695	-	**371,129**	-
Non-Interest Bearing Borrowings							
- Other Liabilities	-	-	-	-	55,674	**55,674**	-
Total Financial Liabilities	**2,194,128**	**1,413,748**	**3,317,473**	**5,310,285**	**594,207**	**12,829,841**	
(iii) Off Balance Sheet Financial Instruments							
Derivatives Receivable	102,002		-		60		
Derivatives Payable	-		(109,215)				
Net Derivatives Financial Instrument	**102,002**	**-**	**(109,215)**	**-**	**60**		

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

(c) Credit Risk

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

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

(d) Net Fair Value

As in Note 1, all financial instruments are carried at cost, unless otherwise stated. The net fair value of cash and cash equivalents and non-interest bearing financial assets and liabilities of the Crown Entity approximates their carrying value.

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

The net fair value of the interest rate swaps contracts and interest rate futures contract quoted by New South Wales Treasury Corporation to realise or settle the contracts, were determined at 30 June 2005.

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

	Total Amount as per Statement of Financial Position 2005 $000	Aggregate Net Fair Value 2005 $000
Financial Assets		
Investments		
-TCorp Hour Glass	2,241,375	2,241,375
-Bond Portfolio	7,281,763	7,281,763
-Others	179,901	179,901
Advances Repayable to the Crown		
-Funded by Commonwealth Specific Purpose Loans	1,324,363	1,097,292
-Funded by Others	313,781	310,928
-Administered Borrowings	18,829	19,056
Receivables	1,442,765	1,442,675
Total	**12,802,777**	**12,572,990**
Financial Liabilities - Unsecured		
Borrowings		
-Finance Leases	249,317	249,317
-TCorp Borrowings	8,862,088	9,187,492
-Commonwealth General Purpose Borrowings	97,947	97,311
-Commonwealth Specific Purpose Borrowings	1,530,983	1,399,178
-Own Name Borrowings	800	888
-Administered Borrowings	18,829	19,056
Future Marked to Market	-	(138)
Interest Rate Swap	-	4,134
Total	**10,759,965**	**10,957,238**

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

15. UNFUNDED SUPERANNUATION LIABILITY

	2005 $000	2004 $000
Current:	103,000	32,000
Non-Current:	16,336,513	15,208,090
	16,439,513	**15,240,090**

Movement in Provision:	**Unfunded Superannuation $000**
Balance 1 July 2004	15,240,090
Less: Employer Contributions	(103,000)
Plus: Increase in Liability during the year	1,302,423
Balance 30 June 2005	**16,439,513**

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

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

The SAS Trustee Corporation's actuary Mercer Human Resource Consulting, calculated the unfunded liabilities of State Public Sector superannuation schemes for the year ended 30 June 2005.

Unfunded superannuation liabilities increased by $1,199 million during 2004-05. This result does not take into account funds held in the non-superannuation investment fund called the General Government Liability Management Fund (GGLMF). The increase is the net effect of an increase in accrued employer liabilities of $2,134 million and an increase in employer assets of $934 million.

The movement in accrued liabilities is due to the net effect of a number of factors including:

a) the additional year of service being provided by current Pooled Fund scheme contributors;
b) one year less discounting to arrive at the present value of total future benefit payments;
c) higher than expected salary increases;
d) greater than expected exits; and
e) fewer than expected communications of pensions to lump sums (which are less costly to employers than pensions)

The movement in reserves is largely explained by the net effect of a number of factors including:

a) positive 13.0 percent investment return on Pooled Fund assets during 2004-05;
b) no Crown superannuation employer contributions into the Pooled Fund during 2004-05;
c) fewer than expected communications of pensions to lump sums; and
d) transfer of reserves from the Crown superannuation reserves to the SRA's reserves.

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

The actuarial calculation of unfunded superannuation liabilities as at 30 June 2005 is based on:

a) Superannuation scheme membership data as at 31 March 2005;
b) Demographic assumptions as per the 2003 Triennial Valuation of the Pooled Fund Superannuation Schemes; and
c) The following assumptions:

	2004-05	Thereafter
Investment return	13.00%	7.30%
Salary growth rate	4.00%	4.00%
CPI growth rate	2.50%	2.50%
Liability discount rate	7.30%	7.30%

The schemes' estimated net unfunded superannuation liabilities are represented by total member plus employer gross liabilities and the market value of assets (approximately 65 percent shares infrastructure and other, 10 percent property and 25 percent fixed interest and cash) held by the SAS Trustee Corporation to meet the accrued liabilities, as follows:

	Gross Liabilities $000	Total Assets $000	Net Unfunded Liabilities $000
State Authorities Superannuation Scheme	7,012,300	4,527,800	2,484,500
State Authorities Non Contributory Superannuation Scheme	1,658,300	743,500	914,800
State Superannuation Scheme	18,799,313	10,147,000	8,652,313
Police Superannuation Scheme	4,955,900	1,028,500	3,927,400
Judges' Pension Scheme	363,700	-	363,700
Parliamentary Contributory Superannuation Scheme	296,400	199,600	96,800
	33,085,913	**16,646,400**	**16,439,513**

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

16. OTHER EMPLOYEE BENEFITS

	2005 $000	2004 $000
Current:		
Employee Benefits comprise:		
Budget Dependent Long Service Leave and Other Leave Benefits	252,431	244,672
Non-budget Dependent Long Service Leave Pool	8,858	9,525
	261,289	**254,197**
Non-Current:		
Budget Dependent Long Service Leave and Other Leave Benefits	2,436,979	2,309,111
Non-budget Dependent Long Service Leave Pool	75,551	75,602
	2,512,530	**2,384,713**
Total Other Employee Benefits	**2,773,819**	**2,638,910**

Movement in Major Provisions:

	Budget Dependent Long Service Leave $000	Non -Budget Dependent Long Service Leave $000
Balance 1 July 2004	2,553,783	85,127
Add: Increase in liability during the year	444,916	16,837
Less: Payments	(309,289)	(17,555)
Balance 30 June 2005	**2,689,410**	**84,409**

17. PROVISION FOR OUTSTANDING INSURANCE CLAIMS

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

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

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

Movement in outstanding claims is mainly due to:

(i) Public Liability – increased overall due to the addition of a new fund year, a reduction in discount rates and allowances made for the Canberra bush fires, offset partially by improvements in small bodily claims following the introduction of legislative reforms,
(ii) Property – declined due to favourable large claims development; and
(iii) Workers Compensation – increased due to the addition of the new fund year, a decrease in discount rates, offset partially by improvement in claims experience for prior fund years and significant reduction in the provision for Common Law claims following revised actuarial method.

	Treasury Managed Fund $000	Government Workers Compensation $000	TAC Fund $000	HIH Builders Warranty $000	Total $000
Expected Future Claims					
Payments (undiscounted)	7,396,713	148,292	518,445	107,004	8,170,454
Discount to Present Value	(2,858,797)	(62,881)	(320,196)	(17,106)	(3,258,980)
Liability for Outstanding Claims	4,537,916	85,411	198,249	89,898	4,911,474
Current -2004	667,513	7,685	28,357	25,861	729,416
Non Current -2004	3,479,720	69,853	188,517	79,693	3,817,783
	4,147,233	77,538	216,874	105,554	4,547,199
Movements for 2004-05					
Add: Claims Expense	979,854	6,292	7,984	9,811	1,003,941
Less: Payments	(589,171)	1,581	(26,609)	(25,467)	(639,666)
Liability for Outstanding Claims	4,537,916	85,411	198,249	89,898	4,911,474
Analysed as:					
Current - 2005	626,107	7,825	28,255	20,972	683,159
Non Current -2005	3,911,809	77,586	169,994	68,926	4,228,315
	4,537,916	85,411	198,249	89,898	4,911,474

(a) The TMF weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.3 years (2004 5.7 years).
(b) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the TMF liability for outstanding claims;

	2005 %	2004 %
Claims Expected to be Paid		
Not later than one year:		
Inflation rate	3.25	3.25
Discount rate	6.50	6.60
Later than one year:		
Inflation rate	3.25	3.25
Discount rate	6.40-6.50	6.60-7.10

Prudential margins added in 2005 and 2004 to the central estimate of the claim liability and the probability of adequacy are:

	Prudential Margin %	Probability of Adequacy %
NSW Treasury Managed Fund (Workers Compensation and Liability for 2005)	7.5	67
Transport Accident Compensation Fund	7.5	60

18. CHANGES IN EQUITY

	Accumulated Deficit $000	Asset Revaluation $000	Total Equity $000
Balance at 1 July 2004	(17,331,054)	870,479	(16,460,575)
Changes in Equity - transactions with Owners as Owners			
Asset Revaluation Reserve Transfer In	52,767	-	52,767
Employee Entitlement Liability - Admin Restructure	(160,000)	-	(160,000)
Capital Restructure	76,000	-	76,000
Total	**(31,233)**	**-**	**(31,233)**
Changes in Equity - other than transactions with owners as Owners			
Surplus/(Deficit) for the year	(32,072)	-	(32,072)
Increase in Asset Revaluation Reserve	-	186,461	186,461
Transfer of Realised Revaluation Reserve on disposal of asset	-	(52,767)	(52,767)
Total	**(32,072)**	**133,694**	**101,622**
Balance at 30 June 2005	**(17,394,359)**	**1,004,173**	**(16,390,186)**

19. INDIVIDUALLY SIGNIFICANT ITEMS

During 2004-05 there were three individually significant items. These were:

1) Superannuation expense was $1,971 million ($1,417 million in 2003-04) due largely to an increase in accrued employer liabilities of $2,134 million offset by an increase in employer assets of $935 million (refer to Note: 15). In addition the Crown Entity made $896 million of superannuation contributions to accumulation schemes.

2) The Crown Finance Entity made a grant of $975 million to the Liability Management Ministerial Corporation (LMMC), ($1,124 million in 2003-04). The LMMC must, by law, ultimately apply this money to reducing the Crown Entity's Superannuation Liability as long as one exists. At 30 June 2005 these funds were invested as per recommendations by the LMMC Investment Committee.

3) Investment income increased by $168 million due to increased returns on investments by the LMMC ($127 million) and the NSW Self Insurance Corporation ($80 million).

During 2003-04 there were the following individually significant items:

- Superannuation expense was $1,417 million due to an increase in accrued employer liabilities of $1,438 million offset by an increase in employer assets of $626 million (refer to Note: 15).

- The Crown Finance Entity made a grant of $1,124 million to the Liability Management Ministerial Corporation (LMMC). The LMMC must, by law, ultimately apply this money to reducing the Crown Entity's Superannuation liability as long as one exists. At 30 June 2004 these funds were invested as per recommendations by the LMMC Investment Committee.

- As a result of the higher than expected 2002-03 budget surplus the Government created the Health Super-Growth Fund. $420 million was invested in bonds with all monies and investment proceeds to be used for the purpose of funding health capital works and services. In 2003-04 fund receipts were $13.1 million of which $12.8 million was paid out.

- A prudential margin of 7.5% (67% probability of adequacy) was added to the Treasury Managed Fund central estimate of the Outstanding Claims Liability in 2004. This change was the margin that is added to Workers Compensation. The change increased the outstanding claims liability and claims expense by $139 million.

20. COMMITMENTS FOR EXPENDITURE

	2005 $000	2004 $000
(a) Capital Commitments:		
-not later than one year	47,849	12,619
-later than one year but not later than five years	116,277	2,266
-later than five years	-	-
	164,126	**14,885**
(b) Operating Lease Commitments:		
-not later than one year	89,900	106,748
-later than one year but not later than five years	230,785	270,996
-later than five years	175,535	195,263
	496,220	**573,007**
Total	**660,346**	**587,892**

Note: Capital Expenditure and Operating Lease Commitments as at 30 June 2005 are inclusive of GST. Recoverable Input Tax Credits for Contingent Assets were $60.0m for 2005 (GST included) and $53.2m for 2004.

(c) Finance Lease Commitments

Finance Lease Commitments (exclusive of GST) and Reconciliation to Carrying Amount of Lease Liabilities:

	2005 $000	2004 $000
-not later than one year	156,503	300,418
-later than one year but not later than five years	102,159	225,168
-later than five years	8,166	15,575
Minimum Lease Repayments	**266,828**	**541,161**
Less: Future Finance Charges	17,511	65,166
Lease Liability	**249,317**	**475,995**
Classified as:		
Current	147,264	286,153
Non- Current	102,053	189,842
	249,317	**475,995**

(d) Snowy Hydro Limited Commitments

The Crown Entity, as the reporting entity for Snowy Hydro Limited (SHL), is required to report the New South Wales share of SHL Commitments.

NSW Share 2005	Capital Expenditure	Operating Leases	Other	Total
-not later than one year	36,081	1,752	1,353	39,186
-later than one year but not later than five years	5,161	3,917	1,250	10,328
-later than five years	-	31,292	-	31,292
	41,242	**36,961**	**2,603**	**80,806**

NSW Share 2004	Capital Expenditure	Operating Leases	Other	Total
-not later than one year	29,313	604	271	30,188
-later than one year but not later than five years	11,792	1,960	58	13,810
-later than five years	-	25,562	-	25,562
	41,105	**28,126**	**329**	**69,560**

21. CONTINGENT LIABILITIES

- **Snowy Hydro Limited**

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

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

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

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

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

If under the Environment Protection & Assessment Act or Water Management Act, SHL is required to modify its structures or lower dam levels to reduce the impact of cold-water releases from the scheme then, for up to 7 years from the corporatisation date, NSW will provide 58% of the amount necessary to maintain financial covenants and credit rating.

To date, the Environmental Protection Authority has never requested a dam structure in NSW to be modified to mitigate the effect of cold-water pollution. The likelihood of such an event occurring is further reduced under the NSW cold-water strategy that sets out that SHL will not be required to undertake any modifications to dams or dam levels for the purposes of mitigating cold-water pollution until 7 years after corporatisation.

Under the Tax Compensation Deed, NSW is entitled to receive 58% of the income tax paid by Snowy Hydro Limited under a tax sharing agreement with the Commonwealth Government. If accumulated dividend imputation credits within the company have not been fully distributed to a shareholder government prior to the sale of more than 5% of its shares, the government selling their shares must repay the Commonwealth the value of the undistributed dividend imputation credits it was entitled to receive. The deed expires either with the expiration of the Snowy Water licence, after 75 years, or when government shareholders sell their shares.

Contingent liabilities of the consolidated SHL entity as at 2 July 2005 per Note 35 of the SHL Financial Statements are represented by:

* Claims lodged with the Dust Diseases Tribunal which were unresolved as at that date. Snowy Hydro has not accepted liability on those claims. As at that date there were three such matters before the Tribunal.

* Snowy Hydro has entered into a number of bank guarantees in relation to operating within the NEM and for rental properties in Sydney and Melbourne to the value of $11.5 million

The Crown Entity's 58'% share of the $11.5 million is $6.7 million.

- **TCorp Guarantees**

Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of $31.0 billion (2004 $27.6 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.

- **Commonwealth Native Title Act**

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

Any future compensation claim which might arise under the Commonwealth Native Title legislation in regard to land disposals is accepted by the Crown rather than the purchaser. Therefore, there is no impact on the value of land disclosed in the financial statements. During the year no compensation was paid under the Act (Nil – 2003-04).

- **Structured Finance Activities**

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

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

b) The Crown Entity has a third party risk in terms of monies being placed on deposit with a counterparty. The counterparty contingent liability is estimated at $460 million (2004 $649 million). The amount of the counterparty continent liability reflects the term nature of the deposits and the valuation of the Australian dollar against the US dollar. NSW Treasury Corporation regularly monitors this risk.

During 2004-05 there have been no changes in the credit standings, which range from BBB+ to AAA, of the deposit counterparties.

- **State Bank (Privatisation) Act 1994**

Pursuant to the State Bank (Privatisation) Act 1994, the State guaranteed all existing and future liabilities of the Bank until 31 December 1997. Thereafter while existing liabilities continue to be guaranteed until maturity, any new liabilities incurred after that date will not be guaranteed by the State. As at 30 June 2005 the total guaranteed liabilities of the Bank amounted to $106.7 million (2004 $500 million).

Additionally, the State provided indemnities in respect of any losses incurred by the Bank as a result of matters existing in the books of the Bank as at 31 December 1994. These are estimated at $6.3 million (2004 $11 million).

- **Government Insurance Act 1927**

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

Actuarial assessment of these liabilities:

	31 Dec 2004 $m	31 Dec 2003 $m
General insurance	234	225
Life insurance	80	87
Inward reinsurance	107	117
	421	**429**

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

The outstanding liabilities for life insurance were overstated for 2003 as these included all ex-GIO policies instead of only those issued prior to the sale in July 1992. The correct figure for 2003 should have been $87 million with the 2004 figure dropping down to $80 million.

Pursuant to clause 9 of the Deed, AMP merged all capital guaranteed policyholders into the AMP Statutory Fund No 1, including capital guaranteed "S" units in savings bonds. The capital guarantee that could have arisen in respect of an option to convert "S" investment-linked units is no longer offered for new policies.

- **TAB**

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

  The NSW Government also indemnified TAB Ltd, under the Deed of Undertaking and Indemnity, against loss during the term of the CMS licence resulting from a redetermination of the monitoring fee. However this excludes redeterminations made in accordance with the methodology and assumptions to derive the rate of return used by the Independent Pricing and Regulatory Tribunal in the original 1998 determination in recommending the monitoring fee to the Minister.

  In July 2004, TAB Ltd made a claim under the Deed of up to $1.51 million per month for the months May through December 2004 following the redetermination of the monitoring fee by the Minister in April 2004. The NSW Government is disputing this claim.

- **NSW Treasury Corporation**

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

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

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

  At year end the agreed aggregate amounts totalled $542 million (2004 $539 million).

- **Sale of Pacific Power International**

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

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

  The conditions that must exist are that:

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

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

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

  Based on currently forecast investment returns, the expected liability is nil. (2004 nil)

- **Pacific Power – Power Stations**

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

  An Interim Final Certificate (IFC) has been issued to the consortium for the Callide C power station. An IFC is also currently being issued for Pacific Power (Subsidiary No.1) Pty Ltd under the EPC contract for the Tarong North power station. These will significantly reduce the exposure from guarantees up to their scheduled varying final completion dates in 2006.

- **Contracts with Private Sector Parties**

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

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

- **Floating Interest Rate Exposure on Motor Vehicle Financing Arrangements**

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

  All four Tranches are funded on a floating rate basis with the liability for the exposure borne by the Crown Entity. The Crown Entity has an effective floating rate principal exposure of $599 million as at 30 June 2005 (2004 $600 million).

- **Unclaimed Money**

  The Crown Entity treats payments of unclaimed money into the Consolidated Fund as revenue. However the legislation for unclaimed money allows claims to be lodged for several years after the money is paid into the Consolidated Fund. These future claims are a form of contingent liability. There is no way of estimating possible future claims.

- **Going Concern Capacity**

  A number of NSW government agencies are currently being restructured. These include the State Rail Authority, the Rail Infrastructure Corporation and the State Transit Authority. During this restructuring process the Crown Entity has guaranteed the "going concern' capacity of these agencies.

- **Office of State Revenue**

  A number of infringement matters are being reviewed by the Infringement Processing Bureau to determine whether special circumstances exist for return of the payments.

  There are currently 91 matters where the Crown Solicitor is acting on behalf of the Office of State Revenue. The estimate of settlement is unspecified in each case.

22. CONTINGENT ASSETS

- **HIH Collapse**

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

  The liquidators have recently stated that they plan to set up a scheme of arrangement to make an initial distribution of 10c in the dollar, with a further payment of between 10c and 15c at some time in the future.

- **GST Credits**

  The Crown Entity has capital commitments of $164.1 million (2004 $14.9 million) and operating lease commitments of $496.2 million (2004 $573.0 million). The recoverable input tax credits constitute a contingent asset $60.0 million (2004 $53.4 million).

23. CASH AND CASH EQUIVALENTS

	2005 $000	2004 $000
Cash on Hand and at Bank	491,934	381,748
Bank Overdraft	(2,156,786)	(2,194,128)
Short Term Money Market Investments	177,975	731,931
	(1,486,877)	**(1,080,449)**

During the financial year the Governor approved a Crown Entity financial accommodation from Treasury Corporation, totalling $2,500 million (2003-04 $1,500 million) under the provisions of the *Public Authorities (Financial Arrangements) Act 1987*. The financing facility provided for short term cash requirements caused by seasonal fluctuations in Government receipts. As at 30 June 2005 $545.5 million of this facility was drawn down ($765.0 million at 30 June 2004).

Of the cash on hand and at Bank, $121,126,000 is considered as restricted cash assets (2003-04 $105,087,000). It is the amount of cash held in Special Deposit Accounts and trust funds and can only be used in accordance with the legislation that established the Special Deposit Account and the purposes for which the trust monies have been placed in trust. Details of the Special Deposit Accounts are included in Note 26 and the Trust Funds in Note 25.

