



New South Wales
TREASURY

Annual Report 2002-03

Crown Entity

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Crown Entity Annual Report 2002-03

This is the third volume of the Annual Report of New South Wales Treasury.

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

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

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

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Our Contact Details Administration

The Crown Asset and Liability Management Branch, Resources and Crown Directorate of NSW Treasury is responsible for the administration of the Crown Entity and 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: 9228 4396.

31 October 2003
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Total external costs associated with the production of this annual report were \$2,750 (GST included).

Highlights for 2002-03

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.

Debt Management

- Net debt comprises borrowings plus overdraft less cash and investments. Net debt was reduced by \$1,560 million due to General Government sector cash budget surpluses, and the proceeds of asset sales and Public Trading Enterprise regearing being applied for loan repayments.

Liability Management

Insurance Management

- NSW acted to address insurance issues through tort law reform, arrangements for bulk-buying of public liability insurance and by working with the industry to stabilise premiums and increase insurance availability.
- HIH motor accident and building warranty claims totalling over \$150 million were paid during the financial year.
- Total Crown HIH liability has been reduced from \$467 million to \$332 million, after taking into account an actuarial revaluation.
- Treasury Managed Fund has been strengthened with additional funding of \$919 million to ensure full funding of the scheme.

Superannuation Management

- Unfunded superannuation liabilities were affected by the general downturn in equity markets that resulted in a negative 2.1% investment return for the defined benefit schemes portfolio. The rise in liabilities was also partially due to adoption of 2003 Triennial Review revised actuarial assumptions, including improved pensioner mortality and a lower conversion of pensions to lump sums.

Key Financial Indicators

Statement of Financial Performance (\$m)

	2002-03	2001-02
Total Revenues	33,732	36,533
Total Expenses	35,390	33,244
Surplus/(Deficit)	(1,658)	3,289
Significant Items:		
• Crown lands revaluation	-	(4000)
• Visiting medical officer claims	-	150
• Snowy Hydro corporatisation	-	(469)
• Superannuation valuation change	1,892	1,924
• Long service leave revaluation	304	-
Surplus/(Deficit) excluding significant items	538	894

Statement of Financial Position (\$m)

	2002-03	2001-02
Net Liabilities:		
Net Debt	4,884*	6,444
Unfunded Superannuation	12,777**	11,251
Insurance	4,147	3,811
* Includes financial assets that are allocated to insurance reserves		
** Includes the balance held in the General Government Liability Management Fund		

Asset Management

- Independent review of financial asset risk management endorsed the current policy approach of increasing asset reserves to progressively fund Crown liabilities.
- Treasury Banking System and School Banking tender for transactional banking, purchasing card facilities and customer payment collection services was successfully completed. Westpac Banking Corporation has been appointed to provide banking services to TBS agencies whilst ANZ Banking Group has been appointed for the provision of school banking services.
- Liability Managed Fund balance as at 30 June 2003 is \$1,651 million which is held in the form of a cash investment with NSW Treasury Corporation (TCorp).

Liability Management

The Government's public liability legislative reform package is expected to slow the growth in the cost of future public liability claims and increase the availability of insurance coverage to the general community and professions.

New South Wales chairs the Heads of Treasuries Insurance Issues Working Group that developed wide-ranging reforms.

The Government paid over \$150 million to former HIH policy holders during the year in respect of CTP and Building Warranty claims.

Public Liability and other Insurance Issues

New South Wales chairs the Heads of Treasuries Insurance Issues Working Group (IIWG). The IIWG developed practical measures in response to the crisis in public liability insurance. These measures were considered at a series of meetings attended by Commonwealth, State and Territory Ministers and have resulted in all jurisdictions implementing a wide-ranging package of reforms.

Key issues considered by the Ministers were:

Professional Standards Legislation (PSL)

All jurisdictions confirmed their commitment to implementing PSL on a nationally consistent basis. The existing NSW Professional Standards legislation provides a model for a nationally consistent scheme.

Proportionate Liability

Ministers endorsed a national model for proportionate liability. The model operates so that, in applying proportionate liability to a claim, a court should have regard to the responsibility of any potential defendant who is not a party to the proceedings.

Long-term Care for the Catastrophically Injured

Ministers agreed to proceed to the second stage of analysis of a national scheme for the long-term care of the catastrophically injured. The first stage of the project involved detailed analysis of data on the number of people that would be covered by such a scheme and the associated costs.

The second stage will involve collecting additional relevant data with a view to assessing options for a long-term care model. Options are being developed on the basis that there would be no net shifting of costs.

International Marketing of Reforms

Ministers agreed that improving international perceptions of the Australian insurance environment was essential to restoring affordability and availability of liability classes of insurance, given the importance of foreign insurers in this market. The IIWG has been tasked to urgently prepare an official report on tort law reforms to date for distribution in the international insurance centres.

HIH Liabilities

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

The claim liability assumed by the NSW Government was over \$600 million. That has been reduced to \$332 million, after actuarial revaluation, as at 30 June 2003. Over \$150 million of claim payments were made to ex HIH policy holders during the year.

The collapse of HIH Insurance severely dislocated the home warranty insurance market. HIH's share of this market was approximately 30 percent.

Following the World Trade Centre terrorist attack, the home warranty market was again in turmoil with the withdrawal from the market of another provider, Dexta, and certain reinsurers.

The NSW and Victorian Governments have implemented revised reinsurance arrangements that have allowed the existing two insurers to continue in the market.

During the year the Government announced an inquiry into home warranty insurance, to be chaired by Mr Richard Grellman. The inquiry has been investigating the adequacy of the existing scheme, as well as other industry based models.

Debt Management

General Government sector borrowings are mainly represented by the debt portfolios of the Crown and the Roads and Traffic Authority. These portfolios are managed by TCorp. Debt management has the twin objectives of a) minimising the market value of debt subject to specified risk constraints over the long term and b) minimising the cost of servicing the debt.

TCorp uses an active management style with the aim of adding value relative to a benchmark portfolio. This involves positioning the portfolios according to TCorp's view of future interest rates. Memoranda of understandings between Treasury, the Roads and Traffic Authority and TCorp constrain the management of the portfolios. These include a requirement to adhere to finance expense budget allocations which are agreed at the beginning of each financial year.

Superannuation Management

Nearly all new public servants now join accumulation schemes which are fully funded and pose no financial risk to the Government. The SAS Trustee Corporation (STC) is the trustee for all public sector defined benefit schemes (which are not fully funded but which are closed to new entrants).

The STC is required by legislation to arrange a triennial review of all defined benefit schemes under its administration. The current review should be finalised by December 2003. All demographic and economic assumptions used in calculating the gross liabilities are assessed against current experience. Where it is known that these assumptions will change, the new assumptions have been adopted in the Crown financial statements.

Asset Management

Additional funding of \$919 million has been provided to fully fund insurance exposures. This has significantly strengthened the Government's self-insurance scheme.

A Liability Management Ministerial Corporation has been established to minimise the cost of servicing superannuation by providing flexibility in the timing of contributions to defined benefit superannuation schemes.

An independent review concluded that current policy of developing asset reserves to fully fund Crown liabilities is appropriate.

Insurance Funding – Treasury Managed Fund

The Government achieved its fiscal objective for full funding of the General Government sector's self-insurance scheme in 2003. The Treasury's managed fund's total assets now exceed the fund's total gross liabilities. Consequently, Net assets of the Treasury Managed Fund were \$296 million as at 30 June 2003, compared with net liabilities of \$401 million as at 30 June 2002. This significant strengthening of the scheme's financial position was achieved because of additional Crown grants totalling \$919 million.

The General Government sector's self-insurance scheme is expected to remain fully funded in the future provided that normal equity returns are achieved. Treasury Managed Fund's investment return was 4 percent in 2002-03. The fund's assets are allocated to 60 percent bonds, 40 percent shares.

Liability Management Ministerial Corporation

The accumulation of financial assets in the Liability Management Ministerial Corporation 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 the repayment of debt.

*Treasury Managed Fund
Advisory Board*



The Management Committee of the Fund consists of:

- ▶ the Secretary of Treasury;
- ▶ another officer of Treasury;
- ▶ the Chairperson of the SAS Trustee Corporation (trustee of the defined benefit 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.

As at 30 June 2003, the Fund held \$1,651 million. These funds are in the form of a cash deposit with TCorp. The balance reflects an additional Crown Entity \$700 million contribution in 2002-03.

The additional Crown funding in 2002-03 occurred because of higher than expected Treasury Banking System cash balances, due to buoyant stamp duty receipts. The higher level of funds held offset the asset shortfall arising from the Superannuation Trustee Corporation negative investment return of 2.1 percent for the defined benefit schemes asset portfolio.

Intech Asset Risk Management Review

Treasury commissioned InTech Financial Services during the financial year to review the management of financial risks inherent in holding assets. The review endorsed the current policy approach of fully funding liabilities or constructing a funding plan to fund liabilities within a reasonable timeframe.

Intech concluded that the value of the liabilities changes with a change in the discount rate and inflation rate. The value of assets also tends to change with changes in interest rates and the inflation rate. Because liabilities and assets move broadly in the same direction, the financial position is less variable with government holding assets than it would be if it only held the liabilities.

HIH Royal Commission Report

If TMF adopted recommendations of the HIH Royal Commission, reserves would need to be increased by \$500 million. These resources are better utilised to support core government services.

The report by the Honourable Mr Justice Owen into the collapse of the HIH Insurance Group was released on 16 April 2003. The Commissioner has recommended that the Australian Accounting Standards Board amend general insurance accounting standard AASB1023 to provide for:

- ▶ prudential margins for outstanding claims with levels of adequacy of 75 percent;
- ▶ in estimating the value of liabilities, future cash flows to be discounted using a risk-free rate.

If adopted by the TMF these recommendations would require an increase in asset reserves of approximately \$500 million. The TMF generally maintains assets sufficient to meet the actuarial central estimate of liabilities and uses a liability valuation discount rate which reflects a blend of the Commonwealth government bond rate and the forecast investment returns.

The Commissioner's recommendations are appropriate to ensure the ongoing solvency of the private sector insurance industry. It is not necessary, however, for a sovereign government such as New South Wales with a AAA credit rating and stable cash flows to provide additional funding to the TMF for contingency reserves. These resources are better utilised to support core government services.

General Government Sector Bank Tender

The Treasury Banking System and School banking tender was successfully completed. New providers were appointed for Treasury Banking System and School banking services.

The agreements for Transactional Banking and Purchasing Card services for Treasury Banking System agencies and banking services for Schools expired 31 March 2003. A tender was issued in August 2002 to select providers to service agencies and school banking requirements after March 2003.

A Government Banking Steering Committee chaired by Treasury and including Agency and NSW Supply representatives reviewed a Working Group evaluation report ranking tenderers for each Module offered in the tender i.e. Transactional Banking, Purchasing Card, School Banking and Customer Payment Collections.

The Treasurer approved of the appointment of the Westpac Banking Corporation for the provision of transactional banking, purchasing card facilities and customer payment collection services to agencies in the Treasury Banking System.

While Westpac won each section of business individually, their selection for all three services gives an added bonus of better integration of all banking services.

The ANZ Banking Group Limited was appointed for the provision of School banking services.

The year in review



*Treasury Banking System
Bank Tender Steering Committee*

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 employee 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 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.

The Crown Entity is also responsible for the following six controlled activities that are included in the State Public Sector Consolidated Financial Statements.

Insurance Ministerial Corporation

The Insurance Ministerial Corporation (IMC) administers the insurance liabilities and financial assets 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 insurance 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.

Crown Lands Homesites Program

Administers the development and sale of residential Crown Lands homesites in urban areas.

Liability Management Ministerial Corporation

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

Electricity Tariff Equalisation Ministerial Corporation

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

Land Development Working 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

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

The year in review

Consolidated Crown Entity



New South Wales
TREASURY



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

CROWN ENTITY

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Crown Entity:

- (a) presents fairly the Crown Entity's financial position as at 30 June 2003 and its financial performance and cash flows for the year ended 30 June 2003, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 45E and 45EA of the *Public Finance and Audit Act 1983* (the Act).

The 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 NSW 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 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 J Sendt
Auditor-General

SYDNEY
24 October 2003



New South Wales
TREASURY

STATEMENT OF DEPARTMENT HEAD

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

- (a) The accompanying financial statements for the year ended 30 June 2003 have been prepared in accordance with the relevant provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000*, Accounting Standards and Urgent Issues Group Consensus Views and the Treasurer's Directions;
- (b) The statements exhibit a true and fair view of the financial position and transactions of the Crown Entity; and
- (c) There are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

A handwritten signature in black ink, appearing to read 'Ian Neale'.

Ian Neale
Acting Secretary
23 October 2003

CROWN ENTITY
Statement of Financial Performance for the Year Ended 30 June 2003

	Notes	2003 \$000	2002 \$000
Expenses			
Superannuation		3,893,531	3,625,707
Long service leave		631,650	299,976
Depreciation	10	5,526	9,335
Amortisation	10	87,586	-
Grants and subsidies	2(a)	148,610	208,872
Borrowing costs	2(b)	765,859	874,848
Insurance claims	2(c)	1,146,505	1,311,932
Provision for HIH insurance claims	2(c)	16,418	56,474
Other	2(d)	956,943	890,029
Recurrent appropriations		25,354,325	23,692,942
Capital appropriations		2,383,110	2,273,480
Total Expenses		35,390,063	33,243,595
Revenue			
Taxation, fines and regulatory Fees	3(a)	14,605,799	13,725,896
Commonwealth grants	3(b)	15,158,839	14,944,827
Financial distributions	3(c)	1,350,794	1,282,598
Sale of goods and services	3(d)	1,026,866	888,128
Investment income	3(e)	372,153	184,345
Other	3(f)	1,272,513	5,480,909
Total Revenues		33,786,964	36,506,703
Gain/(Loss) on Disposal of Non-Current Assets	4	(54,406)	26,161
SURPLUS /(DEFICIT) FOR THE YEAR		(1,657,505)	3,289,269
NON-OWNER TRANSACTION			
CHANGES IN EQUITY			
Net Increase (Decrease) in asset revaluation reserve	18	24,482	166,830
Net increase/(decrease) in accumulated deficit on change to accounting policy on IBNR recognition	18	3,273	(368,573)
TOTAL REVENUES, EXPENSES AND VALUATION			
ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		27,755	(201,743)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	18	(1,629,750)	3,087,526

The accompanying notes form part of these statements.

CROWN ENTITY
Statement of Financial Position as at 30 June 2003

		2003	2002
	Notes	\$000	\$000
ASSETS			
Current Assets			
Cash assets	23	1,987,516	237,534
Investments		-	468,673
Other financial assets	6	2,418,628	1,118,371
Advances repayable to the Crown	7	91,194	74,087
Inventories	8	14,320	13,108
Receivables	9	1,738,901	1,654,039
Other		1,272	557
Total Current Assets		<u>6,251,831</u>	<u>3,566,369</u>
Non-Current Assets			
Property, Plant and Equipment	10	5,576,146	5,041,653
Investments in Associates -Using Equity Method	5	549,698	-
Other financial assets	6	3,663,295	2,552,885
Advances repayable to the Crown	7	1,576,379	1,630,671
Inventories	8	3,677	15,042
Receivables	9	1,660,056	1,438,516
Total Non-Current Assets		<u>13,029,251</u>	<u>10,678,767</u>
Total Assets		<u>19,281,082</u>	<u>14,245,136</u>
LIABILITIES			
Current Liabilities			
Payables	11	688,536	661,532
Bank overdraft	23	3,430,965	1,377,478
Interest bearing liabilities	12	2,455,724	1,494,149
Non-interest bearing liabilities	13	57,559	51,912
Unfunded superannuation	15	-	28,000
Employee entitlements and other provisions	16	239,268	223,111
Provision for outstanding insurance claims	17	687,024	658,767
Lease incentive	27	3,819	5,667
Other	28	95,199	50,290
Total Current Liabilities		<u>7,658,094</u>	<u>4,550,906</u>
Non-Current Liabilities			
Payables	11	292,285	382,263
Interest bearing liabilities	12	7,856,004	8,868,707
Non-interest bearing liabilities	13	289,699	263,472
Unfunded superannuation	15	14,427,600	11,223,000
Employee entitlements and other provisions	16	2,162,867	1,772,002
Provision for outstanding insurance claims	17	3,378,450	3,020,083
Lease incentive	27	18,070	19,833
Other	28	470,431	381,846
Total Non-Current Liabilities		<u>28,895,406</u>	<u>25,931,206</u>
Total Liabilities		<u>36,553,500</u>	<u>30,482,112</u>
Net Liabilities		<u>(17,272,418)</u>	<u>(16,236,976)</u>
EQUITY			
Reserves	18	707,187	682,705
Retained deficit	18	(17,979,605)	(16,919,681)
Total Equity		<u>(17,272,418)</u>	<u>(16,236,976)</u>

The accompanying notes form part of these statements.

CROWN ENTITY
Statement of Cash Flows for the Year Ended 30 June 2003

	Notes	2003 \$000	2002 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee related		(928,535)	(813,004)
Grants and subsidies		(277,241)	(321,772)
Borrowing costs		(731,947)	(779,929)
Recurrent appropriation	30	(25,354,325)	(23,692,942)
Capital appropriation	30	(2,383,110)	(2,273,480)
Other		(1,873,542)	(1,631,960)
Total Payments		(31,548,700)	(29,513,087)
Receipts			
Taxation, fines and regulatory fees		14,644,100	13,677,833
Sale of goods and services		394,345	811,106
Commonwealth grants	30	15,158,839	14,944,827
Interest received		298,440	192,689
Financial distributions		1,215,606	1,040,855
Other		1,089,068	1,111,622
Transfer Payments		918,704	-
Total Receipts		33,719,102	31,778,932
NET CASH FLOWS FROM OPERATING ACTIVITIES	24	2,170,402	2,265,845
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		309,247	5,455
Proceeds from sale of investments		-	6,732
Advance repayments received		127,396	78,063
Purchases of investments		(1,122,839)	(704,304)
Advances made		(90,212)	(149,165)
Other		(87,618)	56,588
Purchase of property, plant and equipment		(906,526)	(42,171)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(1,770,552)	(748,802)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and advances		906,126	40,537
Repayment of borrowings and advances		(977,778)	(1,882,040)
Other		86,755	8,669
NET CASH FLOWS FROM FINANCING ACTIVITIES		15,103	(1,832,834)
NET CASHFLOW FROM GOVERNMENT		-	-
NET INCREASE/(DECREASE) IN CASH		414,953	(315,791)
Opening cash and cash equivalents		(23,611)	(507,046)
Cash transferred in (out) as a result of capital restructuring	30	580,000	799,226
CLOSING CASH AND CASH EQUIVALENTS	23	971,342	(23,611)

The accompanying notes form part of these statements

CROWN ENTITY

NOTES TO AND FORMING PART OF THE 2002-03 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**
Transactions consist of payments out of the parliamentary allocations to meet the costs of:
 - the debt servicing of the Crown debt portfolio;
 - superannuation employer contributions on behalf of 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 the Budget Dependent Sector to the Non Budget Dependent Sector;
 - performing the functions of residual entities of the State.
- **Consolidated Fund**
Activities represent the collection of State Taxation, Commonwealth Grants and Financial Distributions from the Non Budget Dependent Sector agencies on behalf of the NSW Government. Payments comprise recurrent and capital appropriation payments to Budget dependent agencies. Details of receipts and payments of the Consolidated Fund are disclosed in Note 30.

Other Crown entities are:

- **Insurance Ministerial Corporation**
The Corporation was created to provide self insurance coverage for General Government Budget Dependent agencies. It comprises the Treasury Managed Fund and Pre Managed Fund Reserve, Government Workers Compensation Account and the Transport Accident Compensation Fund, currently managed by GIO General Limited.
- **Crown Lands Homesites Program**
Administers the development and sale of residential Crown Lands homesites in urban areas.
- **Land Development Working Account**
Administers the development of Crown land for residential purposes in country NSW and for commercial purposes on a State wide basis.
- **Crown Motor Vehicle Leasing Entity**
Manages the government's motor vehicle fleet on behalf of budget dependent agencies through its

agent, the Department of Commerce's Office of Government Procurement. This activity has been aggregated as part of the Crown Entity for the first time this year.

- **Crown Property Portfolio**
Administers the Crown property portfolio, comprising multiple occupancy buildings for sub lease to public sector agencies, heritage properties and industrial sites.
- **Electricity Tariff Equalisation Ministerial Corporation**
Administers the Electricity Tariff Equalisation Fund to manage purchase cost risk for electricity retail suppliers of small retail customers in NSW.
- **Crown Leaseholds**
Collects annual instalments relating to the purchase of Crown Land and generates revenue from leases, licences and permissive occupancies of Crown Land. It is the accounting entity that reports the value of vacant Crown land.
- **Liability Management Ministerial Corporation**
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.

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

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

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

Basis of Accounting

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

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

Except for certain investments and property, plant and equipment, which are recorded at valuation, the financial statements are prepared in accordance with the historical

CROWN ENTITY

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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, Department of Infrastructure, Planning and Natural Resources, Landcom, NSW Treasury Corporation and NSW Treasury. GIO General Ltd is contracted to administer the Insurance Ministerial Corporation.

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

Superannuation expenses relate to payments made to the First State Superannuation Fund and other complying accumulation funds and to liabilities assumed by the Crown Entity from budget dependent General Government Sector agencies. The movements in Unfunded Superannuation are detailed in Note 15.

Similarly long service leave expenses relates to liabilities assumed by the Crown for both Budget Dependent agencies and members of the Non-Budget LSL Pool. The expense includes the increase due to valuing the liability using the present value method as set out in AASB 1028 "Employee Benefits".

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.

Depreciation of Physical Non-Current Assets

Depreciation is on a straight-line basis for all depreciable assets so 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%, computer equipment at 33.3% and fixtures and fittings at 20%.

REVENUE

State Taxation

State taxation is recognised as:

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

Commonwealth Grants

These funds from the Commonwealth assist the States in meeting their expenditure responsibilities. Specific purpose grants are for both recurrent and capital purposes. GST Revenue Grants are recognised when received.

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 sector 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.

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ASSETS

Cash

Cash assets in the Statement of Financial represent cash at bank. It includes the balances of Special Deposit Accounts which is recorded as restricted cash.

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 NSW (58%) and produces annual accounts for the SHL entity. The Crown Entity uses equity accounting to record the NSW share of SHL's operating result.

For non-current investments, 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

• Leasehold Land

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

This land is revalued annually. 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. The balance in this reserve 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.

Following conversions of a lease to a purchase, the estimated capitalised value of rental revenue of the land, previously recognised as revaluation increments, is transferred from the Asset Revaluation Reserve to the Statement of Financial Performance as these increments have been realised.

• Vacant Crown Land

Vacant Crown land is Crown Entity land not included in the Leasehold Estate but including land on the continental shelf within the 3 Nautical Mile Zone.

• Offset of revaluation increments and decrements

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

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 be generally 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.

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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. An example is 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 NSW Treasury Corporation.
- loans by the Commonwealth on behalf of NSW 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, expenses and other cash flows arising from financial instruments are recognised on an accrual basis, except for derivative financial instruments which are recognised when the cash flow arises.

Hedging Policy

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

Long Service Leave

A liability for long service leave is recognised. Following a review by the Government Actuary 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 Sector 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 Policies

Cash held in the TCorp Special Client Mandates has been reclassified to Current Investments.

The adoption of the present value methodology to value the long service leave was discussed above.

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Adoption of the new standard AASB 1044 has resulted in a note on contingent assets for the first time. (Note 22)

The SRA Workers Compensation Scheme has been reclassified from Provision for Outstanding Insurance Claims to Payables.

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. In prior years movement in insurance outstanding recoveries were disclosed with claims expense. These movements are now separately disclosed within recoveries revenue. Comparative figures have been adjusted to reflect this change.

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	2003 \$000	2002 \$000
2. EXPENSES		
(a) Grants and Subsidies		
Natural Disaster Relief	141,380	138,793
Other	7,230	70,079
	148,610	208,872
(b) Borrowing Costs		
Finance Charges Incurred to:		
NSW Treasury Corporation	584,628	725,992
Commonwealth Government	84,877	87,139
NSW Budget-Dependent Agencies	39,489	40,736
Other	56,865	20,981
	765,859	874,848
(c) Insurance Claims		
Claims Paid	741,340	748,444
Increase in Outstanding Claims	365,535	522,363
Management Fees to GIO General Ltd and Legal Expenses	39,630	41,125
Provision for HIH Insurance Claims	16,418	56,474
	1,162,923	1,368,406
(d) Other Expenses		
Head Leases	121,375	101,847
State Bank Post Sale Expenses	5,031	47,956
Remissions/Refunds Crown Revenue	48,709	73,040
Provision for Doubtful Debts	16,375	43,103
First Home Purchase Discounts	36	250
Write Off of Advance	-	5,470
Bad Debts Write Off	6,019	-
Land Written Off	30,460	-
Outward Reinsurance Expense	18,144	24,293
Audit Fees - Financial Statements (Crown Entity and Total Sector State Account)	764	616
Audit Fees - Performance Audits	1,400	1,300
Production of Auditor-Generals Reports to Parliament	1,275	1,275
Electricity Tariff Equalisation Payments to Generators and Retailers	290,521	295,153
GST Administration Costs	189,943	175,077
Freight Rail Sale Costs	412	12,516
FreightCorp Sale Costs	1,032	49,017
Land Remediation Provision	103,987	-
Stamp Duty and Taxes	29,176	-
Other	92,284	59,116
	956,943	890,029

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	2003	2002
	\$000	\$000
3. REVENUE		
(a) State Taxation		
Payroll Tax	4,683,317	4,553,166
Stamp Duties	5,217,173	4,639,838
Petroleum, Tobacco and Liquor Licences	2,778	2,237
Gambling and Betting	1,273,320	1,199,279
Land Tax	1,148,304	1,012,832
Motor Vehicle Taxes and Fees	1,185,222	1,103,654
Debits Tax	22	186,730
Fees and Fines	282,725	301,697
Fire Insurance Levy	275,775	264,143
Electricity Levy	(68)	5,560
Other	537,231	456,760
	14,605,799	13,725,896
(b) Commonwealth Grants		
National Competition Payments	251,834	242,505
Revenue Replacement	2,228	-
Budget Assistance	598,710	1,577,197
Specific Purpose -Recurrent	4,363,087	4,152,627
- Capital	862,777	840,478
GST Revenue	9,080,203	8,132,020
	15,158,839	14,944,827
(c) Financial Distributions		
Dividends	851,840	689,369
Income Tax Equivalents	498,954	593,221
Sales Tax Equivalents	-	8
	1,350,794	1,282,598
Prima facie tax of agencies in the TER (calculated at 30% for 2003)	291,350	314,833
Tax Effect of Permanent Differences	207,603	278,388
Tax Expense of Agencies in the TER	498,953	593,221
(d) Sales of Goods and Services		
Property Rental	151,647	128,404
Insurance Premium Revenue	824,537	666,578
Reinsurance and Other Recoveries Revenue	50,682	93,146
	1,026,866	888,128
(e) Investment Income		
Interest		
- Insurance Ministerial Corporation - earned on its investments	175,906	26,158
- Advances	78,525	80,241
- Snowy Hydro - Investment Return	76,369	-
- Short Term Money Market Deposit	51,332	68,232
- Other	22,879	5,524
Market Value Increment/(Decrement) on Investments	(32,858)	4,190
	372,153	184,345

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	2003	2002
	\$000	\$000
(f) Other Revenue		
Recognition of Investment in Snowy Hydro Limited	4,656	468,673
Recognition of Vacant Crown Land Valuation	-	3,999,999
Writeback of Freight Rail Corporation Provisions	-	85,912
Royalty on Minerals	235,000	216,192
Electricity Tariff Equalisation Contributions from Generators and Retailers	373,237	339,543
Revenue from Crown Leasehold Assets	44,144	41,288
Contribution from Environmental Trust	5,172	387
Fire Brigade Levy from Local Government	48,532	43,503
Crown Share of Budget Agency Asset Sales	22,232	33,857
Builders Warranty Premium Revenue	14,084	-
Reimbursement of Grant - SOCOG	-	80,000
BHP Grant for Land Remediation	103,987	-
Repayments of Previous Years Appropriation	133,511	35,709
Long Service Leave Contributions	17,667	19,095
Employers Superannuation Contribution	25,315	21,159
Unclaimed Moneys	33,655	22,443
Bona Vacantia - Public Trustee	2,905	4,155
Motor Vehicle Rental Income	119,400	-
Other	89,016	68,994
	1,272,513	5,480,909

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

Proceeds from Sale	284,700	189,623
Written Down Value of Property, Plant and Equipment Sold	(339,106)	(163,462)
Net Gain/(Loss) on Disposal of Property, Plant and Equipment	(54,406)	26,161

5. INVESTMENT IN ASSOCIATES
- SNOWY HYDRO LTD

Balance 1 July	468,673	-
Add: Increase in Recognition of Investment	4,656	
Add: NSW Share of After Tax Profit	76,369	468,673
Less: Dividends Received	-	
Balance 30 June	549,698	468,673

The principal activities of Snowy Hydro Limited (SHL) are the generation and marketing of flexible and renewable electrical energy, ancillary services and related electricity products, and the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers. SHL has contributed equity of 200 million fully paid shares. The shares carry the right to dividends and voting rights.