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

24. CASH FLOW INFORMATION

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

	2005 $000	2004 $000
Surplus (Deficit) for the Year	(32,072)	756,954
Non Cash Items Added Back		
Increase/decrease of investment in associated company	(21,762)	(10,941)
Asset Revaluation Decrement	11,750	-
Write off/Write Down Expenses	6,500	
Provision for Land Remediation and Other Costs	38,440	-
Unrealised (Gains)/Loss on Investments	(79,495)	(129,288)
Provision for Depreciation	56,473	82,367
Non Cash Finance Costs	11,035	12,504
Provision for Doubtful Debts	21,863	
Loss/(Gain) on Asset Disposals	11,903	161,825
Land Transferred to Other Government Agencies	5,200	
Other	1,815	(36,425)
Equity Restructure	(160,000)	(241,000)
	(96,278)	(160,958)
Change in Operating Assets and Liabilities		
Movement in Working Capital	323,580	233,415
Increase/(Decrease) in Other Liabilities	1,017,860	995,162
(Increase)/Decrease in Other Assets	(258,470)	(129,276)
	1,082,970	1,099,301
Movement for the year	986,692	938,343
Net CashFlow from Operating Activities	**954,620**	**1,695,297**

(b) Non-cash Financing and Investing Activities

During the financial year, Crown Finance Entity acquired motor vehicles with an aggregate fair value of $123,445,000 (2003-04 $96,076,000) by means of finance leases.

25. TRUST FUNDS

Trust monies are held on behalf of beneficiaries.

	2005 $000	2004 $000
Funds held by the Crown Entity:		
Olympic Coordination Authority Payables	1,684	2,660
Compensation Deposits re Land Acquisition Fund	150	150
Consumer Affairs Trust	112	112
BHP Land Remediation Trust	5,000	5,000
Other	145	142
	7,091	**8,064**

26. SPECIAL DEPOSIT ACCOUNTS

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

NSW Policyholders Protection Fund

This fund was established by the *Insurance Protection Act 2001* to hold taxes and other monies required to be paid into the Fund to meet claims under home building and third party motor accident insurance policies of declared insolvent insurers. Receipts during 2004-05 were $81.5 million, (2003-04 $100.6 million) of which $67.6 million (2003-04 $68.5 million) was collected under the *Insurance Protection Act 2001*.

Non-Budget Long Service Leave Pool

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

Structured Finance Activities

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

Confiscated Proceeds Account

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

Petroleum Products Subsidy Account

This fund makes payments under the Commonwealth's Petroleum Products Subsidy Scheme and is reimbursed by the Commonwealth.

Workers Compensation (Bushfire, Emergency and Rescue Services)

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

Builders Warranty Insurance

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

General Government Liability Management Fund

This fund was established by the General *Government Liability Management Fund Act 2002.* The fund manages the General Government Sector's financial position and its net financial liabilities more flexibly by establishing a non-superannuation investment fund into which employer superannuation contributions would temporarily be diverted.

Health Super-Growth Fund

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

NSW Self Insurance Corporation

On 1 April 2005 the *NSW Self Insurance Corporation Act 2004* changed the name of the Insurance Ministerial Corporation to New South Wales Self Insurance Corporation. The Corporation provides self insurance coverage for general government budget dependent agencies.

Movements in these accounts are:

Accounts	NSW Policy Holders Protection Fund	Non Budget Long Service Leave Pool	Structured Finance Activities	Confiscated Proceeds Account	Petroleum Products Subsidy
	$000	$000	$000	$000	$000
Balance 1.7.2003	7,176	33,895	215	19,156	50
Plus Receipts	100,639	9,050	328	11,142	194
Less Payments	(88,007)	(12,222)	(243)	(4,793)	(194)
Balance 30.6.2004	**19,808**	**30,723**	**300**	**25,505**	**50**
Opening Balance 1.04.2005 *					
Plus Receipts	81,533	3,543	133	12,869	551
Less Payments	(76,060)	(9,173)	(127)	(689)	(551)
Balance 30.6.2005	**25,281**	**25,093**	**306**	**37,685**	**50**

Accounts	Workers Compensation	Building Warranty Insurance	General Government Liability Management Fund	Health Super Growth Fund	NSW Self Insurance Corporation
	$000	$000	$000	$000	$000
Balance 1.7.2003	2,839	13,447	1,651,372	-	-
Plus Receipts	4,588	5,171	1,235,619	433,122	-
Less Payments	(5,094)	(314)	(1,289)	(12,764)	-
Balance 30.6.2004	**2,333**	**18,304**	**2,885,702**	**420,358**	**-**
Opening Balance 1.04.2005 *					291,235
Plus Receipts	7,464	2,239	1,172,878	24,470	15,498
Less Payments	(4,464)	(206)	(3,430)	(23,140)	(231,408)
Balance 30.6.2005	**5,333**	**20,337**	**4,055,150**	**421,688**	**75,325**

* The Self Insurance Corporation was declared a special deposit account from 01.04.2005. The opening balance is the value of the fund at this date.

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

27. LEASE INCENTIVE

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

The liability is classified as:

	2005	2004
	$000	$000
Current:	3,819	3,818
Non -Current:	1,909	13,805
	5,728	**17,623**

28. OTHER LIABILITIES

	2005 $000	2004 $000
Current:		
Unearned Revenue	25,553	3,337
Stamp Duty and Tax	13,599	50,924
Budget Balance Assistance Received in Advance	-	247,926
Builders Warranty Claim Provision	20,335	18,302
Provision for Shortfall in Lease Payments	3,107	-
Provision for Land Remediation	12,477	2,200
Rent Received in Advance	3,262	3,349
Payable - Income Tax Equivalent Refund	6,033	54,746
Confiscated Drug Proceeds	37,685	25,505
Premium paid in Advance	15,288	19,640
Special Deposit and Trust Accounts	7,424	5,397
Other	11,279	11,681
	156,042	**443,007**
Non-Current:		
Tax Equivalents	399,521	350,055
Provision for Shortfall in Lease Payments	8,690	-
Provision for Land Remediation	129,792	101,628
Other	1,073	278
	539,076	**451,961**
Total	**695,118**	**894,968**

CROWN ENTITY
NOTES TO AND FORMING PART OF THE
2004-05 FINANCIAL STATEMENTS

29. SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES

RECURRENT APPROPRIATIONS	Appropriations	Expenditure	Appropriations	Expenditure
	2005		2004	
ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE	$000	$000	$000	$000
Appropriation Act	3,799,226	3,284,722	2,366,091	2,048,953
Section 22 - Expenditure for certain works and services	163,272	161,737	570,025	533,274
Treasurer's Advance	1,125	900	484	484
Section 26 - Supplementation with offsetting savings (section 26 of the Appropriation Act)	(332,619)	8,705	(161,504)	-
Section 16C - Insurance Protection Tax Act 2001	67,560	67,560	68,083	68,083
Total Appropriations/Expenditure (includes transfer payments)	**3,698,564**	**3,523,624**	**2,843,179**	**2,650,794**
LESS: Drawdowns from Treasury		3,601,685		2,667,842
Total Unspent Appropriations		(78,061)		(17,048)
CAPITAL APPROPRIATIONS				
Appropriation Act	216,563	127,086	1,188,492	1,064,529
Budget Variation Acts (ie Additional Appropriation)	-	-	420,000	420,000
Section 22 - Expenditure for certain works and services	83,000	81,703	213,000	213,000
Treasurer's Advance	8,494	-		
Section 26 - Supplementation with offsetting savings	(71,384)	-	(150)	-
Total Appropriations/Expenditure (includes transfer payments)	**236,673**	**208,789**	**1,821,342**	**1,697,529**
LESS: Drawdowns from Treasury		208,789		1,697,529
Total Unspent Appropriations		-		-

30. CONSOLIDATED FUND TRANSACTIONS

	2005 $000	2004 $000
Cash Flows from Operating Activities		
Receipts		
State Taxation, Fines and Regulatory Fees	15,901,983	15,402,318
Commonwealth Grants	16,072,110	15,338,620
Financial Distributions	1,392,274	1,048,255
Other Operating Revenue	480,504	783,470
Total Receipts	**33,846,871**	**32,572,663**
Payments		
Recurrent Appropriations paid to Other Agencies	(28,918,083)	(27,183,244)
Recurrent Appropriations paid to Crown Finance Entity	(3,601,685)	(2,667,842)
Capital Appropriations paid to Other Agencies	(2,476,936)	(2,404,841)
Capital Appropriations paid to Crown Finance Entity	(208,789)	(1,697,529)
Total Payments	**(35,205,493)**	**(33,953,456)**
Net Cash Flow from Operating Activities	**(1,358,622)**	**(1,380,793)**
Cash Flow from Crown Finance Entity		
Proceeds from Borrowing transferred from Crown Finance Entity	1,002,492	2,500
Investment Income transferred from Crown Finance Entity	63,800	-
Interest Receipts transferred from Crown Finance Entity	79,783	114,105
Advance Repayments transferred from Crown Finance Entity	139,316	98,864
Other Receipts transferred from Crown Finance Entity	27,196	43,110
	1,312,587	**258,579**
Net Increase/(Decrease) in Cash	**(46,035)**	**(1,122,214)**
Opening Cash and Cash Equivalents	**(2,170,916)**	**(1,185,702)**
Cash Transferred In as a result of Capital Restructuring	**76,000**	**137,000**
Closing Cash Balances	**(2,140,951)**	**(2,170,916)**
Cash and Cash Equivalents		
Investment in Short Term Money Market	33	6,873
Bank Overdraft	(2,140,984)	(2,177,789)
	(2,140,951)	**(2,170,916)**

CROWN ENTITY
NOTES TO AND FORMING PART OF THE 2004-05 FINANCIAL STATEMENTS

31. PROGRAM STATEMENT – EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2005

	Debt Servicing Costs $000	Refunds and Remissions of Crown Revenue $000	Other Service-wide Activities* $000	Natural Disasters Relief $000	Total Crown Finance Entity $000
Expense					
Superannuation	-	-	1,971,340	-	1,971,340
Long Service Leave	-	-	459,383	-	459,383
Maintenance	-	-	-	-	-
Depreciation/Amortisation	-	-	50,888	-	50,888
Grant and Subsidies	-	-	1,084,648	6,967	1,091,615
Borrowing Costs	661,402	-	82,519	-	743,921
Insurance Claims	-	-	17,098	-	17,098
Other	-	66,232	336,033	-	402,265
Recurrent Appropriations	-	-	-	-	-
Capital Appropriations	-	-	-	-	-
Total Expenses	**661,402**	**66,232**	**4,001,909**	**6,967**	**4,736,510**
Revenue					
State Taxation	-	-	-	-	-
Commonwealth Grants	-	-	-	-	-
Financial Distributions	-	-	-	-	-
Retained Taxes Fees and Fines	-	-	-	-	-
Sales of Goods and Services	-	-	-	-	-
Investment Income	11	-	202,637	-	202,648
Other	280	-	244,293	-	244,573
Revenue from Government	(1,002,151)	-	(388,156)	-	(1,390,307)
Total Revenue	**(1,001,860)**	**-**	**58,774**	**-**	**(943,086)**
Gain/(Loss) on Disposal of Non -Current Assets	-	-	(24,199)	-	(24,199)
SURPLUS/(DEFICIT) FOR THE YEAR	**(1,663,262)**	**(66,232)**	**(3,967,334)**	**(6,967)**	**(5,703,795)**

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

31. PROGRAM STATEMENT – EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

	Total Crown Finance Entity $000	Consolidated Fund $000	Electricity Equalisation* $000	NSW Self Insurance Corporation* $000	Crown Leaseholds* $000	Crown Lands Homesites Programs* $000	Land Development Working Account* $000	Crown Property Portfolio* $000	Liability* Management Ministerial Corporartion $000	**Not Attributable $000	Elimination $000	Consolidated Total $000
Expense												
Superannuation	1,971,340	-	-	-	-	-	-	-	-	-	-	**1,971,340**
Long Service Leave	459,383	-	-	-	-	-	-	-	-	-	(6,039)	**453,344**
Maintenance	-	-	-	-	-	-	-	8,289	-	-	-	**8,289**
Depreciation/Amortisation	50,888	-	-	-	-	-	-	5,585	-	-	-	**56,473**
Grant and Subsidies	1,091,615	-	-	-	-	-	-	-	-	-	(996,836)	**94,779**
Borrowing Costs	743,921	-	-	-	-	-	-	16,710	3,573	-	(4,119)	**760,085**
Insurance Claims	17,098	-	-	1,078,533	-	-	-	660	-	-	(659)	**1,095,632**
Other	422,795	-	391,546	118,185	31,593	2,760	1,561	158,936	6	-	(225,274)	**902,108**
Recurrent Appropriations	-	32,519,768	-	-	-	-	-	-	-	-	(3,601,685)	**28,918,083**
Capital Appropriations	-	2,685,725	-	-	-	-	-	-	-	-	(208,789)	**2,476,936**
Total Expenses	**4,757,040**	**35,205,493**	**391,546**	**1,196,718**	**31,593**	**2,760**	**1,561**	**190,180**	**3,579**	**-**	**(5,043,401)**	**36,737,069**
Revenue												
State Taxation	-	15,966,215	-	-	-	-	-	-	-	-	(116,196)	**15,850,019**
Commonwealth Grants	-	16,072,110	-	-	-	-	-	-	-	-	-	**16,072,110**
Financial Distributions	-	1,658,884	-	-	-	-	-	-	-	-	(37,548)	**1,621,336**
Sales of Goods and Services	-	-	-	985,973	-	-	-	155,188	-	-	(11,153)	**1,130,008**
Investment Income	193,984	-	-	483,806	63	-	-	5,912	197,877	-	(4,120)	**877,522**
Other	244,573	2,068,920	341,988	1,706	47,781	686	-	390	975,002	-	(2,554,609)	**1,126,437**
Revenue from Government	(1,390,648)	-	-	-	(65,494)	(19,611)	(28,000)	13,054	-	3,810,474	(2,319,775)	**-**
Total Revenue	**(952,091)**	**35,766,129**	**341,988**	**1,471,485**	**(17,650)**	**(18,925)**	**(28,000)**	**174,544**	**1,172,879**	**3,810,474**	**(5,043,401)**	**36,677,432**
Gain/(Loss) on Disposal of Non -Current Assets	(24,199)	-	-	-	4,803	15,736	30,395	830	-	-	-	**27,565**
SURPLUS/(DEFICIT) FOR THE YEAR	**(5,733,330)**	**560,636**	**(49,558)**	**274,767**	**(44,440)**	**(5,949)**	**834**	**(14,806)**	**1,169,300**	**3,810,474**	**-**	**(32,072)**

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

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

32. TRANSFER PAYMENTS

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

	2005 $'000	2004 $'000
Receipts		
Non-Government Schools - Recurrent	1,563,963	1,439,537
Non-Government Schools - Targeted Programs	69,074	34,006
Non-Government Schools - Capital	36,470	35,116
Local Government - Financial Assistance	358,153	353,244
Local Government - Roads	137,339	135,048
	2,164,999	**1,996,951**
Payments		
Non-Government Schools - Recurrent	(1,563,963)	(1,439,537)
Non-Government Schools - Targeted Programs	(69,074)	(34,006)
Non-Government Schools - Capital	(36,470)	(35,116)
Local Government - Financial Assistance	(358,153)	(353,244)
Local Government - Roads	(137,339)	(135,048)
	(2,164,999)	**(1,996,951)**

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

The Crown Entity will apply the Australian Equivalents to International Reporting Standards (AEIFRS) from 2005-6.

The following activities are aggregated in the Crown Entity financial statements:
Managed by CALM (Crown Asset and Liability Management Branch):
- Consolidated Fund
- Crown Finance Entity
- Electricity Tariff Equalisation Ministerial Corporation
- Liability Management Ministerial Corporation
- NSW Self Insurance Corporation

Managed by Landcom
- Crown Lands Homesites Program

Managed by Dept of Lands
- Crown Leaseholds
- Land Development Working Account

Managed by Dept of Commerce
- Crown Property Portfolio

The NSW Treasury is assisting agencies to manage the transition, through conducting seminars, analysis of standards and providing indicative mandates of options available under the standards.

The following strategy is being implemented to manage the transition to AEIFRS:

CALM Managed Entities:
1. Treasury's OFM Audit & Risk Committee is oversighting the transition and is responsible for the project.
2. The following phases that need to be undertaken have been identified:
   - 2.1 Scope and Planning
   - 2.2 Review and Impact Assessment
   - 2.3 Design and Training
   - 2.4 Implementation
   - 2.5 Post Implementation Review
3. To date, items 2.1 and 2.2 have been completed. Implementation is scheduled to be completed by July 2006 and the Post-Implementation Review by December 2006.

Dept of Lands Managed Entities:
1.. The Department of Lands is managing the AEIFRS implementations.
2. Similar phases to above that need to be undertaken have been identified
3. The status of each phase is contained in the attached separate sets of financial statements of the Crown Leasehold Entity Note 17 and the Land Development Working Account Note 17.

Landcom Managed Entity:
1. Landcom's Audit and Risk Management Committee is oversighting the transition. The Business and Finance Director is responsible for the project and reports quarterly to the Committee on progress against the plan.
2. Similar phases to above that need to be undertaken have been identified
3. The status of each phase is contained in the attached separate set of financial statements of the Crown Land Homesites Program Note 1(l).

Crown Property Portfolio (CPP):
The status of the AEIFRs program is contained in the attached separate set of the Crown Property Portfolio's financial statements Note 26.

CROWN ENTITY
NOTES TO AND FORMING PART OF THE
2004-05 FINANCIAL STATEMENTS

Crown Entity:
The Crown Entity has determined key areas where changes in accounting policies are likely to impact the financial report. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector. The impacts disclosed below reflect the Treasury's indicative mandates.

Shown below are management's best estimates as at the date of preparing the 30 June 2005 financial report of the estimated financial impacts of AEIFRS on the Crown Entity's equity and profit/loss. The Crown Entity does not anticipate any material impacts on its cash flows. The actual effects of the transition may differ from the estimated figures below because of pending changes to the AEIFRS, including the UIG Interpretations and/or emerging accepted practice in their interpretation and application. The Crown Entity's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-2006.

The Crown Entity is a Not-For-Profit Entity and does not have the generation of profit as its main objective.

CROWN ENTITY
NOTES TO AND FORMING PART OF THE
2004-05 FINANCIAL STATEMENTS

a) Reconciliation of Key Aggregates

Recconciliation of Equity under Existing Standards (AGAAP) to Equity under AEIFRS

	Notes	Cumulative to 30 June 2005 $000	As at 1 July 2004 $000
Total Equity under AGAAP		**(16,390,186)**	**(16,460,575)**
Adjustment to Accumulated Funds			
Recognition of Major Restoration Costs: Provision	1	(144,164)	(113,552)
Recognition of Major Restoration Costs: Asset	1	144,164	113,552
Major Restoration Costs: Write back Provision Expenese less Depreciation and Borrowing Costs	1	57,900	48,671
Write-back Asset Revaluation Reserve for Investment Properties	2	72,376	112,005
Write-back Asset Revaluation Reserve for Assets Held for Sale	3	22,882	14,987
Write-back Asset Revaluation Reserve for Unallocated Amount	4	-	12,197
Write-back Depreciation 2005 due to Reclassification of Land and Buildings as Investment Property	2	5,323	-
Write-back Depreciation 2005 due to Reclassification of Land and Buildings as Assets Held for Sale at 1/7/04	3	178	-
Defined Benefit Superannuation Adjustment for Change in Discount Rate	5	(8,590,586)	(4,618,910)
Long Term Leave Provision - Reclassification to Cash	5	25,093	30,725
Cash - Reclassification from Long Term Leave Provision	5	(25,093)	(30,725)
Write-back Tax Effect - Deferred Taxes Assets/Liabilities	6	(1,411,146)	(1,209,233)
Write-back Prudential Margins on Outstanding Claims Provisions	7	17,404	18,534
Adjustment to Other Reserves: Transfers to Accumulated Funds			
Write-back Asset Revaluation Reserve for Investment Properties	2	(72,376)	(112,005)
Write-back Asset Revaluation Reserve for Assets Held for Sale	3	(22,882)	(14,987)
Write-back Asset Revaluation Reserve for Unallocated Amount	4	-	(12,197)
		(9,920,927)	(5,760,938)
Total Equity under AEIFRS		**(26,311,113)**	**(22,221,513)**

Reconciliation of Surplus under AGAAP to Surplus under AEIFRS

	Notes	$000
Loss under AGAAP		**(32,072)**
Major Restoration Costs	1	9,229
Write-back Depreciation 2005 due to Reclassification of Land and Buildings as Investment Property at 1/7/04	2	5,323
Write-back Depreciation 2005 due to Reclassification of Land and Buildings as Assets Held for Sale at 1/7/04	3	178
Defined Benefit Superannuation Discount Rate Adjustment	5	(3,971,676)
Write-back Tax Effect - Deferred Taxes Assets/Liabilities	6	201,913
Write-back Prudential Margins on Outstanding Claims Provisions	7	(1,130)
Surplus under AEIFRS		**(3,788,235)**

Notes to Table above

1. AASB 116 *Property Plant and Equipment* requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration costs where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. These restoration costs must be depreciated and the unwinding of the restoration provision must be recognised as a borrowing cost. This treatment is not required by current AGAAP under which the full Provision was charged to Profit and Loss when reliable estimates became available.