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

	2003	2002
	\$000	\$000
Retained Profit - Opening Balance	-	-
Dividends received during the year	-	-
Profit from Ordinary Activities before Income Tax	105,877	-
Income tax Expense relating to Ordinary Activities	(29,508)	-
Profit from Ordinary Activities after Income Tax	<u>76,369</u>	<u>-</u>
Retained Profit - Closing Balance	<u>76,369</u>	<u>-</u>

6. OTHER FINANCIAL ASSETS

Current:

Short Term Money Market Investment	2,232,884	899,330
Other	185,745	219,041
	<u>2,418,629</u>	<u>1,118,371</u>

Non -Current:

"Hour Glass" Investments		
- Australian Shares	609,369	326,783
- Indexed Australian Shares	208,077	87,442
- International Shares	725,547	336,263
- Listed Property	168,834	84,923
Bond Portfolio	1,947,933	1,715,667
Other	3,535	1,807
	<u>3,663,295</u>	<u>2,552,885</u>

7. ADVANCES REPAYABLE TO THE CROWN

Current:	91,194	74,087
Non-Current:	1,577,587	1,631,879
Less: Provision for Doubtful Debts	(1,208)	(1,208)
	<u>1,576,379</u>	<u>1,630,671</u>
Total Advances	<u>1,667,573</u>	<u>1,704,758</u>
Represented by:		
Rural Assistance Authority	82,862	82,333
Sydney Water Corporation	46,066	47,997
Commonwealth Housing Advances	1,348,260	1,380,748
Administered Advances	51,862	121,842
Other	138,523	71,838
	<u>1,667,573</u>	<u>1,704,758</u>

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	2003 \$000	2002 \$000
8. INVENTORIES		
Current:		
Developed Land held for Sale-At Cost	6,602	5,531
Land Development Works in Progress-At Cost	7,718	7,577
	<u>14,320</u>	<u>13,108</u>
Non-Current:		
Developed land held for sale-At Cost	3,677	3,894
Land Development Works in Progress-At Cost	-	11,148
	<u>3,677</u>	<u>15,042</u>
9. RECEIVABLES		
Current:		
Taxes, Fees and Fines	721,948	574,542
Less: Provision for Doubtful Debts	51,351	45,893
	<u>670,597</u>	<u>528,649</u>
Dividends and Tax Equivalents	796,647	839,581
Reinsurance and Other Recoveries Receivable	35,645	31,019
Unspent Appropriations	89,386	16,041
Insurance	92,306	80,422
Other	54,320	158,327
	<u>1,738,901</u>	<u>1,654,039</u>
Non-Current:		
Reinsurance and Other Recoveries Receivable	158,303	137,119
Motor Vehicle Lease Reserve	27,600	-
Others	1,474,153	1,301,397
	<u>1,660,056</u>	<u>1,438,516</u>

The SDRO changed its accounting policy from the 2001-02 financial years, to account for debtors where there is a probable future economic benefit to the State. At 30 June 2002 debts totalling \$383 million did not comply with the asset recognition tests contained in Australian Accounting Standard AAS29. The net debtors figure has remained unchanged.

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10. PROPERTY, PLANT AND EQUIPMENT

(A) Property, Plant and Equipment - Finance Lease

	Land \$000	Building \$000	Leasehold \$000	Motor Vehicle \$000	Total \$000
Gross Value					
Opening balance 1 July 2002	15,000	70,000	6,000	-	91,000
Add: Opening year adjustment				627,600	627,600
Add: Acquisition				344,600	344,600
Less: Disposals				(306,500)	(306,500)
Closing Balance 30 June 2003	15,000	70,000	6,000	665,700	756,700
Accumulated Depreciation/Amortisation					
Opening balance 1 July 2002	-	3,500	529	-	4,029
Add: Opening year adjustment				77,700	77,700
Add: Charge for the year	-	2,333	353	84,900	87,586
Less: Disposals				(80,800)	(80,800)
Closing Balance 30 June 2003	-	5,833	882	81,800	88,515
Written Down Value					
Balance 1 July 2002	15,000	66,500	5,471	-	86,971
Balance 30 June 2003	15,000	64,167	5,118	583,900	668,185

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10. PROPERTY, PLANT AND EQUIPMENT

(B) Property, Plant and Equipment - Owned

	Land \$000	Building \$000	Work in Progress \$000	Leasehold \$000	Motor Vehicle \$000	Land to State Forest \$000	Fixtures & Fittings \$000	Computer Equipment \$000	Total \$000
Gross Value									
Opening balance 1 July 2002	4,277,033	138,588	-	541,833	-	-	12,684	-	4,970,138
Add: Acquisition	7,892	-	7,166	-	-	40	-	36	15,134
Less: Disposals	(64,562)	-	-	(3,272)	-	(2)	-	-	(67,836)
Add: Valuation Increments	-	-	-	38,363	-	-	-	-	38,363
Less: Assets disposed of free of charge	(15,923)	(250)	-	-	-	-	-	-	(16,173)
Add: Transfer from work in progress	799	2,971	(3,696)	-	-	-	-	-	74
Add: Capitalised Expenditure	-	4,750	-	-	-	-	-	-	4,750
Add: Transfer from Inventories	7,613	-	-	-	-	-	-	-	7,613
Less: Valuation Decrements	(25,860)	-	-	-	-	(38)	-	-	(25,898)
Less: Transfer to other govt bodies	7,365	-	-	-	-	-	-	-	7,365
Less: Transfer between classes	6,610	-	-	(6,610)	-	-	-	-	-
Less: Reversal of fully depreciated assets	-	-	-	-	-	-	(12,684)	-	(12,684)
Less: Write down	(4,600)	-	-	-	-	-	-	-	(4,600)
Closing Balance 30 June 2003	4,196,367	146,059	3,470	570,314	-	-	-	36	4,916,246
Accumulated Depreciation/Amortisation									
Opening balance 1 July 2002	-	4,886	-	-	-	-	10,570	-	15,456
Add: Charge for the year	-	3,400	-	-	-	-	2,114	12	5,526
Less: Reclassification to Finance Lease Asset	-	-	-	-	-	-	(12,684)	-	(12,684)
Less: Adjustment for Revaluation of Buildings	-	(13)	-	-	-	-	-	-	(13)
Closing Balance 30 June 2003	-	8,273	-	-	-	-	-	12	8,285
Written Down Value									
Balance 1 July 2002	4,277,033	133,702	-	541,833	-	-	2,114	-	4,954,682
Balance 30 June 2003	4,196,367	137,786	3,470	570,314	-	-	-	24	4,907,961
PROPERTY - TOTAL									
Opening Balance 1 July 2002	4,292,033	200,202	-	547,304	-	-	2,114	-	5,041,653
Closing Balance 30 June 2003	4,211,367	201,953	3,470	575,432	583,900	-	-	24	5,576,146

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

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

All properties were independently valued on 1 January 2001 on the basis of capitalisation of net income stream. Valuations were undertaken by either the Australian Valuation Office or Landmark White (NSW) Pty Ltd.

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

Details of assets transferred from other government agencies:

Particulars	Fair Value \$000
Tempe tip, Tempe NSW	1,500
Residual foreshore at Gloucester Boulevard, Port Kembla	20
Bunnerong rail sidings, Banksmeadow NSW	4,420
Native Fauna Sanctuary, Coorangbong NSW	785
Rural property, Apsley - Kanangra Vale, Walcha NSW	440
Decommissioned power station, Summerland Way, Koolkhan	200
	7,365

The Tempe tip was transferred from the NSW Waste Services and the other properties were received from the Pacific Power Corporation.

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

	2003 \$000	2002 \$000
11. PAYABLES		
Current:		
SRA - Workers Compensation Liability	16,253	21,348
Creditors	65,290	127,711
Financial Charges	129,998	149,222
Superannuation Accrued	1,366	245
GST Payable to Commonwealth	91,295	79,037
Motor Accident Authority - HIH Liability to Nominal Claimants	81,303	149,503
Accrued ETEF Tariffs	77,366	107,724
Unearned Revenue	211,918	-
Other	13,747	26,742
	688,536	661,532
Non-Current:		
SRA - Workers Compensation Liability	108,695	110,663
Motor Accident Authority - HIH Liability to Nominal Claimants	183,590	271,600
	292,285	382,263

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	2003	2002
	\$000	\$000
12. INTEREST BEARING LIABILITIES		
Current:	2,455,724	1,494,149
Non-Current:	7,856,004	8,868,707
	10,311,728	10,362,856
Analysed as:		
New South Wales Treasury Corporation	7,803,732	8,334,850
Commonwealth Financial Agreement	158,778	158,877
Commonwealth Specific Purpose Advances	1,616,945	1,651,539
Finance Leases	679,611	94,948
Administered Loans	51,862	121,842
Other	800	800
Total Borrowings at Current Capital Value	10,311,728	10,362,856
Repayment of Borrowings at:		
Not later than one year	2,455,724	1,494,149
Between one and two years	307,661	1,583,396
Between two and five years	2,963,330	1,655,422
Later than five years	4,585,013	5,629,889
	10,311,728	10,362,856
13. NON-INTEREST BEARING LIABILITIES		
Current:	57,559	51,912
Non-Current:	289,699	263,472
	347,258	315,384
Analysed as:		
New South Wales Treasury Corporation	347,258	315,384
Total Borrowings at Current Capital Value	347,258	315,384
Repayment of Borrowings at:		
Not later than one year	57,559	51,912
Between one and two years	-	-
Between two and five years	213,439	193,982
Later than five years	76,260	69,490
	347,258	315,384

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14. FINANCIAL INSTRUMENTS

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

(a) Derivative Financial Instruments

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

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

Interest rate futures contracts are entered into, 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 2002.

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

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

Net Exposure

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

	2003	2002
	\$000	\$000
Derivative Financial Instruments Receivable		
Floating Interest Rate Swap	102,003	102,030
Futures Marked to Market	6,500	2,839
	108,503	104,869
Derivative Financial Instruments Payable		
Fixed Interest Rate Swap	114,444	113,129
Options Marked to Market	239	-
	114,683	113,129
Net Amount Receivable/(Payable) under Derivative Financial Instruments	(6,180)	(8,260)

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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 the 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
			Over 1 to 5 years	More than 5 years			
		1 year or less					
	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 \$000	2003 %
(i) Financial Assets							
Cash	1,987,516					1,987,516	4.75
Investments							
- Hour Glass Facility	1,711,827					1,711,827	6.59
- Bond Portfolio	-	217,027	833,322	897,584	-	1,947,933	5.44
- Others	2,418,507			552,325	1,030	2,971,862	6.70
Advances Repayable to the Crown							
- Commonwealth Specific Purpose Advances		35,742	152,008	1,209,058		1,396,808	4.65
- Others		30,136	113,403	49,372	25,993	218,904	5.14
- Administered Borrowings		24,859	21,682	5,321		51,862	5.13
Receivables	-				1,291,023	1,291,023	-
Total Financial Assets	6,117,850	307,764	1,120,415	2,713,660	1,318,046	11,577,735	
(ii) Financial Liabilities							
Payables		-	-	-	673,404	673,404	-
Bank Overdrafts (1)	3,430,965	-	-	-	-	3,430,965	Note (1)
Interest Bearing Borrowings							
- Finance Leases	-	347,452	321,603	10,556	-	679,611	17.45
- TCorp Borrowings	-	1,979,856	2,659,920	3,163,956	-	7,803,732	6.58
- Commonwealth General Purpose Borrowings	-	60,881	90,035	7,862	-	158,778	5.71
- Commonwealth Specific Purpose Borrowings	-	42,676	178,647	1,395,622	-	1,616,945	4.56
- Own Name Borrowings	-	-	-	800	-	800	6.82
- Administered Borrowings	-	24,859	21,682	5,321	-	51,862	5.02
Non-Interest Bearing Borrowings							
- TCorp Borrowings	-	57,559	213,439	76,260	-	347,258	-
Other Liabilities	-	-	-	-	189,637	189,637	-
Total Financial Liabilities	3,430,965	2,513,283	3,485,326	4,660,377	863,041	14,952,992	
(iii) Off Balance Sheet Financial Instruments							
Derivatives Receivable	102,003		-		6,500		
Derivatives Payable	-		114,444		239		
Net Derivatives Financial Instrument	102,003	-	(114,444)	-	6,261		
<p>Note (1) The bank overdraft is for the Crown Entity. The Crown Entity is part of the Treasury Banking System, TBS, and the amount of the overdraft is set off against the credit balances of individual agencies within the TBS. The overdraft is considered to be insulated from interest rate risk as the TBS has a net surplus position. The net TBS surplus, if applicable, is invested in the short term money market to maximise the investment return. If a net overdraft position occurs, short term funds are borrowed from Treasury Corporation's come and go overdraft facility.</p>							