2. Under AASB 140 *Investment Property* and Treasury's indicative mandates, investment property will be recognised at fair value. In contrast to their current treatment as property, plant and equipment, investment property recognised at fair value will not be depreciated and changes in fair value will be recognised in the operating statement rather than the asset revaluation reserve. This means that any asset revaluation reserve balances relating to such property will be written back to accumulated funds.

3. AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* requires non-current assets classified as "held-for-sale" to be reclassified as current assets and recognised at the lower of the carrying amount and fair value less costs to sell . Unlike current AGAAP, "Held-for-Sale" assets are not depreciated, thereby reducing the depreciation expense.

4. *AASB 108 Accounting Policies, Changes in Estimates, and Errors* requires voluntary changes in accounting policy to be accounted for retrospectively, including restating prior period information. Unallocated Amounts in the Asset Revaluation Reserve were written back to Accumulated Funds.

5. AASB 119 *Employee Benefits* requires the Defined Benefit Superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. During 2004-2005 the long-term bond rate fell by nearly one per cent, resulting in a significant increase in the AEIFRS superannuation liability and expense.

   According to AASB 119 Para 128 (b) entities must reduce the amount recognised as a liability for long-term employee benefits by the fair value at reporting date of the plan assets if the obligations are settled directly from these assets.

   In the case of the Non-Budget Long Service Leave Pool the Crown Finance Entity keeps a separate bank balance from which the obligations of the Pool are settled directly. Under AEIFRS this asset (bank balance) will be offset against the liability of the Pool.

6. The AASB 112 *Income Taxes* approach alters the quantum and timing of tax assets and liabilities recognised. The Crown Entity consolidated accounts under AEIFRS will show only the annual tax expense payable as there are no corresponding assets or liabilities that meet the definition of a temporary difference under AASB 112, and it is not appropriate for Treasury to recognise an asset or liability in relation to income tax receivable or payable in a future period.

7. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* applies to the Treasury Managed Fund (TMF) which is a self-insurance arrangement for the General Government Sector (GGS) and the Total State Sector (TSS) accounts. It requires the application of a discount rate that reflects the time value of money adjusted for the risks specific to the liability instead of the expected rate of return in Fund assets under the current AGAAP AASB 1023. Prudential margins are required to be recognised under AGAAP but not under AEIFRS.

b) Financial Instruments

In accordance with NSW Treasury's indicative mandates, the Crown Entity will apply the exemption provided in AASB 1 *First Time Adoption of AEIFRS* not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. These standards will be applied from 1 July 2005. None of the information provided above includes any impacts for Financial Instruments. However, when these standards are applied, they are likely to impact on retained earnings (on first adoption) and on the amount and volatility of profit/loss. The impact will, in part, depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics.

c) Grant Recognition for Not-For-Profit Entities

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* applies to For Profit Entities. AASB 1004 *Contributions* applies to Not-For-Profit Entities. The Crown Entity will apply the requirements of AASB 1004 *Contributions* regarding contributions of assets (including grants) and forgiveness of liabilities. There are no differences between the recognition requirements of the new AASB 1004 (January 2005) and previous AASB 1004 (June 2004). However, the new AASB 1004 may be amended by proposals in Exposure Draft (ED) 125 *Financial Reporting by Local Governments*. If the ED 125 approach is applied, revenue and /or expense recognition will not occur until either the entity consolidated into the Crown Entity supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services). ED 125 may, therefore, delay revenue recognition compared with AASB 1004 *Contributions,* where grants are recognised when controlled. However, at this stage, the timing and dollar impact of these amendments is uncertain.

34. POST BALANCE DATE EVENTS

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

End of Audited Financial Information

Financial Statements for the year ended 30 June 2005

New South Wales Self Insurance Corporation

New South Wales
TREASURY

AUDITOR-GENERAL
NEW SOUTH WALES

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

NSW SELF INSURANCE CORPORATION

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the NSW Self Insurance Corporation:

(a) presents fairly the Corporation's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

(b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Secretary's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

G J Gibson FCPA
Assistant Auditor-General

SYDNEY
27 October 2005

NSW SELF INSURANCE CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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

1. The accompanying financial statements, exhibit a true and fair view of the financial position of the NSW Self Insurance Corporation as at 30 June 2005 and the transactions for the year then ended.

2. The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions.

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

John Pierce
Secretary, NSW Treasury and
Manager, NSW Self Insurance Corporation

NEW SOUTH WALES SELF INSURANCE CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

STATEMENT BY FUND MANAGER AND CHIEF FINANCIAL OFFICER

Pursuant to Section 41C(1B) and (1C) of the Public Finance and Audit Act 1983, we declare that in our opinion, the financial statements and notes attaching thereto of the New South Wales Self Insurance Corporation exhibit a true and fair view of its financial position as at 30 June, 2005 and transactions of the year then ended.

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

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

Date at SYDNEY this 13 day of October 2005

A. Mulvogue
General Manager
Workers Compensation
SUNCORP-METWAY LIMITED

T. Young
Manager
General Insurance Accounting
SUNCORP-METWAY LIMITED

NEW SOUTH WALES SELF INSURANCE CORPORATION
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 $000	2004 $000
Premium Revenue	3,20	915,111	911,984
Reinsurance & Other Recoveries Revenue	4,20	60,369	14,279
Investment Revenue	5,20	483,806	405,092
Grants from the NSW Government	6,20	10,493	35,862
Other Revenue	7,20	1,706	1,795
Total Revenue from Ordinary Activities		**1,471,485**	**1,369,012**
Claims Expense	8,20	(1,054,499)	(1,108,558)
Outward Reinsurance Expense	20	(22,926)	(22,247)
Operating Expenses from Ordinary Activities	9,20	(119,293)	(28,964)
Total Expenses from Ordinary Activities		**(1,196,718)**	**(1,159,769)**
Net profit from Ordinary Activities		**274,767**	**209,243**
Total changes in equity other than those resulting from transactions with owners as owners		**274,767**	**209,243**

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

NEW SOUTH WALES SELF INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Notes	2005 $000	2004 $000
CURRENT ASSETS			
Cash Assets	21	91,126	90,326
Receivables	10,21	39,342	140,863
Reinsurance & Other Recoveries Receivable	11,21	28,104	28,063
Other Assets	21	1,670	988
Total Current Assets		160,242	260,240
NON-CURRENT ASSETS			
Receivables	10,21	222,898	316,789
Reinsurance & Other Recoveries Receivable	11,21	144,256	129,417
Investment Securities	12,21	5,102,915	4,373,768
Other Assets		2,674	-
Total Non-Current Assets		5,472,743	4,819,974
TOTAL ASSETS		**5,632,985**	**5,080,214**
CURRENT LIABILITIES			
Payables	13,21	15,295	112,128
Interest-bearing Liabilities	14,21	15,801	16,339
Unearned Premiums	15,21	232	220
Outstanding Claims	16,21	662,187	703,555
Other Liabilities	17,21	-	4,568
Total Current Liabilities		693,515	836,810
NON-CURRENT LIABILITIES			
Outstanding Claims	16,21	4,159,389	3,738,090
Total Non-Current Liabilities		4,159,389	3,738,090
TOTAL LIABILITIES		**4,852,904**	**4,574,900**
NET ASSETS		**780,081**	**505,314**
EQUITY			
Contributed Capital	18,21	94,000	94,000
Retained Profits	18,21	686,081	411,314
		780,081	**505,314**

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

NEW SOUTH WALES SELF INSURANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 Inflow/ (Outflow) $000	2004 Inflow/ (Outflow) $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		1,060,888	1,023,829
Hindsight adjustment receipts	3	32,562	24,434
Hindsight adjustment payments	3	(91,014)	(49,685)
Interest received		406,210	275,579
Reinsurance & Other Recoveries received		45,598	50,724
GST refunds received		18,426	14,953
Funds received from the Crown		18,810	68,290
Other Revenue		1,730	1,893
Claims and Expenses paid		(676,597)	(672,706)
Management fees paid		(45,061)	(30,025)
GST paid		(97,662)	(93,931)
Payment of Outward Reinsurance		(22,900)	(22,279)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19	**650,990**	**591,076**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments		(649,652)	(584,720)
NET CASH USED BY INVESTING ACTIVITIES		**(649,652)**	**(584,720)**
NET INCREASE/(DECREASE) IN CASH HELD		**1,338**	**6,356**
Cash at the beginning of the Financial Year		73,987	67,631
CASH AT THE END OF THE FINANCIAL YEAR	19	**75,325**	**73,987**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

On 1 April 2005 the NSW Self Insurance Corporation Act 2004 No 106 commenced. This Act changes the name of the Insurance Ministerial Corporation to the New South Wales Self Insurance Corporation (NSW SICORP) and clarifies its purpose and functions. The NSW SICORP will continue the activities of the former Insurance Ministerial Corporation.

Insurance Funds of the New South Wales Self Insurance Corporation were managed in 2004-05, under separate contracts, by GIO General Limited, a subsidiary of Suncorp Metway Insurance Limited. Management fees are paid to GIO General Limited for the administration of these funds. From 1 July 2005, new management arrangements will commence introducing five claim management roles shared by GIO General Limited and two other managers.

NSW Treasury Managed Fund (TMF)

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

Pre Managed Fund Reserve

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

Governmental Workers Compensation Account

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

Transport Accidents Compensation Fund (TAC)

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

Presented below are the principal accounting policies adopted in preparing the financial statements of the New South Wales Self Insurance Corporation for the year ended 30 June 2005. The accounting policies are consistent with last year, except where otherwise stated.

(a) Basis of Accounting

These financial statements are a general purpose financial report which have been prepared on an accrual basis in accordance with the historical cost convention except where otherwise stated and in accordance with Australian Accounting Standards, other authoritative announcements of the Australian Accounting Standards Board, Urgent Issues Group Consensus View, the Public Finance and Audit Act 1983 and the Public Finance & Audit Regulation 2005.

(b) Premium Revenue

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

(c) Outwards Reinsurance Expense

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

(d) Claims Expenses

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

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

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on investment opportunities available on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in note 16 (b).

(e) Reinsurance and Other Recoveries Revenue

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

(f) Investments

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

(g) Income Tax

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

(h) Cash Flows

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

(i) Comparative Figures

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

(j) GST

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

(k) Rounding

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

NEW SOUTH WALES SELF INSURANCE CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2. UNDERWRITING RESULT

	2005 $000	2004 $000
Premium Revenue	915,111	911,984
Outward Reinsurance Expense	(22,926)	(22,247)
	892,185	889,737
Claims Expense	(1,054,499)	(1,108,558)
Reinsurance & Other Recoveries Revenue	60,369	14,279
Net Claims Incurred	(994,130)	(1,094,279)
Other Underwriting Expenses	(24,034)	(23,779)
	(24,034)	(23,779)
	(125,979)	**(228,321)**

3. PREMIUM REVENUE

	2005 $000	2004 $000
Tariff premium	906,765	875,777
Hindsight Adjustments	(58,452)	(25,251)
Visiting Medical Officers (VMO)	66,337	61,050
Medically Supervised Injecting Centre (MSIC)	473	449
	915,123	912,025
Movement in MSIC Unearned Premiums	(12)	(41)
	915,111	911,984

Workers compensation final hindsight adjustments for 1998/99 and interim for 2000/01 were paid in 2004/05.

TMF normally calculates hindsight premiums each year. However, in regard to workers compensation, the final hindsight adjustment for the 1999/2000 fund year and an interim adjustment for the 2001/2002 fund year were not calculated until 2004/2005. As a result, the 1999/2000 final and 2001/2002 interim hindsight calculations will be paid in 2005/2006.

The basis for calculating the hindsight premium is undergoing review."

4. REINSURANCE & OTHER RECOVERIES REVENUE

	2005 $000	2004 $000
Recoveries revenue	46,608	50,110
Movement in outstanding recoveries	13,761	(35,831)
	60,369	14,279

NEW SOUTH WALES SELF INSURANCE CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. INVESTMENT REVENUE

	2005 $000	2004 $000
Income		
Bond portfolio	153,679	137,655
Interest from Treasury	2,868	3,637
Bank Interest	(432)	301
Hour-Glass facility	212,728	102,519
Gains/(losses) realised during the year	-	
Bond portfolio	1,382	(12,514)
Hour-Glass facility	34,086	44,206
Net market value change in investments, held at balance date	-	
Unrealised gains/(losses)	-	
Bond portfolio	57,509	(61,897)
Hour-Glass facility	21,986	191,185
	483,806	405,092

6. GRANTS FROM THE NSW GOVERNMENT

Grants received from the Crown Finance Entity	18,810	68,290
Movement in Outstanding Contributions	(8,317)	(32,428)
	10,493	35,862

7. OTHER REVENUE

Commission returned from Aon Re	1,645	1,717
Other revenue	61	78
	1,706	1,795

An arrangement is in place with Aon Re for the commission to be agreed each year with any commission in excess of the agreed amount returned to TMF. Also, Aon Re is entitled to receive performance and administration fees from the TMF for arranging reinsurance cover. Performance and administration fees paid to Aon Re is shown under Operating expenses from ordinary activities.

8. CLAIMS EXPENSES

Claims Paid	630,919	628,458
Movement in Outstanding Claims	379,931	443,607
Management fees to GIO General Limited	43,649	36,493
Legal Expenses		-
	1,054,499	1,108,558

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

Net Claims Incurred	**Current Year 1/7/04-30/6/05 $'000**	**Prior Years Pre 30/6/04 $'000**	**2005 Total $'000**	**2004 Total $'000**
Gross claims incurred and related expenses -undiscounted	1,568,723	(288,867)	1,279,856	1,962,107
Reinsurance and other recoveries-undiscounted	48,689	19,362	68,051	26,660
Net claims incurred and related expenses -undiscounted	1,520,034	(308,229)	1,211,805	1,935,447
Discount and discount movement - gross claims incurred	596,192	(342,326)	253,866	1,006,058
Discount and discount movement - reinsurance and other recoveries	16,268	(8,585)	7,683	12,383
Net discount movement	579,924	(333,740)	246,184	993,675
Discounted net claims incurred and related Expenses	940,110	25,512	965,621	941,772
Prudential margin	55,124	(26,615)	28,509	152,507
Net Claims Incurred	**995,234**	**(1,104)**	**994,130**	**1,094,279**

Net Claims Incurred – Prior Years

The increase in the discounted net claims incurred and related expenses on prior years is due to:
(i) Decrease in discount rates, which has had the effect of increasing the net claims incurred.

This was offset by:

(ii) Workers' Compensation - Reductions in expected payments in relation to Common Law claims, as well as Investigation, Specific Injury and Legal payment types.
(iii) Liability – Improvements in small claims experience arising as a result of legislative reforms.
(iv) Reduction in Department of Health and Police case estimates for Pre-Managed Fund.

Net Claims Incurred by Fund:

	2005 $'000	**2004 $'000**
NSW Treasury Managed Fund	979,854	1,068,531
Governmental Workers Compensation	6,292	2,154
Transport Accidents Compensation Fund	7,984	23,594
Net Claims Incurred	994,130	1,094,279

9. OPERATING EXPENSES FROM ORDINARY ACTIVITIES

	2005 $000	2004 $000
Levies paid to:		
– Dust Diseases	1,781	3,348
– WorkCover Authority of NSW	22,253	20,431
Investment management fees	2,602	2,493
Actuarial expenses		
– Pricewaterhouse Coopers	1,750	1,310
– Robert Buchanan	55	63
– Taylor Fry	15	91
– Others	-	5
Storage costs	147	145
Bank charges	92	85
Audit fees – Financial report	131	125
Consultancy – Legal	11	-
Consultancy – NSW Treasury	136	135
Performance and administration fees to Aon Re	820	733
Crown debt written-off	89,500	-
	119,293	28,964

10. RECEIVABLES

	2005 $000	2004 $000
Current:		
Crown Finance Entity	36,569	42,386
Other	2,773	98,477
	39,342	140,863
Non-Current:		
Crown Finance Entity	222,898	316,789

Amounts owed by the Crown Finance Entity include: $20.3 million ($40.4 million in 2004) for liabilities of the Pre Managed Fund Reserve which is part of TMF, $166.9 million ($161.1 million in 2004) of the TAC Fund and $72.3 million ($66.3 million in 2004) of the Governmental Workers Compensation Fund. The TMF receivables reduced by $89.5 million in 2004-05 as the Treasury Managed Fund forgave its loan to the Crown Entity. There was no interest ($1.9 million in 2004) due on that loan.

11. REINSURANCE & OTHER RECOVERIES RECEIVABLE

	2005 $000	2004 $000
Expected future recoveries (undiscounted)	259,263	237,935
Discount to present value	(88,443)	(80,761)
	170,820	157,174
Outstanding reinsurance and other recoveries on paid claims	1,553	454
Reinsurance and other recoveries receivable	172,373	157,628
Deduct: Provision for doubtful debts	(13)	(148)
	172,360	157,480
Current		
Reinsurance and other recoveries receivable	28,117	28,211
Deduct: Provision for doubtful debts	(13)	(148)
	28,104	28,063
Non-Current:		
Reinsurance and other recoveries receivable	144,256	129,417
	144,256	129,417

12. INVESTMENT SECURITIES

	2005 $000	2004 $000
Non-Current:		
Managed by TCorp		
Hour-Glass facility		
- Australian Shares	695,957	611,914
- Indexed Australian Shares	246,196	184,845
- International Shares	849,732	648,733
- Indexed International Shares	249,449	255,488
- Listed Property	200,041	155,165
Bond portfolio	2,861,540	2,517,623
	5,102,915	4,373,768

13. PAYABLES

	2005 $000	2004 $000
GST Payable	7	97,056
Others	15,288	15,072
	15,295	112,128

14. INTEREST-BEARING LIABILITIES

	2005 $000	2004 $000
Bank Overdraft	15,801	16,339

15. UNEARNED PREMIUMS

	2005 $000	2004 $000
Current:		
Medically Supervised Injecting Centre	232	220

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

16. OUTSTANDING CLAIMS

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

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

The increase in outstanding claims since 30 June 2004 is due to the addition of a new fund year to the pool (2004/05), as well as a decrease in discount rates, offset by the following key experience changes:

(i) Workers' Compensation – Improvement in experience due better than expected lump sum (common law, Section 66/67) experience, following the legislative reforms.

(ii) Liability – Improvements in small claims experience arising as a result of legislative reforms.

	Treasury Managed Fund $000	G'mental W/Comp $000	TAC Fund $000	Total $000
Expected future Claims Payments (undiscounted)	7,396,713	148,292	518,445	8,063,450
Discount to present value	(2,858,797)	(62,881)	(320,196)	(3,241,874)
Liability for outstanding claims	4,537,916	85,411	198,249	4,821,576
Current – 2005	626,107	7,825	28,255	662,187
Non-Current – 2005	3,911,809	77,586	169,994	4,159,389
	4,537,916	85,411	198,249	4,821,576
Current – 2004	667,513	7,685	28,357	703,555
Non-Current – 2004	3,479,720	69,853	188,517	3,738,090
	4,147,233	77,538	216,874	4,441,645

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.33 years (5.7 years) for TMF, 9.25 years (8.58 years) for GWC and 13.83 years (10.25 years) for TAC Fund.

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

Claims expected to be paid	TMF		GWC		TAC	
	2005	2004	2005	2004	2005	2004
Not later than one year						
Inflation rate	3.25%	3.25%	4.00%	4.00%	4.00%	4.00%
Discount rate	6.50%	6.60%	5.30%	5.40%	5.30%	5.38%
Superimposed inflation*	0%-7%	0%-10%	0%-3%	0%-10%	0%-2%	4.5%
Later than one year						
Inflation rate	3.25%	3.25%	4.00%	4.00%	4.00%	4.00%
Discount rate	6.4%-6.5%	6.6%-7.1%	5.1%-5.2%	5.5%-6.3%	5.1%-5.2%	5.49%-6.29%
Superimposed inflation*	0%-7%	0%-10%	0%-3%	0%-3.0%	0%-2%	4.5%

* Dependent on payment type.

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

17. OTHER LIABILITIES

	2005 $000	2004 $000
Premium paid in advance	-	4,568

18. EQUITY

Contributed Capital		
Balance carried forward	94,000	94,000
Retained Profit/(Loss)		
Balance brought forward	411,314	202,071
Current year profit	274,767	209,243
Balance carried forward	686,081	411,314

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19. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Cash

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

Cash	91,126	90,326
Bank Overdraft	(15,801)	(16,339)
	75,325	73,987

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

Net Profit/(Loss) from Ordinary Activities	**274,767**	**209,243**
Increase in Outstanding Claims	379,931	443,607
Increase/ (Decrease) in Unearned Premiums	12	41
Increase/ (Decrease) in Payables	(96,833)	11,750
Increase/ (Decrease) in Other Liabilities	(4,568)	(6,493)
(Increase)/ Decrease in Receivables	195,412	26,030
(Increase)/ Decrease in Reinsurance and Other Recoveries	-	-
Receivable	(14,880)	36,311
(Increase)/ Decrease in Other Assets	(3,356)	(125)
Unrealised (Gains)/ Losses on Investments	(79,495)	(129,288)
Net Cash Provided by Operating Activities	650,990	591,076

20. FINANCIAL PERFORMANCE OF FUNDS

	Treasury Managed Fund $000	G'mental W/Comp $000	TAC Fund $000	2005 Total $000	2004 Total $000
Premium Revenue	915,111			915,111	911,984
Reinsurance & Other Recoveries Revenue	54,983	6,948	(1,562)	60,369	14,279
Investment Revenue	480,917	384	2,505	483,806	405,092
Grants from the NSW Government	(1,263)	5,992	5,764	10,493	35,862
Other Revenue	1,706			1,706	1,795
Total Revenue from Ordinary Activities	**1,451,454**	**13,324**	**6,707**	**1,471,485**	**1,369,012**
Claims Expense	(1,034,837)	(13,240)	(6,422)	(1,054,499)	(1,108,558)
Outwards Reinsurance Expense	(22,926)			(22,926)	(22,247)
Operating Expenses from Ordinary Activities	(118,924)	(84)	(285)	(119,293)	(28,964)
Total Expenses from Ordinary Activities	**(1,176,687)**	**(13,324)**	**(6,707)**	**(1,196,718)**	**(1,159,769)**
Net Profit from Ordinary Activities	**274,767**	**-**	**-**	**274,767**	**209,243**
Total changes in equity other than those resulting from transactions with owners as owners	**274,767**	**-**	**-**	**274,767**	**209,243**

21. FINANCIAL POSITION OF FUNDS

	Treasury Managed Fund $000	G'mental W/Comp $000	TAC Fund $000	2005 Total $000	2004 Total $000
CURRENT ASSETS					
Cash Assets	53,799	4,530	32,797	91,126	90,326
Receivables	9,416	6,514	23,412	39,342	140,863
Reinsurance & Other Recoveries Receivable	27,138	668	298	28,104	28,063
Other Assets	1,670	-	-	1,670	988
TOTAL CURRENT ASSETS	92,023	11,712	56,507	160,242	260,240
NON-CURRENT ASSETS					
Receivables	13,604	65,770	143,524	222,898	316,789
Reinsurance & Other Recoveries Receivable	135,258	8,011	987	144,256	129,417
Investments Securities	5,102,915	-	-	5,102,915	4,373,768
Other Asssets	2,674	-	-	2,674	-
TOTAL NON-CURRENT ASSETS	5,254,451	73,781	144,511	5,472,743	4,819,974
TOTAL ASSETS	**5,346,474**	**85,493**	**201,018**	**5,632,985**	**5,080,214**
CURRENT LIABILITIES					
Payables	15,033	82	180	15,295	112,128
Interest-bearing Liabilities	13,212	-	2,589	15,801	16,339
Unearned Premiums	232	-	-	232	220
Outstanding Claims	626,107	7,825	28,255	662,187	703,555
Other Liabilities	-	-	-	-	4,568
TOTAL CURRENT LIABILITIES	654,584	7,907	31,024	693,515	836,810
NON-CURRENT LIABILITIES					
Outstanding Claims	3,911,809	77,586	169,994	4,159,389	3,738,090
TOTAL NON-CURRENT LIABILITIES	3,911,809	77,586	169,994	4,159,389	3,738,090
TOTAL LIABILITIES	**4,566,393**	**85,493**	**201,018**	**4,852,904**	**4,574,900**
NET ASSETS	**780,081**	**-**	**-**	**780,081**	**505,314**
EQUITY					
Contributed Capital	94,000	-	-	94,000	94,000
Accumulated Surplus	686,081	-	-	686,081	411,314
	780,081	**-**	**-**	**780,081**	**505,314**

22. FINANCIAL INSTRUMENTS

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

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

Cash

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

Receivables

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

Investments

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

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

Interest Rate Risk

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

Maturity									2005 $'000
Financial Instrument	**Within one month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Floating rate**	**Non interest**	**TOTAL**
Receivables								434,600	434,600
Cash at bank							91,126		91,126
Interest rate									4.68%
Hour-Glass facility							2,241,375		2,241,375
Interest rate									10.60%
Bond portfolio	201,276	52,769	108,405	535,212	890,788	1,073,090			2,861,540
Interest rate									5.63%
Payables								15,295	15,295
Interest bearing liabilities							15,801		15,801
Interest rate.									11.13%

Maturity									2004 $'000
Financial Instrument	**Within one month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Floating rate**	**Non interest**	**TOTAL**
Receivables								615,132	615,132
Cash at bank							90,326		90,326
Interest rate									4.35%
Hour-Glass facility							1,856,145		1,856,145
Interest rate									20.45%
Bond portfolio	76,989	45,849	39,538	300,790	1,428,470	625,987			2,517,623
Interest rate									5.68%
Payables								112,128	112,128
Interest bearing liabilities							16,339		16,339
Interest rate.									10.75%

Credit Risk

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

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

	2005 $000	2004 $000
Bond portfolio	2,861,540	2,517,623
Hour-Glass facility: - Investments	2,241,375	1,856,145
Hour-Glass facility: - Cash	90,596	89,343
Total	5,193,511	4,463,111

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

	2005 $000	2004 $000
International, Federal and State Governments	1,926,315	1,446,762
Banks	473,303	686,591
Corporates and Others	461,922	384,270
Total	2,861,540	2,517,623

Currency Risk

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

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

Derivatives

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

Bank Overdraft

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

Trade Creditors and Accruals

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

23. SEGMENT REPORTING

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

24. CAPITAL COMMITMENTS

There are no capital expenditure commitments at the reporting date.

25. CONTINGENT LIABILITIES

There are no known contingent liabilities at balanced date.

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

1. SICORP will apply the Australian Equivalents to International Financial Reporting Standards (AEIFRS) from 2005-06.

The following strategy is being implemented to manage the transition to AEIFRS. SICORP is managing the transition to the new standards by allocating internal resources to analyse the pending standards and Urgent Issues Group (UIG) Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

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

1.1. The Crown Entity IAS Committee is oversighting the transition and is responsible for the project.

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

- 1.2.1. Scope and planning
- 1.2.2. Review and impact assessment
- 1.2.3. Design and training
- 1.2.4. Implementation
- 1.2.5. Post implementation review

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

1.2.2. Review and impact assessment August 2005

1.2.3. Design and training August 2005

1.2.4. Implementation July 2006

1.2.5. Post implementation review December 2006

SICORP has determined the key areas where changes in accounting policies are likely to impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts are likely to arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector. The impacts disclosed below reflect Treasury's likely mandates (referred to as "indicative mandates").

Shown below are management's best estimates as at the date of preparing the 30 June 2005 financial report of the estimated financial impacts of AEIFRS on SICORP'S equity and profit/loss. SICORP does not anticipate any material impacts on its cash flows. The actual effects of the transition may differ from the estimated figures below because of pending changes to the AEIFRS, including the UIG Interpretations and / or emerging accepted practice in their interpretation and application. SICORP's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

(a) Reconciliation of key aggregates

Reconciliation of equity under existing Standards (AGAAP) to equity under AEIFRS:

Total equity under AGAAP	Notes	30 June 2005** $000 780,081	1 July 2004* $000 505,314
Derecognition of margins on outstanding claims provisions		17,404	18,534
Total equity under AEIFRS		797,485	523,848

* = adjustments as at the date of transition
**= cumulative adjustments as at date of transition plus the year ended 30 June 2005

Reconciliation of surplus / (deficit) under AGAAP to surplus / (deficit) under AEIFRS:

Year ended 30 June 2005	Notes	$000
Surplus / (deficit) under AGAAP		274,767
Outstanding claims provisions	1	(1,130)
Surplus / (deficit) under AEIFRS		273,637

Notes to tables above

1. AASB 137 Provisions, Contingent Liabilities and Contingent Assets requires the removal of risk margins from provisions of outstanding claims not relating to general insurance contracts.

(b) Outstanding Claims

In accordance with NSW Treasury's indicative mandates, TMF will apply the exemption provided in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards and apply AASB 1023 General Insurance Contracts from 1 July 2005. This change will require a one off adjustment that will reduce Equity by $332.1m reflecting increases to outstanding claims following changes to margins and discount rates.

(c) Financial Instruments

In accordance with NSW Treasury's indicative mandates, SICORP will apply the exemption provided in *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures* and *AASB 139 Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. These Standards will apply from 1 July 2005. None of the information provided above includes any impacts for financial instruments. However, when these Standards are applied, they are likely to impact on retained earnings (on first adoption) and the amount and volatility of profit / loss. Further, the impact of these Standards will in part depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics.

(d) Grant recognition for not-for profit entities

SICORP will apply the requirements in AASB 1004 *Contributions* regarding contributions of assets (including grants) and forgiveness of liabilities. There are no differences in the recognition requirements between the new AASB 1004 and the current AASB 1004. However, the new AASB 1004 may be amended by proposals in Exposure Draft (ED) 125 *Financial Reporting by Local Governments*. If the ED 125 approach is applied, revenue and / or expense recognition will not occur until either SICORP supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied. ED 125 may therefore delay revenue recognition compared with AASB 1004, where grants are recognised when controlled. However, at this stage, the timing and dollar impact of these amendments is uncertain.

End of Audited Financial Statements

Financial Statements for the year ended 30 June 2005

Liability Management Ministerial Corporation

New South Wales
TREASURY

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

To Members of the New South Wales Parliament

Audit Opinion

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

(a) presents fairly the Corporation's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

(b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Secretary's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

P G Thomas CA
Assistant Auditor-General

SYDNEY
10 October 2005

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Pursuant to section 41 of the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulation 2000, I state that:

(a) the accompanying financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000, the Treasurer's Directions, Australian Accounting Standards and the Urgent Issues Group Consensus Views;

(b) the statements exhibit a true and fair view of the financial position and transactions of the reporting entity; and

(b) there are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Acting Secretary
NSW Treasury

7 October 2005

LIABILITY MANAGEMENT MINISTERIAL CORPORATION
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2005

	Notes	2005 $000	2004 $000
Expenses			
Finance Expenses		3,573	1,492
Other	2	6	2
Total Expenses		**3,579**	**1,494**
Revenue			
Contributions from the Crown Entity	3 a)	975,000	1,124,000
Investment Income	3 b)	197,877	111,619
Other receipts	3 c)	2	
Total Revenue		**1,172,879**	**1,235,619**
OPERATING SURPLUS FOR THE YEAR		**1,169,300**	**1,234,125**
TOTAL REVENUE, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		–	–
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	8	**1,169,300**	**1,234,125**

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

LIABILITY MANAGEMENT MINISTERIAL CORPORATION
STATEMENT OF FINANCIAL POSITION
for the year ended 30 June 2005

	Notes	2005 $000	2004 $000
ASSETS			
Current Assets			
Receivables	4	54,189	34,385
Other Financial Assets	5	1,426	487,216
Total Current Assets		**55,615**	**521,601**
Non-Current Assets			
Investments	6	3,999,535	2,364,101
Total Non-Current Assets		**3,999,535**	**2,364,101**
TOTAL ASSETS		**4,055,150**	**2,885,702**
LIABILITIES			
Current Liabilities			
Payables	7	353	205
Total Current Liabilities		**353**	**205**
TOTAL LIABILITIES		**353**	**205**
NET ASSETS		**4,054,797**	**2,885,497**
EQUITY			
Accumulated Funds	8	4,054,797	2,885,497
TOTAL EQUITY		**4,054,797**	**2,885,497**

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

LIABILITY MANAGEMENT MINISTERIAL CORPORATION
STATEMENT OF CASH FLOWS
for the year ended 30 June 2005

	Notes	2005 $000	2004 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Other		3,430	1,289
Total Payments		**3,430**	**1,289**
Receipts			
Contributions from Crown		975,000	1,124,000
Other receipts from Crown		2	–
Interest Received		175,272	75,434
Valuation Gains		2,800	530
Total Receipts		**1,153,074**	**1,199,964**
CASH INFLOWS FROM OPERATING ACTIVITIES	11	**1,149,644**	**1,198,675**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments		(1,635,434)	(2,362,831)
CASH INFLOWS FROM INVESTING ACTIVITIES		**(1,635,434)**	**(2,362,831)**
DECREASE IN CASH HELD		**(485,790)**	**(1,164,156)**
OPENING CASH AND CASH EQUIVALENTS		487,216	1,651,372
CLOSING CASH AND CASH EQUIVALENTS	10	**1,426**	**487,216**

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

LIABILITY MANAGEMENT MINISTERIAL CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting

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

Management of the Fund considers that its function is similar to a superannuation entity and therefore, in accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans', it recognises the net change in the market value of non-current investments as revenue or expense. Accordingly, it does not meet the requirements of Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets'.

EXPENSES

Goods and Services Tax

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

REVENUE

Investment Income
Investment income is recognised as it accrues.

ASSETS

Investments

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

All investments with a term to maturity of up to 12 months must have an issuer short term credit rating as assessed by Standard & Poor's of A1+ or better or equivalent as assessed by other recognised ratings agencies.

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

There will be no transfers out of the fund during 2005-06.

FINANCIAL INSTRUMENTS

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

In accordance with AAS33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 13, in respect of the interest rate risk of financial instruments. The specific accounting policy in respect of each class of such financial instruments is stated hereunder.

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

Revenue and expenses arising from financial instruments are recognised on an accrual basis.

Revenues and expenses arising from derivative financial instruments are not recognised in the statements. The unrealised values of the derivatives are disclosed in Note 13.

Comparatives

No comparatives 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.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 $000	2004 $000
2. EXPENSES		
Other		
Audit fees	6	2
	6	**2**
3. REVENUE		
a) Contributions from the Crown Finance Entity	975,000	1,124,000
	975,000	**1,124,000**
b) Investment Income		
Interest on cash holdings	–	27,025
Valuation gains (net)	2,800	1,800
Interest on TCorp investments	175,273	48,409
Interest on TCorp investments accrued	19,804	34,385
	197,877	**111,619**
c) Other Receipts		
Other receipts from Crown Entity	2	–
	2	–
4. RECEIVABLES		
Current		
Interest	54,189	34,385
	54,189	**34,385**
5. OTHER FINANCIAL ASSETS		
Short term money market investment at TCorp	1,426	487,216
	1,426	**487,216**
6. INVESTMENTS		
Portfolio at Tcorp	3,999,535	2,364,101
	3,999,535	**2,364,101**
7. PAYABLES		
Audit fees	6	2
Management fees	347	203
	353	**205**

LIABILITY MANAGEMENT MINISTERIAL CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 $000	2004 $000
8. CHANGES IN EQUITY		
Balance at the beginning of the financial year	2,885,497	1,651,372
Changes in equity other than transactions with owners as owners		
Surplus for the year	1,169,300	1,234,125
Balance at the end of the financial year	**4,054,797**	**2,885,497**

9. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There are no contingent assets or contingent liabilities as at 30 June 2005.

10. CASH AND CASH EQUIVALENTS

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

	2005 $000	2004 $000
Other financial assets	1,426	487,216
	1,426	**487,216**

11. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO THE OPERATING RESULT

	2005 $000	2004 $000
Surplus for the year	1,169,300	1,234,125
Non-cash items added back		
Valuation Gains	–	(1,270)
Change in operating assets and liabilities		
Increase/(Decrease) in Payables	148	205
(Increase)/Decrease in Receivables	(19,804)	(34,385)
Cash Flows from operating activities	**1,149,644**	**1,198,675**

12. INVESTMENT PERFORMANCE

The running yield of the Liability Management Ministerial Corporation Fund outperforms the benchmark by a good margin, with a return of 5.82% for the financial year compared to the benchmark return of 5.53%.

The benchmark portfolio is constructed on the assumption that all cashflows into the portfolio are invested 50% at the current yield of the Commonwealth 10% 15 February 2006 bond and 50% at the yield of the 6.75% 15 November 2006 bond.

13. FINANCIAL INSTRUMENTS

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

(a) Derivative Financial Instruments

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

Derivatives which may be used are:

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

The LMMC has one type of derivative as at 30 June 2005.

1. Foreign Exchange Contracts: As at 30 June 2005 there are two foreign currency bonds in the investment portfolio. The policy is that all foreign currency bonds are fully hedged for both principal and coupon payments. Details are:

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

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

(b) Interest Rate Risk

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

Financial Instruments	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Fixed interest rate maturing in: Over 1 to 5 years	Fixed interest rate maturing in: More than 5 Years	Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
	2005 $'000	2005 $'000	2005 $'000	2005 $'000	2005 $'000	2005 $'000	2005 %
(i) Financial Assets							
Investments	–	1,586,128	2,413,407	–	–	3,999,535	5.64%
Other Financial Assets	1,426	–	–	–	–	1,426	5.51%
Receivables	–	–	–	–	54,189	54,189	–
Total financial assets	**1,426**	**1,586,128**	**2,413,407**	**–**	**54,189**	**4,055,150**	
(ii) Financial Liabilities							
Payables	–	–	–	–	353	353	–
Total financial liabilities	**–**	**–**	**–**	**–**	**353**	**353**	
Off Balance Sheet Liability - Forward Contracts	–	–	–	–	–	–	–

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

(c) Credit Risk

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

14. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Liability Management Ministerial Corporation (LMMC) will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from 2005-06. The following strategy is being implemented to manage the transition to AEIFRS.

1. The Crown Entity IAS Committee is oversighting the transition and is responsible for the project.

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

   2.1 Scope and planning
   2.2 Review and impact assessment
   2.3 Design and training
   2.4 Implementation
   2.5 Post implementation review

3. To date, items 2.1 to 2.3 have been completed. Implementation is scheduled to be completed by July 2006 and the post implementation review is scheduled to be completed by December 2006.

The LMMC has determined there are no areas where changes in accounting policies are likely to impact the financial report. The LMMC's accounting policies may be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics. However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

In accordance with NSW Treasury's indicative mandates, the LMMC will apply the exemption provided in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards not to apply the requirements of AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. These Standards will apply from 1 July 2005.

LMMC will apply the requirements in AASB 1004 Contributions regarding contributions of assets (including grants) and forgiveness of liabilities. There are no differences in the recognition requirements of the new AASB 1004 (Jan 2005) and the previous AASB 1004 (July 2004). However the new AASB 1004 may be amended by proposals in ED 125 Financial Reporting by Local Governments. If the ED 125 approach is applied, revenue and/or expense recognition will not occur until either LMMC supplies the related services (where grants are in-substance agreements for the provision services) or until conditions are satisfied. ED 125 may therefore delay revenue recognition compared with AASB 1004 under which grants are recognised when controlled. At this stage the timing and financial impact is not known.

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

AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIEFRS from 1 July 2004, with limited exemptions. Following an examination of AEIFRS requirements no changes have been identified.
AASB 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian standards that require such changes to be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

There are no changes that affect equity under existing Standards (AGAPP) compared to equity under AEIFRS.

"AASB 1004 *Contributions* – refer above"

LIABILITY MANAGEMENT MINISTERIAL CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

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

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

The LMMC is a Not-For-Profit-Entity whose principal objective is not the generation of profit. The LMMC has the function of managing the General Government Liability Management Fund (GGLMF). The principal objective of the GGLMF is to accept payments from the Crown Finance Entity, invest these monies and pay them out to reduce the liabilities of the State. The liabilities paid off must first be superannuation, followed by borrowings.

15. OTHER

The Government recorded its' intention, in the 2005-06 Budget Papers, to transfer the balance of the GGLMF to the State Super Trustee in the 2006-07 financial year.

16. POST BALANCE DATE EVENTS

There are no events subsequent to reporting date requiring disclosure.

Financial Statements for the year ended 30 June 2005

Electricity Tariff Equalisation Ministerial Corporation

New South Wales
TREASURY

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

Electricity Tariff Equalisation Ministerial Corporation

To Members of the New South Wales Parliament

Audit Opinion

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

- presents fairly the Corporation's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Fund Administrator's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

Maria Spriggins

M T Spriggins CA
Director, Financial Audit Services

SYDNEY
6 October 2005

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the Electricity Tariff Equalisation Ministerial Corporation for the year ended 30 June 2005 and the transactions for the year then ended.

(b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000* and the Treasurer's Directions, all applicable Australian Accounting Standards and the Urgent Issues Group Consensus Views.