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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
		1 year or less	Over 1 to 5 years	More than 5 years			
		2002 \$000	2002 \$000	2002 \$000	2002 \$000	2002 \$000	2002 %
(i) Financial Assets							
Cash	454,537					454,537	4.65
Investments							
- Hour Glass Facility	835,411					835,411	4.82
- Bond Portfolio	-	334,545	187,022	1,194,100	-	1,715,667	5.79
- Others	901,242				470,606	1,371,848	4.65
Advances Repayable to the Crown							
- Commonwealth Specific Purpose Advances		34,678	148,482	1,248,326		1,431,486	4.65
- Others		6,828	54,189	64,585	25,829	151,431	5.00
- Administered Borrowings		28,547	84,473	8,822		121,842	5.38
Receivables	-				1,237,280	1,237,280	-
Total Financial Assets	2,191,190	404,598	474,166	2,515,833	1,733,715	7,319,502	
(ii) Financial Liabilities							
Payables	-	-	-	-	828,297	828,297	-
Bank Overdrafts (1)	1,377,478	-	-	-	-	1,377,478	Note (1)
Interest Bearing Borrowings							
- Finance Leases	-	15,896	67,301	11,751	-	94,948	17.52
- TCorp Borrowings	-	1,408,339	2,763,189	4,163,322	-	8,334,850	6.71
- Commonwealth General Purpose Borrowings	-	80	150,836	7,961	-	158,877	5.71
- Commonwealth Specific Purpose Borrowings	-	41,287	173,019	1,437,233	-	1,651,539	4.58
- Own Name Borrowings	-	-	-	800	-	800	6.82
- Administered Borrowings	-	28,547	84,473	8,822	-	121,842	5.33
- Call Deposit - Come and Go	-	-	-	-	-	-	-
Non-Interest Bearing Borrowings							
- TCorp Borrowings	-	51,912	193,982	69,490	-	315,384	-
Other Liabilities	-	-	-	-	43,697	43,697	-
Total Financial Liabilities	1,377,478	1,546,061	3,432,800	5,699,379	871,994	12,927,712	
(iii) Off Balance Sheet Financial Instruments							
Derivatives Receivable	102,030		-		2,839		
Derivatives Payable	-		113,129		-		
Net Derivatives Financial Instrument	102,030	-	(113,129)	-	2,839		
<p>Note (1) The bank overdraft is for the Crown Entity. The Crown Entity is part of the Treasury Banking System, TBS, and the amount of the overdraft is set off against the credit balances of individual agencies within the TBS. The overdraft is considered to be insulated from interest rate risk as the TBS has a net surplus position. The net TBS surplus, if applicable, is invested in the short term money market to maximise the investment return. If a net overdraft position occurs, short term funds are borrowed from Treasury Corporation's come and go overdraft facility.</p>							

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(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 stated otherwise. 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 quoted by New South Wales Treasury Corporation to realise or settle the contracts, were determined at 30 June 2003.

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	Aggregate Net Fair Value
	2003	2003
	\$000	\$000
Financial Assets		
Investments		
-TCorp Hour Glass	1,711,827	1,711,827
-Bond Portfolio	1,947,933	1,947,933
-Others	2,971,862	2,971,862
Advances Repayable to the Crown		
-Funded by Commonwealth Specific Purpose Loans	1,396,808	1,303,124
-Funded by Others	218,904	218,747
-Administered Borrowings	51,862	52,469
Receivables	1,291,023	1,291,023
Total	9,590,219	9,496,985
Financial Liabilities - Unsecured		
Borrowings		
-Finance Leases	679,611	679,611
-TCorp Borrowings	8,150,989	8,703,924
-Commonwealth General Purpose Borrowings	158,778	162,167
-Commonwealth Specific Purpose Borrowings	1,616,945	1,493,575
-Own Name Borrowings	800	912
-Administered Borrowings	51,862	52,420
Future Marked to Market	-	(6,500)
Interest Rate Swap	-	12,440
Option Marked to Market	-	239
Total	10,658,985	11,098,788

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

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	2003 \$000	2002 \$000
15. UNFUNDED SUPERANNUATION LIABILITY		
Current:	-	28,000
Non-Current:	14,427,600	11,223,000
	14,427,600	11,251,000
Movement in Provision:	Unfunded Superannuation \$000	
Balance 1 July 2002	11,251,000	
Less: Employer Contributions	29,459	
Plus: Increase in Liability during the year	3,206,059	
Balance 30 June 2003	14,427,600	

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 2003.

Unfunded superannuation liabilities increased by \$3,177 million during 2002-03. This increase is the effect of an increase in accrued employer liabilities of \$1,940 million and a decrease in employer assets of \$1,237 million.

The increase in accrued liabilities is largely explained by:

- a) An additional year of service being provided by current Pooled Fund scheme contributors;
- b) The 2003 triennial actuarial valuation of the defined benefit superannuation schemes has identified that on average, scheme pensioners are living longer. The resulting increase in past and future pension payments have been incorporated into the calculation of the accrued liabilities; and
- c) The 2003 triennial valuation has also identified a decrease in the percentage so superannuation scheme members converting their pensions to lump sum (which are on average less costly to employers).

The decrease in reserves is mainly due to:

- a) Negative 2.1% investment return on Pooled Fund assets during 2002-03; and
- b) No Crown superannuation employer contributions into the Pooled Fund during 2002-03.

Future Crown employer contributions will be made into a newly created non-superannuation investment fund called the General Government Liability Management Fund (GGLMF), rather than into the Pooled Fund. Lump sum transfers will be made from the GGLMF to the Pooled Fund in the future.

The actuarial calculation of unfunded superannuation liabilities as at 30 June 2003 is based on:

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

	2002-03	Thereafter
Investment return	(2.10)	7.00
Salary growth rate	6.50	4.00
CPI growth rate	2.50	2.50

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

	Gross Liabilities 2003 \$000	Total Assets 2003 \$000	Net Unfunded Liabilities 2003 \$000
State Authorities Superannuation Scheme	5,775,600	3,037,100	2,738,500
State Authorities Non Contributory Superannuation Scheme	1,406,900	147,100	1,259,800
State Superannuation Scheme	17,466,600	10,639,100	6,827,500
Police Superannuation Scheme	4,318,100	1,067,100	3,251,000
Judges' Pension Scheme	266,000	-	266,000
Parliamentary Contributory Superannuation Scheme	280,200	195,400	84,800
	29,513,400	15,085,800	14,427,600
	2002 \$000	2002 \$000	2002 \$000
State Authorities Superannuation Scheme	5,668,500	3,302,700	2,365,800
State Authorities Non Contributory Superannuation Scheme	1,379,000	256,800	1,122,200
State Superannuation Scheme	16,107,400	11,314,600	4,792,800
Police Superannuation Scheme	3,988,500	1,335,700	2,652,800
Judges' Pension Scheme	250,000	-	250,000
Parliamentary Contributory Superannuation Scheme	264,900	197,500	67,400
	27,658,300	16,407,300	11,251,000
		2003 \$000	2002 \$000

16. OTHER EMPLOYEE ENTITLEMENTS

Current:

Employee Entitlements comprise:

Budget Sector Long Service Leave and Other Leave Entitlements	231,611	216,074
Non-budget Sector Long Service Leave Pool	7,657	7,037
	239,268	223,111

Non-Current:

Budget Sector Long Service leave and Other Leave Entitlements	2,084,663	1,700,145
Non-budget Sector Long Service Leave Pool	78,204	71,857
	2,162,867	1,772,002

Total Other Employee Entitlements

2,402,135	1,995,113
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Movement in Major Provisions:

	Budget Sector Long Service Leave \$000	Non-Budget Sector Long Service Leave \$000
Balance 1 July 2002	1,916,219	78,894
Add: Increase in liability during the year	622,174	11,942
Less: Payments	222,119	4,975
Balance 30 June 2003	2,316,274	85,861

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17. PROVISION FOR OUTSTANDING INSURANCE CLAIMS

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

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

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

HIH claim liability estimates, by actuary Trowbridge Consulting, are based on a valuation of outstanding building warranty claims. The liability for HIH third party motor vehicle claims is recognised by the Motor Accidents Authority. The Crown Entity provides funding for claim payments thus a Payable has been recognised, refer note 11.

Movement in outstanding claims is mainly due to:

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

	Treasury Managed Fund \$000	Government Workers Compensation \$000	TAC Fund \$000	HIH Building Warranty \$000	Total \$000
Expected future claims					
Payments (undiscounted)	5,350,446	120,840	508,702	78,578	6,058,566
Discount to Present Value	(1,640,508)	(42,218)	(299,224)	(11,142)	(1,993,092)
Liability for Outstanding Claims	3,709,938	78,622	209,478	67,436	4,065,474
Current -2002	587,973	11,186	43,194	16,414	658,767
Non Current -2002	2,765,220	75,219	149,711	29,933	3,020,083
	3,353,193	86,405	192,905	46,347	3,678,850
Movements for 2002-03					
Add: Claims Expense	1,054,762	546	37,483	48,563	1,141,354
Less: Payments	698,017	8,329	20,910	27,474	754,730
Current - 2003	638,076	9,075	21,973	17,900	687,024
Non Current -2003	3,071,862	69,547	187,505	49,536	3,378,450
	3,709,938	78,622	209,478	67,436	4,065,474

- (a) The TMF weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 4.9 years (2002 4 years).
- (b) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the TMF liability for outstanding claims;

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	2003 %	2002 %
Claims Expected to be Paid		
Not later than one year:		
Inflation rate	3.25	3.00
Discount rate	6.10	7.10
Later than one year:		
Inflation rate	3.25	3.25
Discount rate	6.00-6.70	7.40-7.80

Prudential margins added in 2003 and 2002 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 only)	7.5	67
Transport Accident Compensation Fund	7.5	60
Government Workers Compensation Fund	5.0	60

	Accumulated Deficit \$000	Asset Revaluation \$000	Total Equity \$000
18. CHANGES IN EQUITY			
Balance at 1 July 2002	(16,919,681)	682,705	(16,236,976)
Changes in equity - transactions with owners as owners			
Investment Transfer Out -Capital Structure	10,607	-	10,607
Borrowings Transfer In - Capital Structure	(7,126)	-	(7,126)
Investment Transfer In	299,702	-	299,702
Investment Transfer Out	(299,702)	-	(299,702)
Payable Transfer In - Admin Restructure	-	-	-
Land Transfer Out - Admin Restructure	3,462	-	3,462
Cash Transfer In - Admin Restructure	-	-	-
Plant, Property & Equipment Transfer In - Admin Restructure	7,365	-	7,365
Capital Restructure	580,000	-	580,000
Total	594,308	-	594,308
Changes in equity - other than transactions with owners as owners			
Surplus/(Deficit) for the year	(1,657,505)	-	(1,657,505)
Adjustments to Retained Earnings	3,273	(3,273)	-
Increase in Asset Revaluation Reserve		38,362	38,362
Transfer of realised Revaluation Reserve to accumulated funds on disposal of asset	-	(10,607)	(10,607)
Total	(1,654,232)	24,482	(1,629,750)
Balance at 30 June 2003	(17,979,605)	707,187	(17,272,418)

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19. INDIVIDUALLY SIGNIFICANT ITEMS

During 2002-03 there were five individually significant items. These are:

- 1) Superannuation expense was \$3,177 million (\$1,924.2 million in 2001-02) due to an increase in accrued employer liabilities of \$1,940 million and a decrease in employer assets of \$1,237 million (refer to Note: 15).
- 2) The Crown Finance Entity made a capital transfer of \$1,629 million to the Liability Management Ministerial Corporation (LMMC) in place of its normal contribution to the Superannuation Trustee Corporation. The LMMC must, by law, apply this money to reducing the Crown Entity's Superannuation liability as long as one exists. At 30 June 2003, the LMMC held these funds as cash. The LMMC investment committee is expected to recommend a strategic asset allocation early in the new financial year.
- 3) Additional funding of the Treasury Managed Fund to the extent of \$824 million (\$800 million in 2001-02) has allowed the full funding of all the Treasury Managed Fund's outstanding claims.
- 4) Following a reassessment of the methodology used to value long service leave liabilities, in accordance with Australian Accounting Standards, a change was made to the method used. This resulted in an increase in the opening balance of the liability of \$278 million and an increase in the expense for 2002-03 of \$26 million.
- 5) The Department of Commerce's Office of Government Procurement manages the government's motor vehicle fleet on behalf of budget dependent agencies. The vehicles have been funded through a series of leasing arrangements that have historically been recorded as operating leases.

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

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

In addition, during 2001-02 there were the following individually significant items:

- Revaluation of Vacant Crown Lands has resulted in a one off increase in assets of \$4,000.0 million.
- The sale of FreightCorp in February 2002. The proceeds of \$619.2 million were received as a Return of Capital. Debt with a market value of \$600 million was retired with sales proceeds.
- Debt was assumed during the year, for FreightCorp the amount was \$308.5 million and Eraring Energy \$150 million.
- The Corporatisation of Snowy Hydro Limited New South Wales received a 58% share of the entity. The value recognised in the associate was \$468.7 million.
- Reclassification of HIH liabilities to a payable to the Motor Accident Authority and the Department of Fair Trading as the current forecast outstanding claim liabilities. The 2002 payable is \$423.8 million (2001 \$497.6 million).
- Provision for claims against Visiting Medical Officers of \$150 million (2001 \$0) for work performed on public patients in public hospitals due to change in recognition of claims on the incurred but not reported basis.