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

Kerry Schott
Fund Administrator

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2005

	Notes	2005 $000	2004 $000
Expenses			
Tariffs to Retailers		391,356	266,380
Tariffs to Generators		-	-
Other	2	190	255
Total Expenses		**391,546**	**266,635**
Revenue			
Tariffs from Retailers		331,411	385,411
Tariffs from Generators		-	-
Investment Income on Short Term Money Market at TCorp		10,577	11,183
Total Revenues		**341,988**	**396,594**
OPERATING (DEFICIT)/ SURPLUS FOR THE YEAR		**(49,558)**	**129,959**
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	5	**(49,558)**	**129,959**

The accompanying notes form an integral part of these financial statements

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF FINANCIAL POSITION
As at 30 June 2005

	Notes	2005 $000	2004 $000
ASSETS			
Current Assets			
Receivables	3	33,693	20,192
Short Term Money Market Investment at TCorp		176,517	237,842
Total Current Assets		**210,210**	**258,034**
Total Non-Current Assets		-	-
Total Assets		**210,210**	**258,034**
LIABILITIES			
Current Liabilities			
Payables	4	1,777	43
Total Current Liabilities		**1,777**	**43**
Total Non-Current Liabilities		-	-
Total Liabilities		**1,777**	**43**
Net Assets		**208,433**	**257,991**
EQUITY			
Accumulated Funds	5	208,433	257,991
TOTAL EQUITY		**208,433**	**257,991**

The accompanying notes form an integral part of these financial statements

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF CASH FLOWS
for the year ended 30 June 2005

	Notes	2005 $000	2004 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Payments to Retailers		389,617	343,750
Payments to Generators		-	-
GST Paid		18	22
Management Fee		161	167
Consultant Costs		9	12
Other		24	67
Total Payments		**389,829**	**344,018**
Receipts			
Payments from Retailers		317,907	388,746
Payments from Generators		-	-
GST Recouped		20	23
Interest Received		10,577	11,183
Total Receipts		**328,504**	**399,952**
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		**(61,325)**	**55,934**
NET CASH FLOWS FROM INVESTING ACTIVITIES		-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		-	-
NET (DECREASE)/ INCREASE IN CASH HELD		**(61,325)**	**55,934**
Opening cash and cash equivalents		237,842	181,908
CLOSING CASH AND CASH EQUIVALENTS	7	**176,517**	**237,842**

The accompanying notes form an integral part of these financial statements

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Accounting

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

Legislative provisions prevail where there are inconsistencies between the requirements.

The financial report has been prepared on the basis of historical costs except for cash and cash equivalents that are at valuation.

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

Policy on tariff to/from retailers

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

EXPENSES

Employee Entitlements

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

Goods and Services Tax

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

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

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

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

REVENUE

Investment Income

Investment income is recognised as it accrues.

ASSETS

Other Financial Assets

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

FINANCIAL INSTRUMENTS

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

In accordance with AAS33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 9, in respect of the interest rate risk of financial instruments. The specific accounting policy in respect of each class of such financial instruments is stated hereunder.

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

Revenue and expenses arising from financial instruments are recognised on an accrual basis.

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

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 $000	2004 $000
2. EXPENSES		
Other		
Audit Fees	24	24
Consultants Costs	9	13
Management Fee	157	172
Other	-	46
	190	**255**

3. RECEIVABLES

	2005 $000	2004 $000
Payments from retailers/generators	33,689	20,185
GST Receivable	4	7
	33,693	**20,192**

4. PAYABLES

	2005 $000	2004 $000
Payments to retailers/generators	1,739	-
Audit Fees	27	27
Management Fee	11	16
	1,777	**43**

5. CHANGES IN EQUITY

	Accumulated Funds	
	2005 $000	**2004 $000**
Balance at the beginning of the financial year	257,991	128,032
Changes in equity-other than transactions with owners as owners		
(Deficit)/Surplus for the year	(49,558)	129,959
Balance at the end of the financial year	**208,433**	**257,991**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

	2005 $000	2004 $000

6. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets.

7. CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash includes investments in money market instruments. Cash at the end of the reporting period as shown in the Statement of Cash Flows is the short term money market investment at TCorp.

8. RECONCILIATION OF OPERATING RESULT TO CASHFLOWS FROM OPERATING ACTIVITIES

	2005 $000	2004 $000
Operating (Deficit)/Surplus For the Year	(49,558)	129,959
Change in Operating Assets and Liabilities		
(Increase)/ Decrease in Receivables	(13,504)	3,334
Increase /(Decrease) in Payables	1,734	(77,356)
Decrease/(Increase) in GST Receivable	3	(3)
Cash (Outflow)/Inflow from Operating Activities	**(61,325)**	**55,934**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2005

9. FINANCIAL INSTRUMENTS

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

(a) Interest Rate Risk

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

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
	2005 $000	2005 $000	2005 $000	2005 $000	2005 $000	2005 $000	2005 %
Financial Assets							
Short term money market investment at TCorp	176,517	-	-	-	-	176,517	5.58

Financial Instruments	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
		1 year or less	Over 1 to 5 years	More than 5 years			
	2004 $000	2004 $000	2004 $000	2004 $000	2004 $000	2004 $000	2004 %
Financial Assets							
Short term money market investment at TCorp	237,842	-	-	-	-	237,842	5.07

(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. The ETEMC's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Statement of Financial Position.

(c) Net Fair Value

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

10. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The ETEMC will apply the Australian equivalents to International Financial Reporting Standards (AEIFRS) from 2005-06. The ETEMC is managing the transition to the AEIFRS as follows:

1. The Treasury's OFM Audit Risk Committee is oversighting the transition and is responsible for the project.

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

    2.1 Scope and planning
    2.2 Review and impact assessment
    2.3 Design and training
    2.4 Implementation
    2.5 Post implementation review

3. To date, items 2.1 to 2.3 have been completed. Implementation is scheduled to be completed by July 2006 and the post implementation review is scheduled to be completed by December 2006.

The ETEMC has determined there are no areas where changes in accounting policies are likely to impact the financial report. The ETEMC's accounting policies may be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics. However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

In accordance with NSW Treasury's indicative mandates, the ETEMC will apply the exemption provided in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards not to apply the requirements of AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. These Standards will apply from 1 July 2005.

AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIEFRS from 1 July 2004, with limited exemptions. Following an examination of AEIFRS requirements no changes have been identified.

AASB 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian standards that require such changes to be recognised in the current period through profit and loss, unless a new standard mandates otherwise.

There are no changes that affect equity under existing Standard (AGAAP) compared to equity under AEIFRS.

The ETEMC is a not-for-profit entity whose principal objective is not the generation of profit. It is a regulatory instrument to smooth the volatility in wholesale prices for standard retail suppliers that are required to sell electricity at regulated tariffs.

11. POST BALANCE DATE EVENTS

There are no events subsequent to reporting date requiring disclosure.

End of Audited Financial Information

Financial Statements for the year ended 30 June 2005

Crown Property Portfolio

New South Wales
TREASURY

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

Crown Property Portfolio

To Members of the New South Wales Parliament

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraphs, the financial report of the Crown Property Portfolio:

(a) presents fairly the Portfolio's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

(b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

Qualifications

1. Finance Lease

In 1993, a contractual arrangement for the use of a portion of the Colonial State Bank Centre was assigned to the Crown Property Portfolio. As indicated at Note 14 (a), the Crown Property Portfolio recognises this arrangement as an operating lease. The payment for the right to use the floor space, together with the Portfolio's other contractual obligations, effectively transfers to it substantially the risks and benefits incidental to ownership of the entire property. In my opinion the substance of the contractual arrangement, consistent with the principles in Australian Accounting Standard AAS 17 "Accounting for Leases", requires recognition of the present obligation and related asset. I estimate the value of this obligation to be $184 million ($185 million at 30 June 2004), but am unable to quantify the value of the unrecognised related asset and the effect that this may have on the operating result. Adoption of this accounting treatment would require reversal of the recognition of the Provision For Sub-lease Income Shortfall of $9.5 million ($7.2 million at 30 June 2004), being the difference in amount between the head lease and the sub lease for the Colonial State Bank Centre. My opinion for the year ended 30 June 2004 was similarly qualified.

2. Previous Year Balance for Provision for Land Remediation and Other Costs

My opinion for the year-ended 30 June 2004 was qualified as follows:

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

An appropriate adjustment of $39.1 million was made to the provision in 2004-05 (Refer to Note 14(b)).

The Secretary's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

R Sendt

R J Sendt
Auditor-General

SYDNEY
26 October 2005

THE CROWN PROPERTY PORTFOLIO

ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF COMMERCE

Financial Statements

For the year ended 30 June 2005

Pursuant to section 41 of the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulation 2000, I state that:

a) The accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions as they related to the preparation of accounts;

b) The statements exhibit a true and fair view of the financial position and transactions of the reporting entity; and

c) There are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Secretary
NSW Treasury

25 October 2005

CROWN PROPERTY PORTFOLIO

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Certificate under Section 41C (1B) & (1C) of the Public Finance and Audit Act, 1983 and Clause 14 (1) of the Public Finance and Audit Regulation, 2000

The accompanying financial statements have been prepared in accordance with the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000 and the Treasurer's Directions as they relate to the preparation of those Accounts and with the requirements of applicable Australian Accounting Standards and the Urgent Issues Group Consensus Views.

In my opinion, the statements exhibit a true and fair view of the financial position and transactions of the Crown Property Portfolio. Further, I am not aware of any circumstances, as at the date of this certificate, which would render any particulars included in the financial statements misleading or inaccurate.

CSonter 7/10/05

Chris Sonter
Finance Manager
Corporate Real Estate (State Property)
NSW Department of Commerce

Trevor Seymour-Jones
General Manager
Corporate Real Estate (State Property)
NSW Department of Commerce

CROWN PROPERTY PORTFOLIO
Statement of Financial Performance
for the financial year ended 30 June 2005

	Notes	2005 $'000	2004 $'000
Revenues from ordinary activities			
Property rental income	2, 10	155,188	163,337
Grant received for local government	4	1,200	-
Assets received free of charge	5	390	-
Interest income	6	5,912	9,788
Other revenue	7	-	5
Contribution from the Crown Entity	8	22,630	25,124
Gain on disposal of property	3	830	-
Total revenues		186,150	198,254
Expenses from ordinary activities			
Loss on disposal of property	3	-	35
Depreciation	1(f), 17	2,622	2,944
Amortisation	1(g), 17	2,963	2,963
Head lease expenses	1(e), 9, 20	105,050	120,736
Property expenses	10	11,076	10,597
Grant payment to local government	4	1,200	-
Refurbishment expenses		3,814	5,197
Management Fee		6,794	7,512
Assets disposed of free of charge	11	-	1,500
Provision for doubtful debts	16	(209)	219
Other		1,026	605
Land Remediation	14 (b)	39,133	-
Total expenses from ordinary activities		173,469	152,308
Borrowing costs – finance leases	1(e)	16,710	16,771
Total expenses		190,179	169,079
Operating surplus (deficit) from ordinary activities	21	(4,029)	29,175
Net transfer from asset revaluation reserve	21	8,881	87,765
Total revenue, expenses and valuation adjustments recognised directly in equity		8,881	87,765
Total changes in equity other than those resulting from transactions with owners as owners	21	**4,852**	**116,940**

The above Statement of Financial Performance is to be read in conjunction with the accompanying notes.

CROWN PROPERTY PORTFOLIO
Statement of Financial Position
as at 30 June 2005

	Notes	2005 $'000	2004 $'000
Current assets			
Cash	15 (a)	135,210	119,800
Receivables	16	10,532	19,333
Total current assets		145,742	139,133
Non-current assets			
Property, plant and equipment	17	557,320	541,449
Intangible	25	2,090	2,145
Total non-current assets		559,410	543,594
Total Assets		705,152	682,727
Current liabilities			
Payables	19	91,397	10,206
Interest bearing liabilities	22 (b)	1,195	17,869
Provisions			
-Sub-lease income shortfall	14 (a)	3,107	4,345
-Land remediation and other costs	14 (b)	12,476	2,200
Other			
-Rent received in advance		3,262	3,349
-Deferred income	20	3,819	3,819
Total current liabilities		115,256	41,788
Non-current liabilities			
Interest bearing liabilities	22 (b)	7,787	77,763
Provisions			
-Sub-lease income shortfall	14 (a)	8,690	8,078
-Land remediation and other costs	14 (b)	129,791	101,628
Other			
-Deferred income	20	1,909	5,727
Total non-current liabilities		148,177	193,196
Total Liabilities		263,433	234,984
Net Assets		**441,719**	**447,743**
Equity			
Asset revaluation reserve	21	163,790	207,911
Accumulated funds	21	277,929	239,832
Total Equity		**441,719**	**447,743**

The above Statement of Financial Position is to be read in conjunction with the accompanying notes.

CROWN PROPERTY PORTFOLIO
Statement of Cash Flows
for the financial year ended 30 June 2005

	Notes	2005 $'000	2004 $'000
Cash flows from operating activities			
Receipts			
Property rental income		157,052	160,323
Goods and services tax received		15,827	21,019
Grant received for local government	4	1,200	-
Interest Income		12,471	-
Other revenue	7	-	5
Total Receipts		186,550	181,347
Payments			
Head lease expenses		(110,950)	(122,954)
Property and refurbishment expenses		(15,970)	(16,797)
Borrowing cost - finance leases		(17,869)	(16,852)
Goods and services tax paid		(15,339)	(21,356)
Management Fee		(6,794)	(7,512)
Grant payment to local government	4	(1,200)	-
Land Remediation	14 (b)	(694)	-
		(168,816)	(185,471)
Cash flows from government			
Contribution from the Crown Entity	8	22,630	25,124
Asset sale proceeds transferred to the Crown Entity		(48)	(605)
Contribution to the Crown Entity	21	(9,550)	(4,525)
		13,032	19,994
Net cash provided by operating activities	15 (b)	30,766	15,870
Cash flows from investing activities			
Purchases of property, plant and equipment		(16,574)	(18,473)
Proceeds from disposal of property	3	1,314	650
Property disposal costs	3	(96)	(45)
Net cash provided by/ (used in) investing activities		(15,356)	(17,868)
Net increase/ (decrease) in cash held		15,410	(1,998)
Cash at the beginning of the financial year	15 (a)	119,800	121,798
Cash at the end of the financial year	*15 (a)*	***135,210***	***119,800***

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

STATEMENT OF PRINCIPAL ACTIVITIES

The Crown Property Portfolio (CPP), a budget dependent entity, comprises 6 property portfolios. The main activity of Portfolios 1-4 is the collection of rent and management of multi-occupancy buildings owned or leased by the New South Wales Government. Portfolios 5 and 6 generate a rental income stream from a number of diverse properties, including properties held for disposal, strategic properties and other properties received by the Portfolio that are surplus to Government requirements. The NSW Department of Commerce manage these properties on an agency basis under a Management Agreement between the Department and the NSW Treasury.

The CPP is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Financial Reporting

On 1 July 1996 the Crown Property Portfolio became a budget dependent agency. The Treasury has, however, determined that it continue reporting its operations as if it was a statutory body and therefore comply with all the disclosure requirements of a statutory body.

(b) Basis of Preparation of the Accounts

These accounts, which are a general-purpose financial report, have been prepared in accordance with applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, Industry Practice, Treasurer's Directions and the requirements of the Public Finance and Audit Act, 1983 and Public Finance and Audit Regulation, 2000.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

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

The Statement of Financial Position and Statement of Financial Performance have been prepared on an accrual basis. The Statement of Cash Flows has been prepared on a cash basis using the direct method, and includes all receipts and payments made during the year.

All amounts are expressed in Australian dollars and, unless otherwise stated, rounded to the nearest one thousand dollars.

(c) Employee Entitlements

The Crown Property Portfolio has no employees and therefore no provision is needed for employee entitlements. Staff of the NSW Department of Commerce undertake all work under a signed Management Agreement between the NSW Treasury and the Department.

(d) Insurance

Properties owned or managed by or on behalf of the Crown Property Portfolio are insured for their replacement value under the Treasury Managed Fund administered by GIO Australia. The Crown Property Portfolio carries a comprehensive range of insurances through the Treasury Managed Fund covering property, public liability and other contingencies.

Management ensures that all insurance covers are current and adequate.

(e) Leased Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets and operating leases under which the lessor effectively retains all such risks and benefits.

(i) Finance leases

Finance leases are recognised as assets and liabilities at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

(ii) Operating Leases

Operating lease expenditure is expensed in the period in which the benefit is received and lease income is recognised as earned. Expenditure is recorded under the Head Leases line item in the Statement of Financial Performance and income is included in Property Rental Income. Head Lease Expenses include the minimum lease payments, contingent rentals and rental expenses arising from sub-leases. (Note 9)

In accordance with Abstract 1 of the Urgent Issues Group "Lessee accounting for surplus leased space under a non-cancellable operating lease", where necessary, a provision is made for the cost of future surplus leased space from which no economic benefit will be derived and a provision is made for the present value of the difference between lease costs associated with the Head Leases and Sub Leases. (Note 14 (a)).

Lease incentives are recognised as a reduction of Head Lease Expenses over the term of the lease. (Notes 9 & 20).

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

The terms of occupancy for Government Agencies occupying space in CPP owned premises is dictated in the Memorandum of Understanding between the CPP and the Government Agency. The provisions of the Memorandum are generally based on market place conditions applicable to office buildings in commercial centres.

The term of the tenancy agreement is indefinite with the Agency required to give 18 months notice before they vacate. Termination of part tenancies is permitted subject to a variety of conditions being satisfied.

Rent reviews for owned Government Office Buildings are conducted at two yearly intervals to update rentals to current market rates. There are no ratchet clauses in place and tenants are charged an effective rental, which takes into consideration incentives available in the market place at a particular point in time.

Generally, tenants are expected to makegood the premises by undertaking a physical makegood or negotiating a financial settlement with CPP.

(f) Depreciation

Depreciation is provided on a straight-line basis for all depreciable non-current assets to allocate their depreciable amounts over their estimated useful lives. These rates are reviewed on an annual basis. Depreciation on Buildings is at 2.5% pa, Fixtures and Fittings at 20% pa and Computer Equipment at 33.33%

(g) Amortisation

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

(h) Non - current assets

Acquisition of property is recognised upon exchange of contract. The cost method of accounting is used for the initial recording of all acquisitions. Cost is determined as the fair value of the assets given as consideration plus the costs incidental to the acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in arm's length transaction. Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair values at the date of acquisition.

Computer equipment and furniture and fixtures with short useful lives are measured at depreciated historical cost, as a surrogate to fair value.

Plant and equipment costing $5,000 and above individually are capitalised.

Physical non-current assets are valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 03-02). This policy adopts fair value in accordance with AASB 1041 from financial years beginning on or after 1 July 2002.

Where available, fair value is determined having regard to the highest and best use of the asset on the basis of current market selling prices for the same or similar assets. Where market selling price is not available, the asset's fair value is measured as its market buying price, (ie. the replacement cost of the asset's remaining future economic benefits).

Non-current assets are revalued on a cyclical basis, at least every three years and on this basis are considered at fair values. Most revaluations are based on capitalisation of net income stream or existing use.

On revaluation, revaluation increments and decrements are offset against one another within the same class of non-current assets.

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

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

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

(i) Comparative Figures

Where necessary, previous year figures have been reclassified to facilitate comparison.

(j) Taxation

The activities of the Crown Property Portfolio are exempt from income tax.

(k) Contributions to Treasury

Contributions consist of surplus funds forwarded to Treasury from the leasing of property and from the proceeds of the sale of property.

(l) Revenue Recognition

Rental revenue is recognised on a basis representative of the services rendered through the provision of leased property to clients, whether or not cash is received.

All property sales are recognised on the date of exchange of contract.

Contributions from Treasury (Note 8) are recognised as revenues when the Portfolio obtains control over the assets comprising the contributions. Control over contributions is normally obtained upon the receipt of cash.

(m) Financial Instruments

Financial instruments give rise to positions that are financial assets or liabilities of either the Crown Property Portfolio or its counterparties. These include Cash at Bank, Receivables and Payables.

(i) Cash

Cash comprises cash on hand and balances at banks.

(ii) Receivables

All receivables are recognised as amounts receivable at balance date. Collectibility of receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). The carrying amount approximates net fair value. Services are made on 30-day terms.

(iii) Payables

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

(iv) Financial Lease Liability

The liability in respect of the lease is carried at the net fair value. The interest rate in connection with the lease is disclosed in Note 22 (b).

(n) ***Capitalised Expenditure***

Property expenditure that gives rise to an effective and material increase in the future economic benefits to the Portfolio is capitalised. The amount capitalised to Building asset during the year was $9.8M (2003/04, $11.3M). (Note 17)

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

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

(i) The amount of GST incurred by the CPP as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

(ii) Receivables and payables are stated with the amount of GST included.

(p) Equity Transfers

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs/ functions and part thereof between NSW public sector agencies are designated as a contribution by owners by NSWTC 01/ 11 and are recognised as an adjustment to "Accumulated Funds". This treatment is consistent with Urgent Issues Group Abstract UIG 38 "Contributions by Owners Made to Wholly Owned Public Sector Entities".

All other equity transfers are recognised at fair value.

(q) ***Provisions***

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

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

2. PROPERTY RENTAL INCOME

	2005 $'000	2004 $'000
Owned property	37,655	36,145
Leased property	117,533	127,192
	155,188	163,337

3. PROFIT FROM/ (LOSS ON) DISPOSAL OF PROPERTY

	2005 $'000	2004 $'000
Proceeds from disposal of property	1,314	650
Less:		
Property disposal expenses	96	45
Written down value of assets disposed	388	640
	830	(35)

4. GRANT TO LOCAL GOVERNMENT

A $1.2M Crown Entity grant was received from the Commonwealth Government and provided to Palerang Council in June 2005 to assist with the development of its new council offices at Bungendore.

5. ASSETS RECEIVED FREE OF CHARGE

Two vacant residential homesites adjoining the site of the former Birmingham Gardens Infants School were resumed from the Department of Education and Training and vested in the Minister for Public Works in 1970. These assets were valued in 2004/05 at $0.390M and transferred free of charge back to the Crown through the Crown Property Portfolio.

6. INTEREST INCOME

This refers to the interest earned from 1 July 2004 to 30 June 2005 on the $108.987M contribution received for land remediation from BHP Billiton.

	2005 $'000	2004 $'000
Total interest earned	6,197	10,260
Less:		
Interest attributed to the $5M held in trust on behalf of the Newcastle University and Newcastle City Council (Notes 14, 15 & 19)	285	472
	5,912	9,788

7. OTHER REVENUE

	2005 $'000	2004 $'000
Telephone rebate	-	2
Bad debts recovered (Refer to Note 16)	-	3
	-	5

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

8. CONTRIBUTION FROM THE CROWN ENTITY

	2005 $'000	2004 $'000
Contributions for costs of capital works, asset acquisitions and property refurbishments	20,636	23,027
Contributions for Management fee paid to NSW Department of Commerce re Accommodation Strategic Alliance	1,994	2,097
	22,630	25,124

The contribution was received from the Crown Entity and includes the costs for the construction of new government office building in Queanbeyan, development of the Parramatta Justice Precinct, major works for the Chief Secretary Building in Sydney and refurbishment works in other buildings.

9. HEAD LEASES

(a) Expenses

	2005 $'000	2004 $'000
Minimum lease payments	86,961	92,101
Contingent rentals	3,836	13,106
Rental expenses arising from sub-lease	14,253	15,529
	105,050	120,736

Head leased office accommodation properties are sub-leased to government agencies.

The terms of the operating head leases ranged from 3 to 10 years with the option of renewal of further terms. The lease agreements allow Lessors the right to review rents on specified dates. The expenditure for recurrent outgoings (including repairs and maintenance, electricity, cleaning, expenses for common areas and public risk insurance), subject to exclusion of repairs and maintenance of a structural or capital nature, is the responsibility of the Lessee (the CPP).

Contingent rentals are variations due to market reviews and changes to Consumer Price Index between the actual lease and the amounts of minimum lease payments determined at the inception of the lease.

Minimum lease payments were reduced by the $3.819M amortisation of a $68M lease incentive received in 1995.

(b) Future Minimum Lease Payments for Head Leases

	2005 $'000	2004 $'000
Head Leases future minimum lease payments contracted at balance date but not provided for:		
Payable within one year	74,424	79,761
Payable later than one year but not later than five years	112,098	174,702
Payable later than five years	33,989	45,810
	220,511	300,273

(c) Contingent rentals recognised as revenues

$3.836M of contingent rentals were recognised as revenue in 2004/05 (2003/04, $13.106M).

10. PROPERTY EXPENSES

These expenses include maintenance of building, electricity, telephone, security, cleaning, gardening and sundry charges incurred in multiple occupancy buildings owned by the CPP. These expenses are recoverable from the tenants and are reflected in Property Rental Income.

11. ASSETS DISPOSED OF FREE OF CHARGE

No assets were disposed free of charge during 2004/05.

Particulars	2005 $'000	2004 $'000
Tempe tip	-	1,500
	-	1,500

The Tempe tip was transferred to Marrickville Council in 2003/04.

12. AUDIT FEES

	2005 $'000	2004 $'000
Fee for the audit of current year's annual accounts	58	54
Special fee for the audit of the transactions relating to the acquisition of former BHP sites during 2002-03	-	7
Special fee for additional audit investigation of opening balances under the new AASB standards	5	-
	63	61

The Auditor did not receive nor is the Auditor due to receive any other benefit.

13. CONSULTANTS

Expenditure on consultants during the year totalled $0.07M (2003/ 04, $0.21M).

14. PROVISIONS

(a) Onerous Contract - Provision for sub-lease income shortfall

	2005 $'000	2004 $'000
Carrying balance at the beginning of year	12,423	12,574
Additional provisions recognised, including increases to existing provisions	2,337	5,224
Reductions in provisions from payments and other sacrifices	(2,963)	(4,066)
Reductions in provisions from re-measurements or settlement without cost	-	(1,309)
Carrying balance at the end of year	11,797	12,423
Current liability	3,107	4,345
Non current liability	8,690	8,078

The Provision for Sub-lease Income Shortfall is for the CPP head leases on Colonial State Bank Centre, Martin Place, Sydney and Pacific Power Building, Sydney. The provision is the net present value of the excess of the head lease commitments over the estimated sub-lease rentals over the expected period of the shortfall. The appropriate discounting factor of 8.41% over 11 years was used for Colonial State Bank. The level of the provision is reviewed at the end of each year and an adjustment made to the Statement of Financial Performance.

The CPP recognises the head lease on Colonial State Bank as an operating lease. However there is disagreement with The Audit Office of New South Wales over the economic substance of the lease.

(b) Provision for land remediation and other costs

	2005 $'000	2004 $'000
Carrying balance at the beginning of year	103,828	103,828
Additional provisions recognised including increases to existing provisions	39,133	-
Reductions in provisions from payments and other sacrifices	(694)	-
Carrying balance at the end of year	142,267	103,828
Current liability	12,476	2,200
Non current liability	129,791	101,628

The Crown acquired the former BHP main steel works site, including another three parcels of lands in Newcastle, in June 2002. These lands will need remediation works to remove various contaminations associated with steel making. The Crown negotiated, as part of land acquisition package consideration, for BHP Billiton to pay an amount to compensate for the total estimated cost of land remediation and other works.

At the time the purchase was being negotiated, the Government sought advice on the estimated remediation costs for the main steel site and the Kooragang Island waste emplacement site. In providing this assessment, a number of assumptions as to the nature of future development and the method of remediating the sites were made.

BHP Billiton Ltd agreed to pay $108.987M, including $5M for Heritage Interpretation Funding Proposal which was received by the Crown 'on trust' based on the total negotiated estimated costs of remediation and other works as shown in the Environmental Deed dated 31 July 2002 between the BHP Billiton Ltd and the Crown, ie.

Works Particulars	June 2005 $'000	July 2002 $'000
Environmental remediation of steel works main site and Kooragang Islands waste emplacement site	138,459	100,000
Environmental monitoring of main site over 10 years	1,541	1,700
Heritage interpretation funding proposal	5,000	5,000
Relocation of the railway line to OneSteel (Moorandoo Crossing)	2,267	2,287
	147,267	108,987

Whilst the nature and type of remediation to be undertaken will be controlled by how the sites are to be reused or redeveloped and to what extent the ground will be disturbed, it is required by Accounting Standards to recognise the present obligation. The Government established a special subsidiary corporation, the Regional Management Land Corporation (Note 18), which will provide its recommendations to the Government on the best possible use of the sites.

15. STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, the cash balance is considered to include cash on hand and cash at bank.

	2005 $'000	2004 $'000
Cash at bank	135,210	119,800

Included in the Cash balance is $108.827M received by the Crown from BHP Billiton. Out of this amount $5.757M including interest, is held 'on trust' on behalf of the Newcastle Council and the University of Newcastle in relation to the funding proposal for the implementation of the Revised Heritage Interpretation Strategy (Notes 6, 14 & 19).

(b) Reconciliation of the Operating Surplus/ (Deficit) to the Net Cash Provided by Operating Activities:

	Notes	2005 $'000	2004 $'000
Operating surplus / (deficit)		(4,029)	29,175
Lease incentive	20	(3,819)	(3,819)
Loss / (Gain) from disposal of property	3	(830)	35
Assets disposed of free of charge	11	-	1,500
Depreciation	17	2,622	2,944
Amortisation	17	2,963	2,963
Provision for doubtful debts	16	(209)	219
Bad debts recovered	16	-	(3)
Decrease in Provisions for sub-lease income shortfall		(626)	(152)
Assets received free of charge	5	(390)	
Asset sales proceeds transferred to the Crown Entity		(1,226)	(605)
Contributions to the Crown Entity	21	(9,550)	(4,525)
Decrease in Interest bearing liabilities		(86,650)	(80)
Increase in Provisions for land remediation	14 (b)	38,439	-
Decrease/ (Increase) in operating Receivables		8,997	(14,103)
Decrease/ (Increase) in Other assets		3,970	384
Increase in Payables		81,191	1,855
Increase/ (Decrease) in Rent in advance		(87)	82
Net cash provided by operating activities		**30,766**	**15,870**

16. RECEIVABLES

	2005 $'000	2004 $'000
Trade Receivables	4,136	5,809
Provision for doubtful debts	(96)	(305)
	4,040	5,504
Other Receivables		
GST receivable	405	892
Other	6,087	12,937
	10,532	19,333

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

Movement in the provision for doubtful debts

	2005 $'000	2004 $'000
Balance at the beginning of year	(305)	(89)
(Increase) / decrease in provision	209	(219)
Bad debts recovered	-	3
Balance at the end of year	(96)	(305)

17. PROPERTY, PLANT AND EQUIPMENT

	2005 $'000	2004 $'000
Unimproved Land – at fair value	135,857	135,802
Land and buildings – at fair value		
Land and buildings	413,638	309,976
Work in progress	6,744	-
	420,382	309,976
Less: Accumulated depreciation	(5,538)	(2,933)
	414,844	307,043
Finance lease – at fair value		
Leasehold & Land and Buildings	7,500	101,500
Less: Accumulated amortisation	(882)	(2,908)
	6,618	98,592
Computer equipment – at fair value	38	36
Less: Accumulated depreciation	(37)	(24)
	1	12
Total Property, plant and equipment – Net book value	**557,320**	**541,449**

(A) Property - Owned

	Unimproved Land $'000	Land and Buildings $'000	Work in Progress $'000	Computer Equipment $'000	Total $'000
Gross Value					
Opening balance 1 July 2004	135,802	309,976	-	36	445,814
Add: Acquisitions	-	-	6,744	2	6,746
Add: Capitalised expenditure-Note 1 (n)	-	9,819	-	-	9,819
Add: Assets received free of charge	390	-	-	-	390
Add: Asset revaluation increment	-	12,456	-	-	12,456
Add: Transfer of Mckell Bldg from Finance Lease	-	81,544	-	-	81,544
Less: Disposals	(235)	(156)	-	-	(391)
Less: Assets transferred to other government agency	(100)	-	-	-	(100)
Closing Balance 30 June 2005	**135,857**	**413,639**	**6,744**	**38**	**556,278**
Accumulated Depreciation					
Opening balance 1 July 2004	-	2,933	-	24	2,957
Add: Charge for the year	-	2,609	-	13	2,622
Less: Reversal due to asset disposal	-	(3)	-	-	(3)
Closing Balance 30 June 2005	**-**	**5,539**	**-**	**37**	**5,576**
Written Down Value					
Balance 1 July 2004	135,802	307,043	-	12	442,857
Balance 30 June 2005	**135,857**	**408,100**	**6,744**	**1**	**550,702**

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

(B) Property – Finance Lease

	Land and Buildings $'000	Leasehold $'000	Total $'000
Gross Value			
Opening balance 1 July 2004	94,000	7,500	**101,500**
Less: Transfer of Mckell Bldg to owned property	(94,000)	-	**(94,000)**
Closing Balance 30 June 2005	**-**	**7,500**	**7,500**
Accumulated Amortisation			
Opening balance 1 July 2004	2,467	441	**2,908**
Add: Charge for the year	2,467	441	**2,908**
Less: Reversal of Mckell Bldg amortisation due to transfer to owned property	(4,934)	-	**(4,934)**
Closing Balance 30 June 2005	**-**	**882**	**882**
Written Down Value			
Balance 1 July 2004	91,533	7,059	98,592
Balance 30 June 2005	**-**	**6,618**	**6,618**

Total Owned and Leased Assets	**Unimproved Land**	**Land and Buildings**	**Work in Progress**	**Leasehold**	**Computer Equipment**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000
Opening balance 1 July 2004	135,802	398,576	-	7,059	12	541,449
Closing Balance 30 June 2005	**135,857**	**408,100**	**6,744**	**6,618**	**1**	**557,320**

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

The property acquisitions during the year relate to construction of the Queanbeyan Government Office Building $2.271M and the development of the Parramatta Justice Precinct $4.473M.

Details of assets transferred to other State Government agency:

Particulars	**Fair value $'000**
Land adjacent to David Berry Hospital – transferred to NSW Health Department	100

The finance lease relates to one property lease - Noel Park House, Marius Street, Tamworth. Noel Park House is being amortised over the life of the lease. An option to purchase McKell Building was exercised in June 2005 resulting in the movement from Finance Lease to Owned Property.

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

18. TRANSFER OF FUNCTIONS

Effective 1 April 2003, the management of properties at the Lower Hunter Region, Newcastle, including the former BHP main steel site and another 3 parcels of land acquired from BHP and the Kooragang Islands industrial estates, were transferred to the Regional Lands Management Corporation (RLMC), a special purpose subsidiary established by the NSW State Government and Hunter Water Corporation (a State Owned Corporation) to assume interim management of these properties. From 1 April 2003, all revenues generated from rental and all expenses associated with the interim management of these properties accrue to the RLMC.

However, these properties with a total estimated fair value of $56.8M are still remaining in the CPP pending the transfer of titles to RLMC and subject to further instructions from NSW Treasury.

No assets or liabilities were transferred other than above.

19. PAYABLES

	2005 $'000	2004 $'000
Property expenses	2,890	4,701
Property sales proceeds payable to Treasury	1,178	-
Monies held 'on trust' (Notes 6, 14 & 15)	5,757	5,472
McKell Building purchase	81,534	-
Audit fees	38	33
	91,397	10,206

Monies held 'on trust' comprised $5M original amount received on behalf of Newcastle University and Newcastle City Council plus the interest earned, $0.757M, from 31 July 2002 to 30 June 2005 (Note 6). An option to purchase McKell Building was exercised and contracts were exchanged for a purchase price of $88.5M in June 2005. A deposit of $0.010M was paid on exchange of contracts with the balance due in 05/06. The net present value of the purchase price is $81.544M as at 30 June 2005.

20. DEFERRED INCOME - INCENTIVE FROM LESSOR

A lease incentive payment of $68M was received from the former SAS Trustee Corporation in January 1995 and relates to a twelve-year lease on the Governor Macquarie Tower. The lease incentive is recognised as a reduction of Head Lease Expenses over the term of the lease.

During 2004/05, an amount of $3.819M (2003/04, $3.819M) was recognised as a reduction against head lease expenses. From the remaining balance of $5.728M as at 30 June 2005, $3.819M (2003/04, $3.819M) is classified as a current liability and $1.909M (2003/04, $5.727M) is classified as a non-current liability.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

21. TOTAL EQUITY

	Accumulated Funds		Asset Revaluation Reserve		Total Equity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Balance at the beginning of financial year	239,832	220,189	207,911	120,164	447,743	340,353
Changes in equity – transactions with owners as owners						
(Decrease) in net assets						
– Asset sale proceeds transferred to the Crown Entity	(1,226)	(605)	-	-	(1,226)	(605)
– Contributions to the Crown Entity	(9,550)	(4,525)	-	-	(9,550)	(4,525)
– Transfer of assets to other government departments	(100)	(4,420)	-	-	(100)	(4,420)
Total	(10,876)	(9,550)	-	-	(10,876)	(9,550)
Changes in equity – other than transactions with owners as owners						
Surplus/ (Deficit) for the year	(4,029)	29,175	-	-	(4,029)	29,175
Asset revaluation increment		-	12,456	87,765	12,456	87,765
Transfer of revaluation reserve to accumulated funds on reduction of finance lease	40,583	-	(44,158)	-	(3,575)	-
Transfer of revaluation reserve to accumulated funds for unallocated amounts.	12,197	-	(12,197)	-	-	-
Transfer of revaluation reserve to accumulated funds of assets transferred to other government agency	100	-	(100)	-	-	-
Transfer of revaluation reserve to accumulated funds on disposal of asset	122	18	(122)	(18)	-	-
Total	48,973	29,193	(44,121)	87,747	4,852	116,940
Balance at the end of financial year	**277,929**	**239,832**	**163,790**	**207,911**	**441,719**	**447,743**

The total asset revaluation reserve is attributable to the following classes of non-current assets

	2005 $'000	2004 $'000
Land (owned)	63,216	63,344
Land and buildings (owned)	97,358	97,194
Land and buildings (finance lease)	3,216	47,374
	163,790	207,911

Transfers to the Crown Entity included:

	2005 $'000	2004 $'000
Surplus from rental operations	9,550	4,525
Proceeds from sale of property	1,226	605
	10,776	5,130

22. EXPENDITURE COMMITMENTS

(a) Capital Expenditure Commitments

	2005 $'000	2004 $'000
Capital expenditure contracted at balance date but not provided for:		
Payable within one year	44,510	9,650
Payable later than one year but not later than five years	116,277	2,266
Payable later than five years		-
	160,787	11,916

Capital expenditure commitments as at 30 June 2005 are inclusive of GST, including GST Recoverable Input Tax Credits of $14.6M (2003/04, $1.08M). The GST recoverable is a Contingent Asset.

(b) Lease Expenditure Commitments

Operating Leases

	2005 $'000	2004 $'000
Operating lease expenditure contracted at balance date but not provided for:		
Payable within one year	89,900	106,748
Payable later than one year but not later than five years	230,785	270,996
Payable later than five years	175,535	195,263
	496,220	573,007

Operating lease commitments as at 30 June 2005 are inclusive of GST.

Operating lease commitments as at 30 June 2005 include GST Recoverable Input Tax Credits of $45.11M (2003/04, $52.092M). The GST recoverable is a Contingent Asset.

Finance Lease

Finance lease commitments (exclusive of GST) and reconciliation to carrying amount of lease liabilities:

	2005 $'000 Minimum Lease Payments	2005 $'000 Lease Liability	2004 $'000 Minimum Lease Payments	2004 $'000 Lease Liability
Lease liability as at 30 June:				
Current	-	1,195	-	17,869
Non Current	-	7,787	-	77,763
Total	-	8,982	-	95,632
Payable within one year	1,195	466	17,869	1,159
Payable later than one year but not later than five years	4,780	2,302	20,971	2,610
Payable later than five years	8,166	6,214	9,361	6,863
Total	**14,141**	**8,982**	**48,201**	**10,632**
Liability at end of lease		-		85,000

Finance lease refers to lease on Noel Park House. The Noel Park House lease has a lease term of 25 years with no option to purchase the asset at the completion of the lease term in 2017. The discount rate implicit in the lease is 8.31% pa. The decrease in Finance Lease liability is due to an option to purchase McKell Building being exercised resulting in the movement from Finance Lease to Owned Property.

23. CONTINGENT ASSETS AND LIABILITIES

Contingent Assets of $59.711M (2003/04, $53.2M) are recognised in relation to GST recoverable on capital and lease expenditure commitments (Note 22).

A Contingent Asset of $8M to $16M plus costs is recognised in relation to a potential financial settlement of current break benefits litigation proceedings. The proceedings arise from certain changes to the structured finance arrangements that were put in place in 1991 when Rawson Place Pty Ltd acquired the McKell Building from the NSW Crown.

In the event that the NSW Crown is not successful in the break benefits litigation, it will be liable to pay the cost of the Defendants and therefore a contingent liability of $0.5M to $0.6M is also recognised.

There is uncertainty about the GST implications on the purchase of McKell Building. The parties applied for a private ruling and have been advised that the purchase is not GST free, however a letter of review has been lodged and therefore a Contingent Asset and Liability of $9.5M is recognised.