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	2003 \$000	2002 \$000
20. COMMITMENTS FOR EXPENDITURE		
(a) Capital Commitments:		
-not later than one year	29,772	5,136
-later than one year but not later than five years	7,842	-
-later than five years	-	-
	37,614	5,136
(b) Operating Lease Commitments:		
-not later than one year	105,133	98,761
-later than one year but not later than five years	269,416	268,660
-later than five years	227,525	108,928
	602,074	476,349
(c) Finance Lease Commitments		
Finance Lease Commitments (exclusive of GST) and Reconciliation to Carrying Amount of Lease Liabilities:		
-not later than one year	368,352	15,896
-later than one year but not later than two years	248,752	15,896
-later than two years but not later than five years	135,591	122,135
-later than five years	10,556	11,751
Minimum Lease Repayments	763,251	165,678
Less: Future Finance Charges	83,640	70,730
Lease Liability	679,611	94,948
Classified as:		
Current	347,452	15,896
Non- Current	332,159	79,052
	679,611	94,948

Note: Commitments as at 30 June 2003 are inclusive of GST. Recoverable input tax credits for Contingent Assets were \$57.9 m for 2003 (GST included) and \$36.7m for 2002.

The Crown Entity as the reporting entity for Snowy Hydro Limited (SHL) is required to report the New South Wales share of SHL commitments. The NSW share for Capital Expenditure commitments are \$4.3 million (2001-02 \$1.3 million), Lease commitments of \$28.0 million (2001-02 \$27.9 million) and Other commitments of \$3.2 million (2001-02 \$4.6 million).

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21. CONTINGENT LIABILITIES

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

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

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

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 concludes when the 75 year Snowy Water licence, its termination, or if NSW sells its shares. The government has no plans to sell its shareholding in SHL.

An Indemnity has been provided to each of the 5 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. There are no known claims at the corporatisation date. Directors are required to maintain insurance cover against the risk and there is a back-to-back indemnity from SHL to indemnify the governments for the cost of claims incurred, up to the amount that can lawfully be paid.

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

If the Water Ministerial Corporation gives an instruction to Snowy Hydro Limited that results in spills or releases from Jindabyne Dam that cause downstream damage to persons or property; SHL will be compensated by the Crown Entity for the

proportion of claims incurred by the company. NSW will incur 58% of the cost of the claims against the company, if the Commonwealth and Victoria previously agreed with the instruction issued. No claims exist currently. However, the risk of exposure should be very low for several years while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts while the Snowy Water Licence is terminated or expires in 75 years.

- Issued securities, borrowings and derivative liabilities of the NSW Treasury Corporation with a market value of \$27.3 billion (2002 \$25.6 billion) have been guaranteed by the NSW Government under the Public Authorities (Financial Arrangements) Act 1987.
- Under the provisions of the Commonwealth Native Title Act, claims may be lodged for land currently held as inventories. However, inventories are not offered for sale until such time as Native Title interests are extinguished through compulsory acquisitions or the granting of a non-claimant application by the Native Title Tribunal. The nature and value of possible claims under the provisions of the Native Title Act are complex and are not directly related to the inventory value disclosed in the Financial Statements.

Any future compensation claim which might arise under the Commonwealth Native Title legislation in regard to land disposals is accepted by the Crown rather than the purchaser. Therefore, there is no impact on the value of inventories disclosed in the financial statements. During the year no compensation was paid (2002 nil).
- 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 \$648 million (2002 \$887 million). The amount of the counterparty contingent liability reflects the term nature of the deposits and the valuation of the Australian dollar against the US dollar. NSW Treasury Corporation regularly monitors this risk.

During 2002-2003 there have been no changes in the credit standings, which range from BBB+ to AAA, of the deposit counterparties.

- Following the State Bank (Privatisation) Act 1994, the State guaranteed all existing and future liabilities of the Bank until 31 December 1997. Existing liabilities are guaranteed until maturity, any new liabilities incurred after that date are not guaranteed by the State. As at 30 June 2003 the total guaranteed

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liabilities of the Bank was \$1,194 million (2002 \$2,515 million).

The State gives indemnities for any losses incurred by the Bank for matters existing in the books of the Bank as at 31 December 1994, these are estimated at \$14 million (2002 \$56 m).

- Under the Government Insurance Act 1927, the State guarantees the liabilities of the Government Insurance Office for general, life and reinsurance policies issued by it up until 15 July 1992. Actuarial assessment (by Trowbridge Deloitte) of these liabilities are:

	31 Dec 2002	31 Dec 2001
	\$m	\$m
General insurance	216	168
Life insurance	209	240
Inward reinsurance	135	218
	<u>560</u>	<u>626</u>

The increase in the contingent liability for general insurance was due to an increase of \$64 million in NSW compensation liabilities because of increasing common law claims for asbestos related diseases. The guarantee on these policies continues under the terms of the State Government Deed issued for the privatisation of the GIO.

The Government may incur liability for certain unit-linked insurance policies where investment units are convertible to capital guaranteed status in the future. The maximum potential liability is estimated at \$912 million at 31 December 2002 (\$1,063 million at 31 December 2001).

- The NSW Government has agreed to indemnify TAB against decreases in revenue as a result of a reduction of the monitoring fee determined by the Minister for Gaming and Racing (payable to TAB by hoteliers and registered clubs for gaming devices connected to the Centralised Monitoring System (CMS)) during the first five years of the system's operation. No claims have been received as at 30 June, 2003.

The Government will indemnify TAB against loss during the term of TAB's CMS licence, from any redetermination of the monitoring fee made, other than with the methodology and assumptions as to the rate of return employed by Independent Pricing and Regulatory Tribunal in recommending the monitoring fee to the Minister.

The Government will also indemnify TAB against any additional cost and expense incurred as a result of any amendment to TAB's CMS licence which imposes additional requirements on TAB but only to the extent that TAB is not adequately compensated for the additional cost and expense by an increase in the monitoring fee.

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

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

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

At year end the agreed aggregate amounts totalled \$629.482 million (2002 \$645.570 million).

- 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 zero.

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

Due to the extended drought condition it is doubtful that the full amount of the loan will be able to be repaid from the levy. The balance outstanding at 30 June 2003 was \$8.2 million. The expected shortfall on maturity of the loan on 30 September 2005 is \$5.5 million.

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

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- 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 Plant
- Prospect Water Filtration Plant and Treatment Works
- Cross City Tunnel
- Western Sydney Orbital
- Eastern Creek Waste Treatment Plant
- VISY Mill: Tumut Timber Supply Agreement.

These guarantees are considered unlikely to ever be exercised.

22. CONTINGENT ASSETS

- As a result of the HHH collapse the Crown Entity took over liabilities of approximately \$650 million for building warranty and third party motor insurance.

The liquidators have recently stated that "it would be reasonable to expect a return of between 10c and 20c in the dollar, spread over seven to ten years." The first interim dividend is not expected until the second half of 2004.

- NSW Treasury Corporation (TCorp) has taken a sold options strategy on behalf of the Crown Entity for:-

Maturity	-	TCorp 6% 1/5/2012
Volume	-	\$70 million
Strike price	-	4.5%
Option Expiry-		13/10/03
Premium received-		7.3 basis points (\$378,000)

Upon expiry in October, if the market for TCorp 2012 bonds is trading above 4.5%, the option will expire and the gain will be the premium received. If the market is below 4.5% on expiry, the debt will be issued, the effective rate being 4.5% less the premium received, given a net issuance yield of 4.427%.

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	2003 \$000	2002 \$000
23. CASH AND CASH EQUIVALENTS		
Cash on Hand and at Bank	1,987,516	237,534
Bank Overdraft	(3,430,965)	(1,377,478)
	<u>(1,443,449)</u>	<u>(1,139,944)</u>

During the financial year the Governor approved a Crown Entity financial accommodation from Treasury Corporation, totalling \$1,500 million (2001-02 \$1,500 million) under the provisions of the Public Authorities (Financial Arrangements) Act 1987. The financing facility provided for short term cash requirements caused by seasonal fluctuations in Government receipts.

Of the cash on hand and at Bank, \$1,728,150,000 is considered restricted cash assets (2001-02 \$52,116,000). It is the amount cash held in Special Deposit Accounts and can only be used in accordance with the legislation that established the Special Deposit Account. Details of the Special Deposit Accounts are included in Note 26.

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

Cash on Hand and at Bank	1,987,516	237,534
Bank Overdraft	(3,430,965)	(1,377,478)
Short Term Money Market Investments	2,414,791	1,116,332
	<u>971,342</u>	<u>(23,611)</u>

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

Surplus (Deficit) for the Year	(1,657,505)	3,289,269
Non Cash Items Added Back		
Share of Equity in Associated Company	(81,025)	(468,673)
Writeoff of Advance Repayable	-	6,678
Writeoff of land	4,600	-
Provision for Land Remediation and Other Costs	103,987	-
Provision for Depreciation and Amortisation	93,113	9,335
Non Cash Finance Costs	44,508	127,486
Loss/(Gain) on Asset Disposals	71,121	495
Other	21,800	40,495
Cashflow from government	892	-
Change in Operating Assets and Liabilities		
Movement in Working Capital	256,839	2,567,865
Increase/(Decrease) in Other Liabilities	3,460,210	978,713
(Increase)/Decrease in Other Assets	(148,138)	(4,285,818)
Cash Flow from Operating Activities	<u>2,170,402</u>	<u>2,265,845</u>

**CROWN ENTITY
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25. TRUST FUNDS

Trust monies are held on behalf of beneficiaries.

	2003 \$000	2002 \$000
Funds held by the Crown Entity:		
Provision for OCA Payables	5,176	-
Compensation Deposits re Land Acquisition Fund	150	176
Consumer Affairs Trust	112	-
Sale of Sydney Market	-	4,190
Other	92	142
	<u>5,530</u>	<u>4,508</u>

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

26. SPECIAL DEPOSIT ACCOUNTS

The Crown Entity operates eight 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 2002-03 were \$154 million, of which \$67.2 million was collected under the Insurance Protection Act 2001.

Non Budget Long Service Leave Pool

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

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 they are used in accordance with the Act.

Petroleum Products Subsidy Account

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

Workers Compensation (Bushfire, Emergency and Rescue Services)

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

Builders Warranty Insurance

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

General Government Liability Management Fund

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

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Movements in these accounts are :

Accounts	NSW Policy Holders Protection Fund	Non Budget Long Service Leave Pool	Structured Finance Activities	Confiscated Proceeds Account	Petroleum Products Subsidy	Workers Compensation	Building Warranty Insurance	General Government Liability Management Fund
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance 1.7.2001	16,414	30,302	451	11,042	50	2,709	-	-
Plus Receipts	144,000	9,542	157	6,115	252	6,816	-	-
Less Payments	153,041	9,301	340	7,448	252	5,352	-	-
Balance 30.6.2002	7,373	30,543	268	9,709	50	4,173	-	-
Plus Receipts	154,000	8,610	129	17,479	259	4,762	14,404	1,651,372
Less Payments	154,197	5,258	182	8,032	259	6,096	957	-
Balance 30.6.2003	7,176	33,895	215	19,156	50	2,839	13,447	1,651,372

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

27. INCENTIVE FROM LESSOR

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

During 2002-03 no amount (2001-2002 \$5.667m) was credited to Property Rental revenue. The liability is classified as:

	2003 \$000	2002 \$000
Current:	3,819	5,667
Non -Current:	18,070	19,833
	21,889	25,500

28. OTHER LIABILITIES

Current:		
Unearned Revenue	10,360	12,987
Stamp Duty and Tax	19,246	-
Provision for Shortfall in Lease Payments	-	1,917
Builders Warranty Claim Provision	13,447	-
Provision for Land Remediation	1,365	-
Rent Received in advance	7,317	-
Payable - ITE Refund	8,013	-
Confiscated Drug Proceeds	19,156	-
Premium paid in advance	11,240	-
Other	5,055	35,386
	95,199	50,290
Non-Current:		
Future Income Tax Benefit	367,968	375,531
Provision for Shortfall in Lease Payments	-	6,315
Provision for Land Remediation	102,463	-
	470,431	381,846

CROWN ENTITY
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29. SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES

RECURRENT APPROPRIATIONS	Appropriations	Expenditure	Appropriations	Expenditure
ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE	2003 \$000	2003 \$000	2002 \$000	2002 \$000
Appropriation Act	2,731,444	2,176,274	2,214,953	1,935,812
Budget Variation Acts (ie Additional Appropriation)	305,000	305,000	-	-
Section 22 - Expenditure for certain works and services	667,240	664,481	984,360	948,384
Section 26 - Increase in Commonwealth SPP	-	-	-	-
Treasurer's Advance	1,781	979	95,518	95,518
Section 26 - Supplementation with offsetting savings (section 26 of the Appropriation Act)	(431,533)	-	(9,224)	5,500
Section 16C - Insurance Protection Tax Act 2001	67,192	67,192	65,182	65,182
Total Appropriations/Expenditure (includes transfer payments)	3,341,124	3,213,926	3,350,789	3,050,396
<i>Drawdowns from Treasury</i>		3,227,586		3,077,986
Total Unspent Appropriations		(13,660)		(27,590)
CAPITAL APPROPRIATIONS				
Appropriation Act	1,503,828	1,503,828	1,569,933	1,569,933
Budget Variation Acts (ie Additional Appropriation)	120,000	120,000	-	-
Section 22 - Expenditure for certain works and services	766,000	762,896	449,950	383,181
Total Appropriations/Expenditure (includes transfer of payments)	2,389,828	2,386,724	2,019,883	1,953,114
<i>Drawdowns from Treasury</i>		2,386,724		1,953,114
Total Unspent Appropriations		-		-