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

24. SEGMENT INFORMATION

Business segments	Leasing -Owned Properties		Sub Leasing -Leased Properties		Leasing -Surplus & Strategic Properties		Consolidated	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Revenue								
Revenue from external customers								
Rental Income	30,883	29,802	117,533	127,192	6,772	6,343	155,188	163,337
Proceeds from sale of assets	376	-	-	-	938	650	1,314	650
Interest income	-	-	-	-	5,912	9,788	5,912	9,788
Other revenues								
External customers	-	-	-	3	-	2	-	5
Contribution from the Crown Entity	19,527	21,257	822	680	287	1,090	20,636	23,027
Grant from NSW Treasury	1,200	-	-	-	-	-	1,200	
Total segment revenue	51,986	51,059	118,355	127,875	13,909	17,873	184,250	196,807
Operating Result								
Segment result	34,067	34,316	(10,663)	(17,142)	10,684	13,349	34,087	30,523
Unallocated corporate revenue:								
Contribution from the Crown Entity for Strategic Alliance management	-	-	-	-	-	-	1,994	2,097
Unallocated corporate expenses:	-							
Strategic alliance management fee-NSW Department of Commerce	-	-	-	-	-	-	(1,994)	(2,097)
Consolidated operating surplus/ (loss) from ordinary activities	-	-	-	-	-	-	34,087	30,523
Significant items	-	-	-	-	-	-		
Assets received 'free of charge'	-	-	-	-	-	-	390	
Assets disposed of 'free of charge'	-	-	-	-	-	-		(1,500)
Adjustment on provision on shortfall in sub lease income	-	-	-	-	-	-	626	152
Net Profit	-	-	-	-	-	-	35,103	29,175
Segment assets	332,059	230,821	6,833	98,807	338,365	333,054	677,257	662,682
Unallocated corporate assets	-	-	-	-	-	-	27,895	20,045
Consolidated total assets	-	-	-	-	-	-	705,152	682,727
Segment liabilities	-	-	26,507	117,601	108,893	109,300	135,400	226,901
Unallocated corporate liabilities	-	-	-	-	-	-	95,856	8,083
Consolidated total liabilities	-	-	-	-	-	-	231,256	234,984
Acquisition of property, plant and equipment	105,066	18,473	-	-	-	-	105,066	18,473
Depreciation	2,374	2,697	1	1	247	246	2,622	2,944
Amortisation		-	2,963	2,963	-	-	2,963	2,963
Remediation Provision	-	-	-	-	39,133	-	39,133	-
Other non-cash expenses	(28)	32	(181)	187	-	-	(209)	219

25. SYDNEY OPERA HOUSE CAR PARK LEASE

The Sydney Opera House Car Park is leased by the Crown to a private consortium on a 50-year ground lease, which commenced on 13 March 1993. The lessee has constructed at its own expense a subterranean car park with a design life of 50 years. At the expiration of the lease term the Government has the right to receive the car park. Rental income from the lease $0.968M (2003/04, $1.190M) is reflected in the Statement of Financial Performance. The value of the Car Park land $13.7M (2003/04, $13.7M) is recognised as Property, Plant & Equipment (Note 17A) and the emerging value of the structures $2.090M (2003/04, $2.145M) is recognised as an Intangible Asset.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

26. AASB 1047 DISCLOSING THE IMPACTS OF ADOPTING AUSTRALIAN ACCOUNTING EQUIVALENTS TO INTERNATIONAL ACCOUNTING STANDARDS

Crown Property Portfolio will apply the Australian equivalents to International Financial Reporting Standards (AEIFRS) from 2005-06.

Crown Property Portfolio has determined the key areas where changes in accounting policies are likely to impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts are likely to arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector. The impacts disclosed below reflect Treasury's likely mandates (referred to as "indicative mandates").

Shown below are management's best estimates as at the date of preparing the 30 June 2005 financial report of the estimated financial impacts of AEIFRS on the Crown Property Portfolio's equity and profit/loss. Crown Property Portfolio does not anticipate any material impacts on its cash flows. The actual effects of the transition may differ from the estimated figures below because of pending changes to the AEIFRS, including the UIG Interpretation's and / or emerging accepted practice in their interpretation and application. Crown Property Portfolio's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

(a) Reconciliation of key aggregates.

Reconciliation of equity under existing Standards (AGAAP) to equity under AEIFRS:

	Notes	30 June 2005 $000	1 July 2004 $000
Total equity under AGAAP		**441,719**	**447,743**
Adjustments to accumulated funds			
Write back asset revaluation reserve for investment properties	1	72,376	112,005
Write back asset revaluation reserve for assets held for sale	2	22,882	14,987
Write back asset revaluation reserve for unallocated amount			12,197
Increase in net surplus due to reduction of depreciation & amortisation expense for investment properties	1	5,323	
Increase in net surplus due to reduction of depreciation expense for assets held for sale	2	178	
Recognition of makegood restoration depreciation costs	3	(4,992)	(3,091)
Recognition of makegood restoration borrowing costs	3	(3,174)	(2,268)
Recognition of land remediation restoration depreciation costs	3	(39,588)	(26,015)
Recognition of land remediation restoration borrowing costs	3	(37,466)	(23,942)
Increase in net surplus due to reduction of land remediation costs.	3	143,120	103,987
Adjustments to asset revaluation reserve			
Write back asset revaluation reserve for investment properties	1	(72,376)	(112,005)
Write back asset revaluation reserve for assets held for sale	2	(22,882)	(14,987)
Write back asset revaluation reserve for unallocated amount			(12,197)
Total equity under AEIFRS		**505,120**	**496,414**

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2005

Reconciliation of surplus under AGAAP to surplus under AEIFRS:

Year ended 30 June 2005	Notes	$000
Deficit under AGAAP		**(4,029)**
Reduction in depreciation & amortisation expense for investment properties	1	5,323
Reduction in depreciation expense for assets held for sale	2	178
Recognition of makegood restoration depreciation costs	3	(1,901)
Recognition of makegood restoration borrowing costs	3	(906)
Recognition of land remediation restoration depreciation costs	3	(13,573)
Recognition of land remediation restoration borrowing costs	3	(13,524)
Reduction in land remediation expense	3	39,133
Surplus under AEIFRS		**10,701**

Notes to tables above

1. Under AASB 140 Investment Property and Treasury's indicative mandates, investment property will be recognised at fair value. In contrast to their current treatment as property, plant and equipment, investment property recognised at fair value will not be depreciated and changes in fair value will be recognised in the operating statement rather than the asset revaluation reserve. This means that any asset revaluation reserve balances relating to such property will be written back to accumulated funds as shown above.

2. AASB 5 Non-current Assets Held for Sale and Discontinued Operations requires non-current assets classified as 'held for sale' to be reclassified as current and recognised at the lower of the carrying amount and the fair value less costs to sell. Unlike current AGAAP, 'held for sale' assets are not depreciated, thereby reducing the depreciation expense.

3. AASB 116 requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration costs, where restoration provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. These restoration costs must be depreciated and the unwinding of the restoration provision must be recognised as a finance expense. This treatment is not required under current AGAAP.

27. POST BALANCE DATE EVENT

There are no events subsequent to balance date which would affect the financial reports.

End of Audited Financial Statements

Financial Statements for the year ended 30 June 2005

Crown Lands Homesites Program

New South Wales
TREASURY

AUDITOR-GENERAL

NEW SOUTH WALES

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

CROWN LANDS HOMESITES PROGRAM

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Crown Lands Homesites Program:

(a) presents fairly the Program's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

(b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Secretary of the Treasury's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

P J Boulous CA
Acting Assistant Auditor-General

SYDNEY
12 October 2005

THE CROWN LAND HOMESITES PROGRAM
(ACTIVITIES CONDUCTED BY LANDCOM)

STATEMENT BY THE SECRETARY OF THE NEW SOUTH WALES TREASURY ON THE ADOPTION OF

FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

Pursuant to section 41 of the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulation 2000, I state that:

a) The accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2000, the Treasurer's Directions, Australian Accounting Standards and the Urgent Issues Group Consensus Views;

b) The statements exhibit a true and fair view of the financial position and transactions of the reporting entity; and

c) There are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Acting Secretary
NSW Treasury

7 October 2005

CROWN LANDS HOMESITES PROGRAM

ADOPTION OF FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2005

The attached financial report of Crown Lands Homesites Program have been prepared in accordance with the statutory provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, and the Treasurer's Directions.

Pursuant to the Public Finance and Audit Act, 1983, it is recommended that:

> The financial report for the year ended 30 June 2005 be adopted and the Secretary of the Treasury provide a statement to the effect that in his opinion the accompanying financial report exhibits a true and fair view of the financial position and transactions of Crown Lands Homesites Program and that such report have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, and the Treasurer's Directions, and further, that he is not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.
>
> We declare that to the best of our knowledge and belief, the Crown Lands Homesites Program is able to pay its debts as and when they become due and payable.

Sean O'Toole
Managing Director

LANDCOM

Gregory South
General Manager Corporate and Finance
LANDCOM

CROWN LANDS HOMESITES PROGRAM
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 $'000	2004 $'000
Sales revenue		22,007	38,529
Cost of sales		(6,271)	(10,889)
Gross Profit		**15,736**	**27,640**
Other revenue from ordinary activities	2	686	224
Marketing expenses	3	(1,658)	(2,300)
Other expenses from ordinary activities	4	(1,102)	(3,211)
Expenses from ordinary activities		**(2,760)**	**(5,511)**
Profit from Ordinary Activities		**13,662**	**22,353**
Total Changes in Equity other than resulting from transactions with owners as owners	10	**13,662**	**22,353**

The above Statement of Financial Performance is to be read in conjunction with the attached notes.

CROWN LANDS HOMESITES PROGRAM
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Notes	2005 $'000	2004 $'000
Current Assets			
Cash	11,12	6,136	12,549
Receivables	5	922	627
Inventories	6	15,540	19,025
Total Current Assets		**22,598**	**32,201**
Non Current Assets			
Inventories	6	22,781	22,132
Total Non Current Assets		**22,781**	**22,132**
Total Assets		**45,379**	**54,333**
Current Liabilities			
Payables	7	5,168	8,290
Provisions	8	1,374	1,764
Total Current Liabilities		**6,542**	**10,054**
Non Current Liabilities			
Payables	9	12,402	12,387
Provisions	8	1072	580
Total Non Current Liabilities		**13,474**	**12,967**
Total Liabilities		**20,016**	**23,021**
Net Assets		**25,363**	**31,312**
Equity			
Retained Profits	10	25,363	31,312
Total Equity		**25,363**	**31,312**

The above Statement of Financial Position is to be read in conjunction with the attached notes.

CROWN LANDS HOMESITES PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 $'000	2004 $'000
Cash Flows from Operating Activities			
Receipts from Customers		24,517	41,243
Interest Received		663	206
Payments to Creditors		(10,015)	(24,930)
GST Payments		(1,967)	(22)
Net Cash Provided by/(Used in) Operating Activities	11(b)	**13,198**	**16,497**
Cash Flows from Financing Activities			
Short term loan from NSW Treasury		-	6,000
Repayment of borrowing from NSW Treasury		-	(6,000)
Distribution to NSW Treasury		(19,611)	(8,809)
Net Cash Provided by/(Used in) Financing Activities		**(19,611)**	**(8,809)**
Net Increase/(Decrease) in Cash Held		**(6,413)**	**7,688**
Cash at the Beginning of the Financial Year		**12,549**	**4,861**
Cash at the End of the Financial Year	11(a)	**6,136**	**12,549**

The above Statement of Cash Flows is to be read in conjunction with the attached notes.

The Crown Lands Homesites Program (CLHP) is a commercial activity of the Crown Entity. This activity encompasses the development and sale of residential Crown Lands Homesites. Landcom conducts this activity on behalf of the Crown Entity.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

(a) Basis of Accounting

The Financial Statements of the Crown Lands Homesites Program are a general purpose financial report and have been prepared, except where otherwise stated, on an accrual basis at historical cost and in accordance with applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group (UIG) Consensus Views,and the requirements of the Public Finance and Audit Act, 1983, and regulations.Where there are inconsistencies between the above requirements,the legislation provisions have prevailed.
In the absence of a specific Accounting Standard, other authoritative pronouncement of the AASB or UIG consensus view, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.
The financial statements have been prepared in accordance with the requirements of Part 3 of the Public Finance and Audit Act,1983 and the Public Finance And Audit Regulation 2000.

The following is a summary of the significant accounting policies adopted by the Crown Lands Homesites Program in the preparation of the financial report.The accounting policies have been consistently applied, unless stated otherwise. All amounts are rounded to the nearest one thousand dollars and expressed in Australian currency.

(b) Revenue Recognition

Revenue has been brought to account in accordance with generally accepted accounting principles and Treasurer's Directions and comprises:

- Land sales recognised on settlement of a legally binding contract and receipt of the agreed settlement price.
- Interest recognised in accordance with the set terms and conditions as it occurs.
- Other income based on the general principle that there is a right to be compensated for services rendered and it is probable that economic benefits will result and the revenue can be reliably measured.

(c) Cost of Sales

The cost of sales includes costs of land and development costs incurred in bringing the raw land to "Developed Land".

(d) Administration and Marketing Charges

Administration and marketing expenses are reimbursed to Landcom under a management agreement with the New South Wales Treasury. Administration charge assessment is based on apportionment of total operating expenditure incurred by Landcom during the year on the ratio of number of lots developed and released for sale by both Landcom and Crown Lands Homesites Program.

Marketing charges are based on direct expenses except for shared advertising and promotion, which are based on the sales ratio apportionment between Crown Lands Homesites Program and Landcom.

(e) Employee Entitlements

The Crown Lands Homesites Program has no employees and therefore no provision is required nor reported for employee entitlement.

(f) Goods and Services Tax

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Inventories

Inventories comprise Developed Land for Sale, Work in Progress (Land under Development) and Undeveloped Land.

Developed land is land which has been subdivided and registered on completion of all development activity.

Work in Progress (Land under Development) represents land that has been subdivided into precincts and where development activity relating to the precinct has commenced.

Developed Land and Work in Progress is expected to be sold within the next twelve months.

Undeveloped land consists of land holdings where no development has taken place and land holdings where estate major work activity has been undertaken. It excludes precincts on which development activity has commenced.

Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of land and related development expenses. All direct and indirect expenditure on development are included in the relevant precincts.

(h) Financial Instruments

Financial instruments give rise to positions that are a financial asset of Crown Lands Homesites Program and a financial liability (or equity instrument) of the other party. For Crown Lands Homesites Program these include cash, receivables and payables.

In accordance with AAS 33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 12, in respect of the credit risk and interest rate risk of financial instruments. All such amounts are carried in the accounts at net fair value unless otherwise stated. The specific accounting policy in respect of each class of such financial instrument is stated hereunder.

Cash

Cash comprises cash on hand and at the bank. Interest is earned on daily bank balances and investment balances. Interest is paid directly to the NSW Treasury.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis.Receivables, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). The carrying amount approximates the net fair value. Sales are made on varying terms, but generally on a 30 day exchange and 30 day settlement basis. Interest is charged on overdue settlement monies where agreed settlement dates are not met. The rate of interest applied during the year was 10.95%.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial Instruments (Contd)

Payables

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

The Crown Lands Homesites Program also holds monies in trust paid by prospective buyers of land, as either holding deposits or on exchange of contracts pending settlement.

(i) Distribution to NSW Treasury

Crown Lands Homesites Program is required to return funds that are in excess of working capital to the Consolidated fund of NSW Treasury. During the year ended 30 June 2005 Crown Lands Homesites returned $19.61 million to Consolidated Fund.

(j) Reclassification of Comparatives

No changes in accounting standards have required comparative amounts to be represented or reclassified to ensure comparability with the current reporting period.

(k) Provisions

The provision to complete projects captures 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, however, due to the nature of the expenditure the timing is not known.

A provision for rebates is recognised when a lot is sold. As part of the condition of sale, the Crown Lands Homesites Program is committed to make a payment to the purchaser provided certain design criteria are met and applied for within specified period by the purchaser, usually between 18-24 months. This payment represents reimbursement for additional costs incurred by the purchasers in complying with the design criteria set by the Crown Lands Homesites Program.

(l) Impact of Adopting Australian Equivalents to IFRS

Crown Lands Homesites Program will apply the Australian equivalents to International Financial Reporting Standards (AEIFRS) from 2005-06.

The following strategy is being implemented to manage the transition of AEIFRS. The agency is managing the transition to the new standards by allocating internal resources and has engaged Chartered accountants to analyse both the issued and pending standards and Urgent Issue Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result of this exercise, the Crown Lands Homesites Program has taken the following steps to manage the transition to the new standards:

Landcom's Audit and Risk Management Committee (a Board sub-committee) is overseeing the transition,the Business and Finance Services Director is responsible for the project and reports quarterly to the Committee on progress against the plan.

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

Phase 1 Conduct an IFRS diagnostic (completed)

Phase 2 Design and planning (completed)

Phase 3 Solution development (completed)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impact of Adopting Australian Equivalents to IFRS (Contd)

Phase 4 Implementation (in progress)

Phase 5 Post implementation review

Crown Lands Homesites Program has determined the key areas where changes in accounting policies are likely to impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts are likely to arise from options in AEIFRS. To ensure consistency at the whole of Government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector.

Management's best estimates as at the date of preparing the 30 June 2005 financial report of the estimated financial impacts of AEIFRS on Crown Lands Homesites Program's equity and profit/loss is Nil. Crown Lands Homesites Program does not anticipate any material impacts on its cash flows. The actual effects of the transition may differ from the estimated figures below because of pending changes to the AEIFRS, including the UIG Interpretations and / or emerging accepted practice in their interpretation and application. Crown Lands Homesites Program's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

(a) Reconciliation of key aggregates

Reconciliation of equity under existing Standards (AGAAP) to equity under AEIFRS:		
	30/06/05**	**01/07/04***
	$000	**$000**
Total equity under AGAAP	**25,363**	**31,312**
Adjustments to accumulated funds	**-**	**-**
Adjustments to other reserves	-	-
Total equity under AEIFRS	**25,363**	**31,312**
* = adjustments as at the date of transition		
**= cumulative adjustments as at date of transition +the year ended		

Reconciliation of surplus / (deficit) under AGAAP to surplus /(deficit) under AEIFRS:	
Year ended 30 June 2005	**$000**
Surplus / (deficit) under AGAAP	**13,662**
Surplus / (deficit) under AEIFRS	**13,662**

(b) Financial Instruments

In accordance with NSW Treasury's indicative mandates, Crown Lands Homesites Program will apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. These Standards will apply from 1 July 2005. None of the information provided above includes any impacts for financial instruments. However, when these standards are applied, they are likely to impact on retained earnings (on first adoption) and the amount and volatility of profit / loss. Further, the impact of these Standards will in part depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Grant recognition for *not-for profit* entities

Crown Lands Homesites Program will apply the requirements in AASB 1004 *Contributions* regarding contributions of assets (including grants) and forgiveness of liabilities. There are no differences in the recognition requirements between the new AASB 1004 and the current AASB 1004. However, the new AASB 1004 may be amended by proposals in Exposure Draft (ED) 125 *Financial Reporting by Local Governments*. If the ED 125 approach is applied, revenue and / or expense recognition will not occur until either Crown Lands Homesites Program supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied. ED 125 may therefore delay revenue recognition compared with AASB 1004, where grants are recognised when controlled. However, at this stage, the timing and dollar impact of these amendments is uncertain.

	2005 $'000	2004 $'000
2 OTHER REVENUE FROM ORDINARY ACTIVITIES		
Forfeited Sales Deposits	13	18
Interest	663	206
Other	10	-
	686	224
3 MARKETING EXPENSES		
Agents' Commission	650	1,093
Advertising and Promotion	1,008	1,207
	1,658	**2,300**
4 OTHER EXPENSES FROM ORDINARY ACTIVITY		
Estate maintenance	102	75
Management/Support fee	947	3,034
Project cost adjustments	-	52
The Auditor-General's fee for auditing the financial reports	17	16
Other contractors	12	14
Rates	8	5
Miscellaneous	16	15
	1,102	**3,211**

Management fees represent charges by Landcom for the cost of professional and corporate support services.

Project cost adjustments represent items of expense where expenditure incurred on projects was written off as land did not proceed to appropriation.

CROWN LANDS HOMESITES PROGRAM
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005 $'000	2004 $'000
5 RECEIVABLES		
Current		
Development bonds	204	128
Debtors	718	499
	922	**627**
6 INVENTORIES		
Current		
Works in Progress (at cost)	6,638	9,216
Developed Land (at cost)	8,902	9,809
	15,540	**19,025**
Non Current		
Developed Land (at cost)	324	275
Undeveloped Land (at cost)	22,457	21,857
	22,781	**22,132**
Total Land Held for Resale	**38,321**	**41,157**
Details are:		
Cost of acquisition	16,838	18,042
Development expenses capitalised	21,483	23,115
Carrying Amount of the Land	**38,321**	**41,157**
7 PAYABLES		
Current		
Treasury - Crown Core (Note 9)	4,182	5,395
Trade Creditors - Crown Core	16	304
Trade Creditors	326	243
GST payable	173	908
Retention Monies	19	18
Trust Monies	191	296
Accrued Expenses and Development Costs	261	1,126
	5,168	**8,290**
8 PROVISIONS		
Current		
Provision to complete projects	739	1,764
Provision for Rebates	617	-
Provisions Other	18	-
	1,374	**1,764**
Non Current		
Provision to complete projects	970	-
Provision for Rebates	102	580
	1,072	**580**
Total Provisions	**2,446**	**2,344**

8 PROVISIONS (Contd)

	Provision to complete projects $'000	Provision for rebates $'000	Provisions - Other $'000
Carrying amount at the beginning of the year	1,764	580	-
Additional provisions recognised	560	139	18
Reductions in provisions from payments	(615)		
Reductions in provisions from remeasurement			
	1,709	719	18

9 PAYABLES - TREASURY CROWN CORE CREDITORS ACCOUNT

	2005 $'000	2004 $'000
At 1 July:		
Current Liability	5,395	9,366
Non Current Liability	12,387	11,345
	17,782	20,711
Payments to Treasury	(1,182)	(2,625)
Payable to Treasury	(16)	(304)
	16,584	**17,782**
At 30 June:		
Current Liability	4,182	5,395
Non Current Liability	12,402	12,387
	16,584	**17,782**

The total liability represents the cost of Crown Lands acquired at valuation by the Crown Lands Homesites Program. The current liability represents land expected to be sold within the next 12 months. An amount is payable to NSW Treasury on the sale of land which represents the land value component of the cost of sales.