CROWN ENTITY
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30. CONSOLIDATED FUND TRANSACTIONS

	2003	2,002
	\$000	\$000
Cash Flows from Operating Activities		
Receipts		
State Taxation, Fines and Regulatory Fees	14,710,872	13,655,942
Commonwealth Grants	15,158,839	14,944,827
Financial Distributions	1,313,454	1,062,863
Other Operating Revenue	535,508	563,128
Total Receipts	31,718,673	30,226,760
Payments		
Recurrent Appropriations paid to Other Agencies	(25,354,325)	(23,692,942)
Recurrent Appropriations paid to CFE	(3,227,586)	(3,217,910)
Capital Appropriations paid to Other Agencies	(2,383,110)	(2,273,480)
Capital Appropriations paid to CFE	(2,386,724)	(1,953,113)
Total Payments	(33,351,745)	(31,137,445)
Net Cash Flow from Operating Activities	(1,633,072)	(910,685)
Cash Flow from Crown Finance Entity		
Proceeds from Borrowing transferred from CFE	10,627	40,536
Investment Income transferred from CFE	15,912	-
Interest Receipts transferred from CFE	132,604	149,159
Assets Proceed transferred from CFE	-	62,417
Advance Repayments transferred from CFE	127,396	78,199
Other Receipts transferred from CFE	42,901	6,145
	329,440	336,456
Net Increase/(Decrease) in Cash	(1,303,632)	(574,229)
Opening Cash and Cash Equivalents	(462,070)	(687,067)
Cash Transferred in (out) as a result of Capital Restructuring	580,000	799,226
Closing Cash Balances	(1,185,702)	(462,070)
Cash and Cash Equivalents		
Investment in Short Term Money Market	2,232,884	899,330
Bank Overdraft	(3,418,586)	(1,361,400)
	(1,185,702)	(462,070)

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31.PROGRAM STATEMENT - EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2003

	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			3,893,531		3,893,531
Long Service Leave			628,218		628,218
Depreciation/Amortisation			84,900		84,900
Grant and Subsidies			2,451,212	141,380	2,592,592
Borrowing Costs	669,576		107,047		776,623
Insurance Claims			30,502		30,502
Other		48,709	349,958		398,668
Recurrent Appropriations					
Capital Appropriations					
Total Expenses	669,576	48,709	7,545,368	141,380	8,405,034
Revenue					
State Taxation					-
Commonwealth Grants					-
Financial Distributions					-
Sales of Goods and Services					-
Investment Income	104		166,390		166,494
Other	464		217,425		217,889
Revenue from Government	(10,626)		(332,473)		(343,099)
Total Revenue	(10,058)	-	51,342	-	41,284
Gain/(Loss) on Disposal of Non -Current Assets			(40,583)		(40,583)
SURPLUS/(DEFICIT) FOR THE YEAR	(679,634)	(48,709)	(7,534,609)	(141,380)	(8,404,333)

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

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31. PROGRAM STATEMENT – EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2003 (Continued)

	Total Crown Finance Entity \$000	Consolidated Fund \$000	Electricity Equalisation* \$000	Insurance Ministerial Corporation* \$000	Crown Leaseholds* \$000	Crown Lands Homesites Programs* \$000	Land Development Working Account* \$000	Crown Property Portfolio* \$000	Liability Management Ministerial Corporation \$000	**Not Attributable \$000	Elimination \$000	Consolidated Total \$000
Expense												
Superannuation	3,893,531											3,893,531
Long Service Leave	628,218										3,430	631,648
Depreciation/Amortisation	84,900							8,213				93,113
Grant and Subsidies	2,592,592										(2,443,980)	148,612
Borrowing Costs	776,623							16,660			(27,423)	765,860
Insurance Claims	30,502			1,132,421								1,162,923
Other	398,668	51,476	290,572	43,214	13,034	3,083	795	291,097			(134,995)	956,944
Recurrent Appropriations		28,581,911									(3,227,586)	25,354,325
Capital Appropriations		4,769,834									(2,386,724)	2,383,110
Total Expenses	8,405,034	33,403,221	290,572	1,175,635	13,034	3,083	795	315,970	-	-	(8,217,278)	35,390,066
Revenue												
State Taxation	-	14,672,571									(66,772)	14,605,799
Commonwealth Grants	-	15,158,840										15,158,840
Financial Distributions	-	1,429,170									(90,553)	1,338,617
Sales of Goods and Services	-			1,741,539				151,647			(866,319)	1,026,867
Investment Income	166,494		2,685	130,505	3,235	921		79	22,372	76,369	(30,506)	372,154
Other	217,889	924,466	370,552	333	44,144	2	-	50,296	1,629,000	4,656	(1,968,870)	1,272,468
Revenue from Government	(343,099)				(43,841)	(30,089)	(3,000)			5,614,310	(5,194,281)	-
Total Revenue	41,284	32,185,047	373,237	1,872,377	3,538	(29,166)	(3,000)	202,022	1,651,372	5,695,335	(8,217,301)	33,774,745
Gain/(Loss) on Disposal of Non -Current Assets	(40,583)				(48,428)	29,940	4,686	2			23	(54,360)
SURPLUS/(DEFICIT) FOR THE YEAR	(8,404,333)	(1,218,174)	82,665	696,742	(57,924)	(2,309)	891	(113,946)	1,651,372	5,695,335	-	(1,669,681)

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

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

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32. TRANSFER PAYMENTS

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

	2003 \$'000	2002 \$'000
Receipts		
Non Government Schools - Recurrent	1,271,419	1,184,638
Non Government Schools - Targeted Programs	56,336	56,266
Non Government Schools - Capital	34,951	32,551
Local Government - Financial Assistance	346,615	353,399
Local Government - Roads	130,957	92,436
	<u>1,840,278</u>	<u>1,719,290</u>
Payments		
Non Government Schools - Recurrent	(1,271,419)	(1,184,638)
Non Government Schools - Targeted Programs	(56,336)	(56,266)
Non Government Schools - Capital	(34,951)	(32,551)
Local Government - Financial Assistance	(346,615)	(353,399)
Local Government - Roads	(130,957)	(92,436)
	<u>(1,840,278)</u>	<u>(1,719,290)</u>

33. POST BALANCE DATE EVENTS

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

End of Audited Financial Information

New South Wales Insurance Ministerial Corporation



New South Wales
TREASURY



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

New South Wales Insurance Ministerial Corporation

To Members of the New South Wales Parliament

Audit Opinion

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

- (a) presents fairly the Corporation's financial position as at 30 June 2003 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).

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

The Secretary's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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



G J Gibson FCPA
Director of Audit

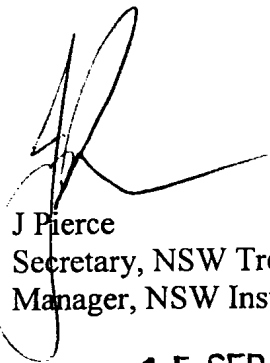
SYDNEY
16 September 2003

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

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

1. The accompanying financial statements, exhibit a true and fair view of the financial position of the NSW Insurance Ministerial Corporation as at 30 June 2003 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.



J Pierce
Secretary, NSW Treasury and
Manager, NSW Insurance Ministerial Corporation

1 5 SEP 2003

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

STATEMENT BY FUND MANAGER AND CHIEF FINANCIAL OFFICER

Pursuant to Section 41C(1B) and (1C) of the Public Finance and Audit Act 1983, we declare that in our opinion, the financial statements and notes attaching thereto of the New South Wales Insurance Ministerial Corporation exhibit a true and fair view of its financial position as at 30 June, 2003 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 *Third* day of *September* 2003



P. Coates
General Manager
Alliance and Reinsurance
GIO GENERAL LIMITED



A. Bailey
Manager
General Insurance Accounting
GIO GENERAL LIMITED

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 \$000	2002 \$000
Premium Revenue	3,20	824,537	666,578
Reinsurance & Other Recoveries Revenue	4,20	50,682	93,146
Investment Revenue	5,20	130,505	33,500
Grants from the NSW Government	6,20	866,320	880,779
Other Revenue	7,20	333	1
Total Revenue from Ordinary Activities		<u>1,872,377</u>	<u>1,674,004</u>
Claims Expense	8,20	(1,132,421)	(1,311,932)
Outward Reinsurance Expense	20	(18,144)	(24,293)
Operating Expenses of Ordinary Activities	9,20	(25,070)	(21,930)
Total Expenses from Ordinary Activities		<u>(1,175,635)</u>	<u>(1,358,155)</u>
Surplus from Ordinary Activities		<u>696,742</u>	<u>315,849</u>
Total changes in equity other than those resulting from transactions with owners as owners		<u>696,742</u>	<u>315,849</u>

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

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2003

	Notes	2003 \$000	2002 \$000
CURRENT ASSETS			
Cash Assets	21	80,010	122,148
Receivables	10,21	139,077	160,343
Reinsurance & Other Recoveries Receivable	11,21	35,488	30,706
Other Assets	21	863	545
Total Current Assets		<u>255,438</u>	<u>313,742</u>
NON-CURRENT ASSETS			
Receivables	10,21	344,605	363,667
Reinsurance & Other Recoveries Receivable	11,21	158,303	137,119
Investment Securities	12,21	3,659,760	2,551,078
Total Non-Current Assets		<u>4,162,668</u>	<u>3,051,864</u>
TOTAL ASSETS		<u>4,418,106</u>	<u>3,365,606</u>
CURRENT LIABILITIES			
Payables	13,21	100,378	102,467
Interest-bearing Liabilities	14,21	12,379	16,077
Unearned Premiums	15,21	179	84
Outstanding Claims	16,21	669,124	642,353
Other Liabilities	17,21	11,061	15,146
Total Current Liabilities		<u>793,121</u>	<u>776,127</u>
NON-CURRENT LIABILITIES			
Outstanding Claims	16,21	3,328,914	2,990,150
Total Non-Current Liabilities		<u>3,328,914</u>	<u>2,990,150</u>
TOTAL LIABILITIES		<u>4,122,035</u>	<u>3,766,277</u>
NET ASSETS/(LIABILITIES)		<u>296,071</u>	<u>(400,671)</u>
EQUITY			
Contributed Capital	18,21	94,000	94,000
Accumulated Surplus/(Deficit)	18,21	202,071	(494,671)
		<u>296,071</u>	<u>(400,671)</u>

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

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 Inflow/ (Outflow) \$000	2002 Inflow/ (Outflow) \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		898,309	744,712
Hindsight adjustment receipts	3	9,024	20,715
Hindsight adjustment payments	3	(5,628)	(46,103)
Interest received		197,533	34,561
Reinsurance & Other Recoveries received		53,434	114,997
GST refunds received		20,564	15,518
Funds received from the Crown		918,704	845,000
Other revenue		333	-
Claims and Expenses paid		(797,752)	(878,418)
Management fees paid to GIO General Limited		(53,466)	(39,669)
GST paid to the ATO		(85,113)	(66,404)
Payment of Outward Reinsurance		(18,504)	(11,529)
NET CASH INFLOW FROM OPERATING ACTIVITIES	19	<u>1,137,438</u>	<u>733,380</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Investments		(1,175,878)	(702,815)
Proceeds from sale of Investments		-	6,639
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(1,175,878)</u>	<u>(696,176)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection from the Crown Finance Entity		-	21,000
NET CASH INFLOW FROM FINANCING ACTIVITIES		<u>-</u>	<u>21,000</u>
NET INCREASE/(DECREASE) IN CASH HELD		(38,440)	58,204
Cash at the beginning of the Financial Year		106,071	47,867
CASH AT THE END OF FINANCIAL YEAR	19	<u><u>67,631</u></u>	<u><u>106,071</u></u>

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

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

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

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

NSW Treasury Managed Fund (TMF)

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

Pre Managed Fund Reserve

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

Governmental Workers Compensation Account

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

Transport Accidents Compensation Fund (TAC)

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

Presented below are the principal accounting policies adopted in preparing the financial statements of the New South Wales Insurance Ministerial Corporation for the year ended 30 June 2003. The accounting policies are consistent with last year, except where otherwise stated.

(a) Basis of Accounting

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

(b) Premium Revenue

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

(c) Outwards Reinsurance Expense

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

(d) Claims Expenses

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

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

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

(e) Reinsurance and Other Recoveries Revenue

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

(f) Investments

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

(g) Income Tax

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

(h) Cash Flows

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

(i) Comparative Figures

Comparative figures have been adjusted, where necessary, to conform with the basis of presentation and classification used in the current year. In prior years movements in outstanding recoveries were disclosed within claims expense. These movements are now separately disclosed within Recoveries Revenue. Comparative figures have been adjusted to reflect this change.

(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. The net amount of goods and services tax receivable from the Australian Taxation Office at balance date is recorded as an asset.

(k) Rounding

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

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2. UNDERWRITING RESULT

	2003 \$000	2002 \$000
Premium Revenue	824,537	666,578
Outward Reinsurance Expense	<u>(18,144)</u>	<u>(24,293)</u>
	<u>806,393</u>	<u>642,285</u>
Claims Expense	(1,132,421)	(1,311,932)
Reinsurance & Other Recoveries Revenue	<u>50,682</u>	<u>93,146</u>
Net Claims Incurred	<u>(1,081,739)</u>	<u>(1,218,786)</u>
Other Underwriting Expenses	<u>(20,946)</u>	<u>(18,747)</u>
	<u>(20,946)</u>	<u>(18,747)</u>
	<u>(296,292)</u>	<u>(595,248)</u>

3. PREMIUM REVENUE

Tariff premium	765,869	648,126
Hindsight Adjustments	3,396	(25,388)
Visiting Medical Officers (VMO)	55,000	27,500
Medically Supervised Injecting Centre (MSIC)	<u>367</u>	<u>45</u>
	824,632	650,283
Movement in Unearned Premiums	<u>(95)</u>	<u>16,295</u>
	<u>824,537</u>	<u>666,578</u>

TMF normally calculates hindsight premiums each year. However, in regard to workers compensation, the final hindsight adjustment for the 1997/98 Fund year and an interim adjustment for the 1999/00 Fund year has not yet been calculated. The basis for calculating the hindsight premium is currently being reviewed and will not be resolved until next financial year.

4. REINSURANCE & OTHER RECOVERIES REVENUE

Recoveries revenue	26,445	25,193
Movement in outstanding recoveries	<u>24,237</u>	<u>67,953</u>
	<u>50,682</u>	<u>93,146</u>

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. INVESTMENT REVENUE

	2003	2002
	\$000	\$000
Income		
Bond portfolio	107,102	68,270
Interest	3,799	3,797
HourGlass facility	68,361	- *
Gains (losses) realised during the year		
Bond portfolio	51,912	17,126
HourGlass facility	(33,472)	(59,883)
Net market value change in investments, held at balance date		
Unrealised gains/(losses)		
Bond portfolio	46,762	5,788
Credit Foncier	-	(1,598)
HourGlass facility	(113,959)	- *
	<u>130,505</u>	<u>33,500</u>

* Comparative figures are unavailable for the HourGlass facility.

6. GRANTS FROM THE NSW GOVERNMENT

Grants received from the Crown Finance Entity	918,703	845,000
Movement in outstanding contributions	(52,383)	35,779
	<u>866,320</u>	<u>880,779</u>

7. OTHER REVENUE

Subpoena/Conduct Money	-	1
Funds from Aon Re	333	-
	<u>333</u>	<u>1</u>

An arrangement is in place with Aon Re for the commission amount to be agreed each year with any commission in excess of the agreed amount to be returned to TMF. \$333,000 represents the commission refunded less performance fee to Aon Re.

8. CLAIMS EXPENSES

Claims Paid	727,256	748,444
Movement in Outstanding Claims	365,535	522,363
Management fees to GIO General Limited	39,586	40,839
Legal Expenses	44	286
	<u>1,132,421</u>	<u>1,311,932</u>

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

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Net Claims Incurred	Current Year 1/7/02-30/6/03 \$'000	Prior Years Pre 30/6/02 \$'000	2003 Total \$'000	2002 Total \$'000
Gross claims incurred and related expenses				
-undiscounted	1,251,995	(86,858)	1,165,137	1,842,442
Reinsurance and other recoveries-undiscounted	49,763	(52)	49,711	108,971
Net claims incurred and related expenses				
-undiscounted	1,202,232	(86,806)	1,115,426	1,733,471
Discount and discount movement				
- Gross claims incurred	336,885	(299,652)	37,233	541,653
Discount and discount movement				
- reinsurance and other recoveries	12,411	(13,382)	(971)	27,141
Net discount movement	324,474	(286,270)	38,204	514,512
Discounted net claims incurred and related expenses	877,758	199,464	1,077,222	1,218,959
Prudential margin	25,307	(20,790)	4,517	(173)
Net Claims Incurred	903,065	178,674	1,081,739	1,218,786

Net Claims Incurred – Prior Years

Increase in discounted net claims incurred and related expenses due to overall release from changes in actuarial basis - due mainly to reduction in Workers' Compensation, partially offset by strengthening in assumptions for Liability and minor movements in other classes;

Decrease in discount rates, which has had the effect of increasing the discounted net claims incurred more than the above release due to changes in actuarial assumptions;

Release from prudential margin due to the margin being applied to lower outstanding claims.

Net Claims Incurred by Fund:

	2003 \$'000	2002 \$'000
NSW Treasury Managed Fund	1,044,065	1,173,498
Governmental Workers Compensation	532	15,218
Transport Accidents Compensation Fund	37,142	30,070
Net claims incurred	1,081,739	1,218,786

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

9. OPERATING EXPENSES OF ORDINARY ACTIVITIES

	2003 \$000	2002 \$000
Levies paid to:		
– Dust Diseases	3,011	2,049
– WorkCover Authority of NSW	17,935	16,698
Investment management fees	1,924	1,175
Actuarial expenses		
– Pricewaterhouse Coopers	1,217	1,125
– Robert Buchanan	57	82
– Taylor Fry	122	120
– Others	24	30
Storage costs	136	126
Bank charges	78	229
Audit fees - Financial report	120	109
Consultancy – Legal	43	4
Consultancy – NSW Treasury	177	152
Consultancy – Other	225	25
Printing & Stationery	1	-
Other	-	6
	<u>25,070</u>	<u>21,930</u>

10. RECEIVABLES

Current:

Crown Finance Entity	46,771	79,921
Other	<u>92,306</u>	<u>80,422</u>
	<u>139,077</u>	<u>160,343</u>

Non-Current:

Crown Finance Entity	<u>344,605</u>	<u>363,667</u>
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Amounts owed by the Crown Finance Entity include: \$61.8 million for liabilities of the Pre Managed Fund Reserve which is part of TMF, \$164 million of the TAC Fund, \$74 million of the Governmental Workers Compensation Fund, \$89.5 million loan and \$1.7 million for interest due on that loan.

During 2003/04, the Government will consider the repayment of surplus funds to the extent necessary to permit the Crown to repay the loan of \$89.5 million.

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. REINSURANCE & OTHER RECOVERIES RECEIVABLE

	2003 \$000	2002 \$000
Expected future recoveries (undiscounted)	375,793	238,116
Discount to present value	<u>(182,788)</u>	<u>(69,348)</u>
	193,005	168,768
 Outstanding reinsurance and other recoveries on paid claims	 943	 (630)
Reinsurance and other recoveries receivable	193,948	168,138
Deduct: Provision for doubtful debts	<u>(157)</u>	<u>(313)</u>
	<u>193,791</u>	<u>167,825</u>
 Current		
Reinsurance and other recoveries receivable	35,645	31,019
Deduct: Provision for doubtful debts	<u>(157)</u>	<u>(313)</u>
	<u>35,488</u>	<u>30,706</u>
 Non-Current:		
Reinsurance and other recoveries receivable	158,303	137,119
	<u>158,303</u>	<u>137,119</u>

12. INVESTMENT SECURITIES

Non-Current:

Managed by Tcorp		
HourGlass facility		
- Australian Shares	609,369	326,783
- Indexed Australian Shares	208,077	87,442
- International Shares	725,547	336,263
- Listed Property	168,834	84,923
Bond portfolio	<u>1,947,933</u>	<u>1,715,667</u>
	<u>3,659,760</u>	<u>2,551,078</u>

13. PAYABLES

GST Payable	91,537	79,259
Others	<u>8,841</u>	<u>23,208</u>
	<u>100,378</u>	<u>102,467</u>

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

14. INTEREST-BEARING LIABILITIES

	2003 \$000	2002 \$000
Bank Overdraft	<u>12,379</u>	<u>16,077</u>

15. UNEARNED PREMIUMS

Current:

Medically Supervised Injecting Centre	<u>179</u>	<u>84</u>
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Policy period for MSIC is from 31 October to 30 October. All other policies are annual and commence from 1 July.

16. OUTSTANDING CLAIMS

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

The outstanding claims liability of TMF includes an amount for Visiting Medical Officers in public hospitals. This liability has been determined from estimates provided by the Manager, \$238 million (\$150 million in 2002). Independent actuarial valuation was unable to be performed due to lack of data on claim development as at 30 June 2003. Until further information emerges, the outstanding claims estimate will be based on 30 June 2002's actuarially assessed "tail claims" adjusted for premiums received and claims paid.

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.

Movement in outstanding claims is primarily due to the following factors:

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

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Treasury Managed Fund \$000	G'mental W/Comp \$000	TAC Fund \$000	Total \$000
Expected future Claims				
Payments (undiscounted)	5,350,446	120,840	508,702	5,979,988
Discount to present value	<u>(1,640,508)</u>	<u>(42,218)</u>	<u>(299,224)</u>	<u>(1,981,950)</u>
Liability for outstanding claims	<u>3,709,938</u>	<u>78,622</u>	<u>209,478</u>	<u>3,998,038</u>
Current – 2003	638,076	9,075	21,973	669,124
Non-Current – 2003	<u>3,071,862</u>	<u>69,547</u>	<u>187,505</u>	<u>3,328,914</u>
	<u>3,709,938</u>	<u>78,622</u>	<u>209,478</u>	<u>3,998,038</u>
Current – 2002	587,973	11,186	43,194	642,353
Non-Current – 2002	<u>2,765,220</u>	<u>75,219</u>	<u>149,711</u>	<u>2,990,150</u>
	<u>3,353,193</u>	<u>86,405</u>	<u>192,905</u>	<u>3,632,503</u>

- (a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 4.9 years (4.0 years) TMF, 7.25 years (6.83 years) GWC and 11.67 years (9.58 years) TAC Fund.
- (b) The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

	<u>TMF</u>		<u>GWC</u>		<u>TAC</u>	
Claims expected to be paid	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Not later than one year						
Inflation rate	3.25	3.00	4.00	4.00	4.00	4.00
Discount rate	6.10	7.10	4.40	5.30	4.44	5.27
Superimposed inflation*	0%-10%	0%-20%	0%-20%	0%-20%	4.5%	6%
Later than one year						
Inflation rate	3.25	3.25	4.00	4.00	4.00	4.00
Discount rate	6.00-6.70	7.40-7.80	4.40-5.50	5.90-6.40	4.42-5.50	5.85-6.40
Superimposed inflation*	0%-10%	0%-17%	0%-17.5%	0%-17.5%	4.5%	6%

* Dependent on payment type.

Prudential margins added in 2003 and 2002 to the central estimate of the claim liability and the probability of adequacy are as follows:

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

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. OTHER LIABILITIES

	2003 \$000	2002 \$000
Premium paid in advance	<u>11,061</u>	<u>15,146</u>

18. EQUITY

<u>Contributed Capital</u>		
Balance brought forward	94,000	73,000
Capital injection from the Crown Finance Entity	<u>-</u>	<u>21,000</u>
Balance carried forward	<u>94,000</u>	<u>94,000</u>
<u>Accumulated Surplus/(Deficit)</u>		
Balance brought forward	(494,671)	(441,946)
Current year surplus/(deficit)	696,742	315,849
Opening balance adjustment following change to accounting policy on IBNR recognition	<u>-</u>	<u>(368,574)</u>
Balance carried forward	<u>202,071</u>	<u>(494,671)</u>

19. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Cash

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

Cash	80,010	122,148
Bank Overdraft	<u>(12,379)</u>	<u>(16,077)</u>
	<u>67,631</u>	<u>106,071</u>

Reconciliation of Net Cash Provided by Operating Activities to Surplus from Ordinary Activities

Surplus/(Deficit) from Ordinary Activities	696,742	315,849
Increase in Outstanding Claims	365,536	522,363
Increase/ (Decrease) in Unearned Premiums	95	(16,296)
Increase/ (Decrease) in Payables	(2,089)	11,027
Increase/ (Decrease) in Other Liabilities	(4,085)	1,441
(Increase)/ Decrease in Receivables	40,327	(47,822)
(Increase)/ Decrease in Reinsurance and Other Recoveries Receivable	(25,966)	(65,897)
(Increase)/Decrease in Other Assets	(318)	12,715
Unrealised (Gains)/ Losses on Investments	<u>67,196</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>1,137,438</u>	<u>733,380</u>

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

20. FINANCIAL PERFORMANCE OF FUNDS

	Treasury Managed Fund \$000	G'mental W/Comp \$000	TAC Fund \$000	2003 Total \$000	2002 Total \$000
Premium Revenue	824,537	-	-	824,537	666,578
Reinsurance & Other Recoveries Revenue	50,197	540	(55)	50,682	93,146
Investment Revenue	129,334	196	975	130,505	33,500
Grants from the NSW Government	829,514	395	36,411	866,320	880,779
Other Revenue	333	-	-	333	1
Total Income from Ordinary Activities	<u>1,833,915</u>	<u>1,131</u>	<u>37,331</u>	<u>1,872,377</u>	<u>1,674,004</u>
Claims Expense	(1,094,262)	(1,072)	(37,087)	(1,132,421)	(1,311,932)
Outwards Reinsurance Expense	(18,144)	-	-	(18,144)	(24,293)
Operating Expenses of Ordinary Activities	<u>(24,767)</u>	<u>(59)</u>	<u>(244)</u>	<u>(25,070)</u>	<u>(21,930)</u>
Total Expenses of Ordinary Activities	<u>(1,137,173)</u>	<u>(1,131)</u>	<u>(37,331)</u>	<u>(1,175,635)</u>	<u>(1,358,155)</u>
Surplus from Ordinary Activities	<u>696,742</u>	<u>-</u>	<u>-</u>	<u>696,742</u>	<u>315,849</u>
Total changes in equity other than those resulting from transactions with owners as owners	<u>696,742</u>	<u>-</u>	<u>-</u>	<u>696,742</u>	<u>315,849</u>

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. FINANCIAL POSITION OF FUNDS

	Treasury Managed Fund \$000	G'mental W/Comp \$000	TAC Fund \$000	2003 Total \$000	2002 Total \$000
CURRENT ASSETS					
Cash Assets	35,446	2,764	41,800	80,010	122,148
Receivables	113,689	8,943	16,445	139,077	160,343
Reinsurance & Other Recoveries					
Receivable	34,068	136	1,284	35,488	30,706
Other Assets	863	-	-	863	545
TOTAL CURRENT ASSETS	<u>184,066</u>	<u>11,843</u>	<u>59,529</u>	<u>255,438</u>	<u>313,742</u>
NON-CURRENT ASSETS					
Receivables	131,538	65,378	147,689	344,605	363,667
Reinsurance & Other Recoveries					
Receivable	154,361	1,509	2,433	158,303	137,119
Investments Securities	3,659,760	-	-	3,659,760	2,551,078
TOTAL NON-CURRENT ASSETS	<u>3,945,659</u>	<u>66,887</u>	<u>150,122</u>	<u>4,162,668</u>	<u>3,051,864</u>
TOTAL ASSETS	<u>4,129,725</u>	<u>78,730</u>	<u>209,651</u>	<u>4,418,106</u>	<u>3,365,606</u>
CURRENT LIABILITIES					
Payables	100,097	108	173	100,378	102,467
Interest-bearing Liabilities	12,379	-	-	12,379	16,077
Unearned Premiums	179	-	-	179	84
Outstanding Claims	638,076	9,075	21,973	669,124	642,353
Other Liabilities	11,061	-	-	11,061	15,146
TOTAL CURRENT LIABILITIES	<u>761,792</u>	<u>9,183</u>	<u>22,146</u>	<u>793,121</u>	<u>776,127</u>
NON-CURRENT LIABILITIES					
Outstanding Claims	3,071,862	69,547	187,505	3,328,914	2,990,150
TOTAL NON-CURRENT LIABILITIES	<u>3,071,862</u>	<u>69,547</u>	<u>187,505</u>	<u>3,328,914</u>	<u>2,990,150</u>
TOTAL LIABILITIES	<u>3,833,654</u>	<u>78,730</u>	<u>209,651</u>	<u>4,122,035</u>	<u>3,766,277</u>
NET ASSETS/ (LIABILITIES)	<u>296,071</u>	<u>-</u>	<u>-</u>	<u>296,071</u>	<u>(400,671)</u>
EQUITY					
Contributed Capital	94,000	-	-	94,000	94,000
Accumulated Surplus/(Deficit)	202,071	-	-	202,071	(494,671)
	<u>296,071</u>	<u>-</u>	<u>-</u>	<u>296,071</u>	<u>(400,671)</u>

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

22. FINANCIAL INSTRUMENTS

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

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

Cash

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

Receivables

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

Investments

The NSW Insurance Ministerial Corporation's investments detailed in Note 12 are held with New South Wales Treasury Corporation ('TCorp') in the form of either investments in TCorp Hour-Glass facilities, or direct investment in individual TCorp specialised asset sector facilities. In all cases the investments are held in the form of unitised interests in the separate 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 as unitised interests of a pooled investment facility it is not meaningful to disclose the contractual repricing or maturity dates of the underlying assets. Investments in these facilities can be withdrawn by notice of up to 7 days (dependent upon the facility).