10 EQUITY

	2005 $'000	2004 $'000
Retained Profits		
Balance at the beginning of financial year	31,312	15,143
Changes in equity - other than transactions with owners as owners		
Net profit	13,662	22,353
Changes in equity - transactions with owners as owners		
Distribution paid to NSW Treasury	(19,611)	(6,184)
Balance at the end of financial year	**25,363**	**31,312**

11 STATEMENT OF CASH FLOWS

(a) For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2005 $'000	2004 $'000
Cash	6,136	12,549
Total Cash	**6,136**	**12,549**

11 STATEMENT OF CASH FLOWS (Contd)

(b) Reconciliation of net cash provided by from operating activities to net profit:

Profit from ordinary activities	13,662	22,353
Write Down Project Costs	-	52
Change in Assets and Liabilities		
(Increase)/Decrease in Receivables	(345)	(625)
(Increase)/Decrease in Inventory	2,836	(9,035)
Increase/(Decrease) in Provisions	102	2,325
Increase/(Decrease) in Payables	(3,057)	1,427
Net cash provided by/(used in) operating activities	**13,198**	**16,497**

12 FINANCIAL INSTRUMENTS
(This note is to be read in conjunction with Note 1(h))

(a) Interest Rate Risk
Interest rate risk, is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates. Crown Lands Homesites Program exposure to interest rate risks and the effective interest rates of financial assets and liabilities, both recognised and unrecognised at the balance date is minimal.

2005			Fixed interest rate maturing in:					
Financial Instrument	Notes	Floating Interest Rate $'000	1 Year or less $'000	Over 1, but not later than 2 years $'000	Over 2, but not later than 5 years $'000	More than 5 years $'000	Non Interest Bearing $'000	Carrying Amount as per the Statement of Financial Position $'000
Financial Assets								
Cash	11	6,136						6,136
Receivables	5						922	922
Total Financial Assets		**6,136**					**922**	**7,058**
Weighted Average Interest Rate		3.31%						
Financial Liabilities								
Payables	7, 9						17,570	17,570
Total Financial Liabilities							**17,570**	**17,570**
Net Financial Assets/(Liabilities)		**6,136**					**(16,648)**	**(10,512)**

12 FINANCIAL INSTRUMENTS (Contd)

2004		Fixed interest rate maturing in:						
Financial Instrument	Notes	Floating Interest Rate $'000	1 Year or less $'000	Over 1, but not later than 2 years $'000	Over 2, but not later than 5 years $'000	More than 5 years $'000	Non Interest Bearing $'000	Carrying Amount as per the Statement of Financial Position $'000
Financial Assets								
Cash	11	12,549						12,549
Receivables	5						627	627
Total Financial Assets		**12,549**					**627**	**13,176**
Weighted Average Interest Rate		3.06%						
Financial Liabilities								
Payables	7, 9						20,677	20,677
Total Financial Liabilities		**0**	**0**	**0**	**0**	**0**	**20,677**	**20,677**
Net Financial Assets/(Liabilities)		**12,549**	**0**	**0**	**0**	**0**	**(20,050)**	**(7,501)**

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 Statement of Financial Position.

There is no significant concentration of credit risk arising in respect of receivables.

c) Net Fair Value

All financial instruments are carried at Net Fair Value, unless stated otherwise.

CROWN LANDS HOMESITES PROGRAM
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

13 SEGMENT REPORTING

Crown Lands Homesites Program operates in the land development industry in New South Wales.

	2005 $'000	2004 $'000
14 EXPENDITURE COMMITMENTS		
Aggregate capital expenditure commitment for land development contracted for at balance date but not provided for:		
Not later than one year	3,339	2,969
Total (including GST)	**3,339**	**2,969**

The total capital commitments above includes input tax credits of $304,000 ($270,000 for 2003/04) that are expected to be recoverable from the ATO.

The Crown Lands Homesites Program does not have any capital or operating lease commitments. (2003/2004 - Nil)

15 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.

16 RELATED PARTY TRANSACTION

Any transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

END OF AUDITED FINANCIAL STATEMENTS

Financial Statements for the year ended 30 June 2005

Land Development Working Account

New South Wales
TREASURY

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

The Crown Commercial Entity - Activities Conducted by the Department of Lands (Land Development Working Account)

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Crown Commercial Entity's - Activities Conducted by the Department of Lands (Land Development Working Account):

(a) presents fairly the Entity's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

(b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Secretary's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

S R Stanton CPA
Director, Financial Audit Services

SYDNEY
11 October 2005

THE CROWN COMMERCIAL ENTITY
(LAND DEVELOPMENT WORKING ACCOUNT)

ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS

Financial Statements

For the year ended 30 June 2005

Pursuant to section 41 of the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulation 2000, I state that:

(a) the accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions Australian Accounting Standards and the Urgent Issues Group Consensus View;

(b) the statements exhibit a true and fair view of the financial position and transactions of the reporting entity; and

(c) there are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate

Acting Secretary
NSW Treasury

7 October 2005

THE CROWN COMMERCIAL ENTITY
(LAND DEVELOPMENT WORKING ACCOUNT)

STATEMENT
BY
THE FINANCIAL ACCOUNTANT AND CHIEF FINANCIAL OFFICER

Pursuant to section 41C (1B) of the *Public Finance and Audit 1983* and the Public Finance and Audit Regulation 2000, we declare that:

(a) the accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit 1983*, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions as they related to the preparation of accounts:

(b) the statements exhibit a true and fair view of the financial position and transactions of the reporting entity; and

(c) there are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate

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

Date at SYDNEY this Fourth day of October 2005

Ian Holt

I Holt
Acting Director
Finance & Administrative Services
Department of Lands

H Tan
Financial Accountant
Financial Services
Department of Lands

THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS (LAND DEVELOPMENT WORKING ACCOUNT)

Statement of Financial Performance
For the year ended 30 June 2005

	Notes	2005 $000	2004 $000
Sales Revenue	3	45,558	10,639
Cost of sales	4(a)	15,164	3,428
Gross Profit		**30,394**	**7,211**
Expenses from Ordinary Activities			
Administration Expenses		812	609
Marketing Expenses		44	23
Other Expenses		704	212
	4(b)	1,560	844
Profit from Ordinary Activities		**28,834**	**6,367**
Total changes in equity other than those resulting from transactions with owners as owners	11	**28,834**	**6,367**

The accompanying notes form part of these financial statements.

THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS (LAND DEVELOPMENT WORKING ACCOUNT)

Statement of Financial Position
As at 30 June 2005

	Notes	2005 $'000	2004 $'000
Current Assets			
Cash Asset	5	40,644	16,616
Receivables		687	666
Inventories	6	8,482	6,014
Total Current Assets		**49,813**	**23,296**
Non-Current Assets			
Inventories	6	3,542	3,542
Total Non-Current Assets		**3,542**	**3,542**
Total Assets		**53,355**	**26,838**
Current Liabilities			
Payables	7	5,212	2,595
Provisions	8	28,000	6,500
Other	9	11,157	9,591
Total Current Liabilities		**44,369**	**18,686**
Non Current Liabilities			
Other	10	3,000	3,000
Total Non Current Liabilities		**3,000**	**3,000**
Total Liabilities		**47,369**	**21,686**
Net Assets		**5,986**	**5,152**
Equity			
Retained profits	11	5,986	5,152
Total Equity		**5,986**	**5,152**

The accompanying notes form part of these financial statements.

THE CROWN COMMERCIAL ENTITY – ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS (LAND DEVELOPMENT WORKING ACCOUNT)

Statement of Cash Flows
For the year ended 30 June 2005

	Notes	2005 $000	2004 $000
Cash Flows from Operating Activities			
Receipts from customers		52,106	12,355
Payments to suppliers		(21,578)	(4,826)
Net Cash Provided by Operating Activities	12(b)	**30,528**	**7,529**
Cash Flows from Financing Activities			
Distribution to Treasury		(6,500)	(3,000)
Net Cash used in Financing Activities		**(6,500)**	**(3,000)**
Net Increase Cash held		24,028	4,529
Cash at the beginning of the Financial Year		16,616	12,087
Cash at the end of the Financial Year	12(a)	**40,644**	**16,616**

The accompanying notes form part of these financial statements.

THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS (LAND DEVELOPMENT WORKING ACCOUNT)

Notes to and forming Part of the Financial Statements For the year ended 30 June 2005

1. THE REPORTING ENTITY

The Land Development Working Account comprises the Crown commercial activities, mainly the development and sale of land for commercial and residential purposes in country New South Wales. All Crown land sold by the Entity either as vacant or developed lots is deemed to have been acquired initially by the Entity from the Crown Entity. The entity operates in New South Wales, Australia. The office is located at Level 4, 1 Prince Albert Road, Queens Square, Sydney, NSW 2000. Activities managed by the Department of Lands on behalf of the Crown Entity are reported separately from the Department's operational activities in accordance with Treasury policy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared as a general purpose financial report and in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group (UIG) Consensus Views and the requirements of the *Public Finance and Audit Act 1983.*

In the absence of applicable Accounting Standards, the hierarchy of the pronouncements as mentioned in AAS 6 'Accounting Policies' is considered.

The Statement of Financial Performance and Statement of Financial Position are prepared on an accruals basis and in accordance with the historical cost convention. The Statement of Cash Flows is prepared on a cash basis using the "direct" method. All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(a) Revenue from sale of land
Revenue from sale of land is recognised on settlement.

(b) Sale of surplus land controlled by other Departments
The Crown Commercial Entity acts as an agent for other Departments in regard to the sale of surplus Crown land. After deducting departmental selling expenses the proceeds from the sale are remitted to the selling department which is responsible for transferring any Crown share of proceeds to the Consolidated Fund. These proceeds are therefore not recognised as revenue in these financial statements.

(c) Cost of sales
The cost of sales includes the cost of land and direct development expenses.

(d) Employee related expenses
The Entity has no employees. All the Entity's human resources are provided by the Department of Lands on a fee for services rendered basis. This fee includes employee related costs (salaries, superannuation, leave entitlement, payroll tax, and workers' compensation insurance) and an administration oncost.

(e) Depreciation
Depreciation is provided for on a straight line basis against all depreciable assets so as to write off the depreciable amount of each depreciable asset as it is consumed over its useful life to the entity. Computer equipment has a useful life of 4 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Inventories - property held for resale

Inventories are stated at the lower of cost or net realisable value. Cost comprises cost of land and related development expenses. All direct expenditures and appropriate overhead on development are charged to the relevant projects. Inventories include development projects at different stages of completion but not vacant Crown land.

Crown land transferred to the entity is currently accounted for as follows:

- **Land acquired by the Entity for sale as vacant land**
  The acquisition cost of vacant land is recognised as a cost of sales expense with a corresponding liability to the Crown Leaseholds Entity. The value of the land equals the cost of acquisition from the Crown Entity. Payment of the liability owing to the Crown Leaseholds Entity occurs at time of settlement.

- **Land acquired by the Entity for sale as developed land**
  The acquisition cost of land is recognised as a cost of inventory with a corresponding liability to the Crown Leaseholds Entity. The value of the land is determined by departmental registered valuers. Recognition occurs at the time the decision is made to develop the land.

(g) Cash

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation 11am unofficial cash rate adjusted for a management fee to Treasury. Interest is not reported in the financial statements as it is paid direct to the Treasury.

(h) Receivables

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

(i) *Payables*

The liabilities are recognised for amounts due to be paid in the future for goods or services received whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer’s Direction 219.01. If trade terms are not specified, payment is made not later than the end of the month following the month in which an invoice or a statement is received. Treasurer’s Direction 219.01 allows the Minister to award interest for late payment. The carrying amount approximates the net fair value.

(j) Accounting for the Goods and Services Tax (GST)

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

- the amount of GST incurred by the Entity as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or part of an item of expense.

- receivables and payables are stated with the amount of GST included.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Contributions to Treasury NSW

Land Development Working Account (LDWA) is required to return funds in excess of working capital to the Consolidated Fund of NSW Treasury. Excess funds for the current period are transferred to provisions and paid in the following financial year.

(l) Treasury Advance

An interest-free working capital advance of $3,000,000 was received from NSW Treasury on the establishment of Land Development Working Account. This advance is repayable only when requested by NSW Treasury.

(m) Comparative figures

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

The only material change to the comparative figures is the presentation of prepaid land value transferred from Crown Leasehold entity. It was presented as receivable in the financial year ended 2004 and is now presented as part of current inventory.

3. SALES REVENUE

	2005 $000	2004 $000
Revenue from sale of land (Note 2(a))	48,510	11,460
Less:		
Land sold on behalf of other Departments (Note 2(b))	(2,952)	(821)
Net revenue received	**45,558**	**10,639**
Analysed as follows:		
Developed land	3,071	3,825
Vacant land	36,911	2,186
Land sold to NSW Government Agencies	5,104	4,353
Other revenue	472	275
	45,558	**10,639**

4. COST OF SALES

4(a) Cost of Sales (Note 2 (c))

	2005	2004
Cost of land	13,301	1,801
Development costs	1,863	1,627
	15,164	**3,428**

4(b) Operating Expenses

	2005 $'000	2004 $'000
Administration Expenses		
Auditor's remuneration – audit of the financial report	14	13
Fees for services rendered (including departmental management fee (Note 2(d))	798	596
	812	609
Marketing Expenses		
Stores	2	12
Travelling and motor running expenses	15	11
Advertising	27	-
	44	23
Other Expenses		
Consultancy	24	-
Other	680	212
	704	212
	1,560	**844**

5. CASH

	2005 $'000	2004 $'000
Cash at bank	40,644	16,616
	40,644	**16,616**

6. INVENTORIES

	2005 $'000	2004 $'000
Land held for resale – At Cost		
Current	8,482	6,014
Non-current	3,542	3,542
	12,024	**9,556**
Land held for resale – At Cost		
Acquisition Cost	8,921	7,790
Direct Development expenses capitalised	3,103	1,766
Carrying amount of the land	**12,024**	**9,556**

The basis of inventory valuation is set out in note 2(f).

THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS (LAND DEVELOPMENT WORKING ACCOUNT)

Notes to and forming Part of the Financial Statements
For the year ended 30 June 2005

7. PAYABLES

	2005 $'000	2004 $'000
Due to other Government Departments (Note 2(b))	2,484	1,063
Creditors	1,302	150
Prepaid Income	1,426	1,382
	5,212	**2,595**

8. PROVISIONS

Contributions to Treasury (Note 2(k))		
Balance at 1 July	6,500	3,000
Payments	(6,500)	(3,000)
Provisions	28,000	6,500
Balance at 30 June	**28,000**	**6,500**

The balance in the provision account is the excess of working capital that will be remitted to Consolidated Fund of NSW Treasury during the next financial year.

9. OTHER – CURRENT LIABILITIES

Amount due to the Crown Leasehold		
Balance at 1 July	9,591	7,862
Value of land transferred in	14,432	4,167
Payments made during the year	(12,866)	(2,438)
Balance at 30 June	**11,157**	**9,591**

10. OTHER – NON-CURRENT LIABILITIES

Treasury Advance (Note 2(l))		
Interest-free working capital advance	**3,000**	**3,000**

11. EQUITY

Balance at 1 July	5,152	5,285
Total changes in equity recognised in the Statement of Financial Performance	28,834	6,367
Transactions with owners as owners	(28,000)	(6,500)
Balance at 30 June	**5,986**	**5,152**

**Notes to and forming Part of the Financial Statements
For the year ended 30 June 2005**

12. NOTES TO THE STATEMENT OF CASH FLOWS

12 (a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash held in bank. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2005 $'000	2004 $'000
Cash at bank	**40,644**	**16,616**

12 (b) Reconciliation of net cash flows in operating activities to the net profit from Ordinary Activities

	2005 $'000	2004 $'000
Profit from Ordinary Activities	28,834	6,367
Add/(Less):		
Movement in assets and liabilities		
(Increase) in Receivables	(21)	(192)
(Increase) Inventories	(2,468)	(1,654)
Increase in Payables	2,617	1,279
Increase in Other Liabilities	1,566	1,729
Net Cash Provided by Operating Activities	**30,528**	**7,529**

13. CONTINGENT LIABILITIES AND COMMITMENTS

In March 2004 the Land and Environment Court directed the Minister Assisting the Minister for Natural Resources (Lands) to acquire a parcel of land owned by Nedoni Pty Ltd. The land is located at Byron Bay. It is intended that the Minister for Lands will acquire the parcel of land on behalf of the Crown. The potential liability to the entity could be up to $3 million, being the land value and other cost of acquisition. Due to unresolved issues concerning the amount of land to be acquired, a reliable land valuation estimate could not be determined at this stage and a liability has therefore not been recognised.

14. 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 and are not directly related to the inventory value disclosed in the financial statements. Any future compensation claim which might arise under the Native Title legislation in regard to land disposals is accepted by the Crown rather than the purchaser. Therefore, there is no impact on the value of inventories disclosed in the financial statements.

15. FINANCIAL INSTRUMENTS

Financial instruments give rise to positions that are both a financial asset of one entity and a financial liability (or equity instrument) of the other party. For the Entity, these include cash, receivables, payables and others. All such amounts are carried at net fair value unless otherwise stated.

(a) Interest rate Risk

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

	Weighted average effective interest rate %	Floating Interest rate $000	Non-interest Bearing $000	Total carrying Amount $000
30 June 2005				
Financial Assets				
Cash	4.33	40,644	-	40,644
Receivables		-	687	687
Total		**40,644**	**687**	**41,331**
Financial Liabilities				
Payables		-	5,212	5,212
Other – Amount due to Crown Entity		-	11,157	11,157
Other – Treasury advance		-	3,000	3,000
Total		**-**	**19,369**	**19,369**
30 June 2004				
Financial Assets				
Cash	4.18	16,616	-	16,616
Receivables		-	666	666
Total		**16,616**	**666**	**17,282**
Financial Liabilities				
Payables		-	2,595	2,595
Other - Amount due to Crown Entity		-	9,591	9,591
Other - Treasury advance		-	3,000	3,000
Total		**-**	**15,186**	**15,186**

(b) Credit Risk

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

16. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Land Development Working Account (LDWA) will apply the Australian Equivalents to International Financial Reporting Standards (AEIFRS) from 2005-06.

The LDWA's AEIFRS implementations are managed by the Department of Lands (Department) and the following strategy is being implemented by the Department to manage the transition to AEIFRS:

- Forming AEIFRS steering committee
- Send steering committee members to attend AEIFRS seminars
- Engaging accounting professional to provide expert advice
- AEIFRS Business Impact Analysis
- Revised 1 July 2004 opening balance
- Changes to systems, processes and policies
- Train staff
- Implementation

To date, the Department has sent the financial steering committee members to attend seminars on AEIFRS implementation issues and AEIFRS annual reports presentation and disclosures sponsored by the NSW Treasury and the CPA Australia. The AEIFRS business impact analysis and the revised of opening balance in compliance with AEIFRS have also been completed.

The Department has determined the key areas where changes in accounting policies are likely to impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts are likely to arise from options in AEIFRS.
To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector. The impacts disclosed below reflect Treasury's likely mandates (referred to as "indicative mandates").

The Department did not identify any financial impacts of AEIFRS on the LDWA as at the date of preparing the 30 June 2005 financial report.

The Department has referred to AASB 136 – Impairment of Assets, the draft HOTARAC (Head of Treasuries Accounting and Reporting Advisory Committee) policy for the definition of ' a not-for-profit entity' and has considered the following factors in determining that LDWA is a 'not-for-profit' entity:

- Statements by owners about objectives of the entity
- Governance framework-extent that private sector type frameworks apply
- Purpose, nature and extent of funding from owners
- Targeted financial performance of the entity, agreed between owners and board/management
- Classification under Government Finance Statistics (GFS)
- Comparison with Treasury's previous approach

LDWA is part of the Crown Entity's activities and if the Crown Entity is a 'not-for-profit' entity, the LDWA should also be a 'not-for-profit' entity.

THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS (LAND DEVELOPMENT WORKING ACCOUNT)

Notes to and forming Part of the Financial Statements For the year ended 30 June 2005

16. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

LDWA does not anticipate any material impacts on its reported equity, profit/loss or its cash flows. The actual effects of the transition may differ because of pending changes to the AEIFRS, including the UIG Interpretations and / or emerging accepted practice in their interpretation and application. LDWA's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

End of Audited Financial Statements

New South Wales
TREASURY

Acknowledgment

This Annual Report was drafted, designed and prepared in house.

We wish to thank OFM officers for their contributions and assistance.