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

Maturity									2002 \$'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								691,835	691,835
Cash at bank							122,148		122,148
Interest rate									4.67%
Hourglass facility							835,411		835,411
Interest rate									(7.35)%
Bond portfolio	325,327	-	-	9,218	187,022	1,194,100			1,715,667
Interest rate									6.71%
Payables								102,467	102,467
Interest bearing liabilities							16,077		16,077
Interest rate.									8.30%

NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Credit Risk

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

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

	2003 \$000	2002 \$000
Bond portfolio	1,947,933	1,715,667
HourGlass facility: - Investments	1,711,827	835,411
HourGlass facility: - Cash	78,963	75,507
Total	3,738,723	2,626,585

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

	2003 \$000	2002 \$000
International, Federal and State Governments	1,364,204	1,168,938
Banks	303,851	386,401
Corporates and Others	279,878	160,328
Total	1,947,933	1,715,667

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 unrepresented cheques at balance date.

**NEW SOUTH WALES INSURANCE MINISTERIAL CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

Trade Creditors and Accruals

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

23. SEGMENT REPORTING

The funds of the New South Wales Insurance Ministerial Corporation operate in one geographical segment (New South Wales). The Statement of Financial Performance and the Statement of Financial Position of the Funds as at 30 June 2003 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.

End of Audited Financial Statements

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 2003 and its financial performance and cash flows for the period 10 July 2002 to 30 June 2003, 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).

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

The Secretary's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that the Corporation 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
21 October 2003

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2003

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

- (a) The accompanying financial statements exhibit a true and fair view of the financial position of the Liability Management Ministerial Corporation for the period 10 July 2002 to 30 June 2003 and the transactions for the period then ended
- (b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000*, the Treasurer's Direction, Australian Accounting Standards and the Urgent Issues Group Consensus Views.

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



Ian Neale
Acting Secretary
20 October 2003

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

STATEMENT OF FINANCIAL PERFORMANCE

for the period ended 30 June 2003

	Notes	2003 \$000
Expenses		-
Total Expenses		<u>-</u>
Revenue		
Contributions from the Crown Entity	2 a)	1,629,000
Investment Income	2 b)	22,372
Total Revenue		<u>1,651,372</u>
OPERATING SURPLUS FOR THE PERIOD	4	<u>1,651,372</u>
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		<u>-</u>
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		<u>1,651,372</u>

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

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

STATEMENT OF FINANCIAL POSITION

as at 30 June 2003

	Notes	2003 \$000
ASSETS		
Current Assets		
Cash at Bank	3	1,651,372
Total Current Assets		<u>1,651,372</u>
Total Non Current Assets		-
Total Assets		<u>1,651,372</u>
LIABILITIES		
Total Current Liabilities		-
Non Current Liabilities		
Total Liabilities		<u>-</u>
Net Assets		<u>1,651,372</u>
EQUITY		
Accumulated Funds	4	1,651,372
Total Equity		<u>1,651,372</u>

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

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

STATEMENT OF CASH FLOWS for the period ended 30 June 2003

	Notes	2003 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments		
Other		-
Total Payments		<u>-</u>
Receipts		
Contributions from Crown		1,629,000
Interest received		22,372
Total Receipts		<u>1,651,372</u>
CASH INFLOWS FROM OPERATING ACTIVITIES	7	<u><u>1,651,372</u></u>
CASH INFLOWS FROM INVESTING ACTIVITIES		<u>-</u>
CASH INFLOWS FROM FINANCING ACTIVITIES		<u>-</u>
INCREASE IN CASH HELD		1,651,372
Opening cash and cash equivalents		-
CLOSING CASH AND CASH EQUIVALENTS	3	<u><u>1,651,372</u></u>

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

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2003

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.

Comparatives

No comparative amounts are shown as this entity only began operations on 10 July 2002.

EXPENSES

For 2002-03 the LMMC incurred no expenses. The New South Wales Treasury provides the employees that do the work for the LMMC. The services provided are not quantifiable and have not been passed on.

REVENUE

Interest Received

Interest income is recognised as it accrues.

ASSETS

Cash

Cash comprises 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.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2003

2. REVENUE

2 a) Contributions from the Crown Entity

Money Transferred to the Fund by the Crown Entity	1,629,000
	<u>1,629,000</u>

2 b) Investment Income

Interest on cash holdings	22,372
	<u>22,372</u>

3. CASH

Cash at bank and on hand	1,651,372
	<u>1,651,372</u>

4. CHANGES IN EQUITY

Balance at the beginning of the financial period	-
Changes in equity-other than transactions with owners as owners	
Surplus/(deficit) for the period	1,651,372
	<u>1,651,372</u>
Balance at the end of the financial period	<u>1,651,372</u>

5. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent Liabilities

As at 30 June 2003 there were no contingent liabilities.

Contingent Assets

As at 30 June 2003 there were no contingent assets.

6. INVESTMENT PERFORMANCE

For the period ended 30 June 2003, the Liability Management Ministerial Corporation earned 4.70% on the cash balance. During the same period the comparable New South Wales Treasury Corporation Hour-Glass cash facility earned 4.85%.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2003

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

Surplus for the Period	1,651,372
Cash flow from operating activities	<u>1,651,372</u>

8. FINANCIAL INSTRUMENTS

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

(a) Interest Rate Risk

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

Financial Instruments	Floating interest rate	Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
	2003 \$000	2003 \$000	2003 \$000	2003 %
<i>(i) Financial Assets</i>				
Cash	1,651,372	-	1,651,372	4.75
Total financial assets	1,651,372	-	1,651,372	

(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.

9. POST BALANCE DATE EVENTS

There are no events subsequent to reporting date requiring disclosure.

Electricity Tariff Equalisation Ministerial Corporation



New South Wales
TREASURY



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

To Members of the New South Wales Parliament

Audit Opinion

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

- (a) presents fairly the Corporation's financial position as at 30 June 2003 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).

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

The Fund Administrator's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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



P G Thomas CA
Assistant Auditor-General

SYDNEY
21 October 2003

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

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 2003 and the transactions for the year then ended
- (b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000* and the Treasurer's Directions, all applicable Australian Accounting Standards and the Urgent Issues Group Consensus Views

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



Ian Neale
Fund Administrator
20 October 2003

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 30 June 2003

	Notes	2003 \$000	2002 \$000
Expenses			
Tariffs to Retailers		260,861	290,152
Tariffs to Generators		29,615	5,000
Borrowing Costs		-	45
Other	2(a)	96	402
Total Expenses		290,572	295,599
Revenue			
Tariffs from Retailers		340,937	332,678
Tariffs from Generators		29,615	-
Investment income	3(a)	2,685	6,865
Total Revenues		373,237	339,543
OPERATING SURPLUS FOR THE YEAR		82,665	43,944
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	7	82,665	43,944

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

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF FINANCIAL POSITION

as at 30 June 2003

	Notes	2003 \$000	2002 \$000
ASSETS			
Current Assets			
Receivables	4	23,523	5,349
Other Financial Assets	5	181,908	217,002
Total Current Assets		205,431	222,351
Total Non-Current Assets		-	-
Total Assets		205,431	222,351
LIABILITIES			
Current Liabilities			
Payables	6	77,399	176,984
Total Current Liabilities		77,399	176,984
Total Non-Current Liabilities		-	-
Total Liabilities		77,399	176,984
Net Assets		128,032	45,367
EQUITY			
Accumulated Funds	7	128,032	45,367
Total Equity		128,032	45,367

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 2003

	Notes	2003 \$000	2002 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Payments to Retailers		360,442	113,206
Payments to Generators		29,615	5,000
GST Paid		9	3,426
Borrowing Costs		-	166
Management Fee		53	107
Consultant Costs		18	245
Other		28	33
Total Payments		390,165	122,183
Receipts			
Payments from Retailers		322,741	359,589
Payments from Generators		29,615	-
GST Recouped		30	447
Interest received		2,685	6,865
Total Receipts		355,071	366,901
NET CASH FLOWS FROM OPERATING ACTIVITIES	10	(35,094)	244,718
NET CASH FLOWS FROM INVESTING ACTIVITIES		-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings and advances		-	(27,722)
NET CASH FLOWS FROM FINANCING ACTIVITIES		-	(27,722)
NET INCREASE/(DECREASE) IN CASH HELD		(35,094)	216,996
Opening cash and cash equivalents		217,002	6
CLOSING CASH AND CASH EQUIVALENTS	9	181,908	217,002

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 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electricity Tariff Equalisation Ministerial Corporation ("ETEMC") is established under s 43EM of the *Electricity Supply Act 1995* ("the Act") and administers the Electricity Tariff Equalisation Fund ("ETEF"). The purpose of the ETEF is to manage purchase cost risks for electricity retail suppliers of small retail customers in New South Wales. The Act sets out rules for payment to and from the ETEF. Tariffs are paid and collected from retailers and/or generators based on usage figures supplied by the retailers.

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

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

Basis of Accounting

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

Legislative provisions prevail where there are inconsistencies between the requirements.

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

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

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

Policy on tariff to/from retailers

The weekly tariff settlements which make up tariffs to and from retailers consist of both final and revision settlements. Under the ETEF payment rules, final settlements are completed 20 business days after the

conclusion of the trading week and revisions are conducted 20 and 30 weeks respectively after the conclusion of the trading week. Revisions are conducted to improve data integrity as estimated data is replaced with actual data.

There has been a delay in processing 20 week revisions for the period 1 January 2003 to 30 June 2003 and 30 week revisions for period 1 July 2001 to 30 June 2003 due to data issues. The Fund Administrator is currently unable to quantify any potential revenues and expenses, however, there are not expected to be significant.

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;
- 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 Fund 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.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2003

ASSETS

Other Financial Assets

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

Comparatives

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

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2003

2. EXPENSES	2003	2002
	\$000	\$000
(a) Other		
Audit Fees	21	21
Consultants Costs	18	245
Management Fee	45	125
Other	12	11
	<u>96</u>	<u>402</u>

The Audit fee was \$20,500 and was accrued as at 30 June 2003.

3. REVENUE

(a) Investment Income

Interest on short term money market investment at TCorp	2,685	6,865
---	-------	-------

4. RECEIVABLES

Current

Payments from retailers/generators	23,519	5,324
GST receivable	4	25
	<u>23,523</u>	<u>5,349</u>

5. OTHER FINANCIAL ASSETS

Short term money market investment at TCorp	181,908	217,002
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6. PAYABLES

Payments to retailers/generators	77,366	176,946
Audit Fees	22	18
Management Fee	11	20
	<u>77,399</u>	<u>176,984</u>

7. CHANGES IN EQUITY

	Accumulated	Funds
	2003	2002
	\$000	\$000
Balance at the beginning of the financial year	45,367	1,423
Changes in equity-other than transactions with owners as owners		
Surplus for the year	82,665	43,944
Balance at the end of the financial year	<u>128,032</u>	<u>45,367</u>

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2003

8. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability or contingent asset may arise from the revision of tariffs settlements between the Electricity Tariff Equalisation Fund and Retailers. There have been some delays in processing these revisions due to data issues. The Fund Administrator is currently unable to quantify any potential liabilities or assets, however, these revisions are not expected to be significant.

9. CASH AND CASH EQUIVALENTS

	2003	2002
	\$000	\$000

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

Other financial assets	181,908	217,002
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10. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO THE OPERATING RESULT

	2003	2002
	\$000	\$000
Surplus for the year after abnormal items	82,665	43,944
Change in operating assets and liabilities		
Decrease /(Increase) in Receivables	(18,195)	26,911
Increase /(Decrease) in Payables	(99,585)	176,842
(Increase)/Decrease in GST Receivable	21	(25)
Increase/(Decrease) in Other Liabilities	-	(2,954)
Cash flow from operating activities	(35,094)	244,718

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2003

11. FINANCIAL INSTRUMENTS

The ETEM 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 ETEM 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 ETEM's exposure to interest rate risks and the effective interest rates of financial assets and liabilities, both recognised and unrecognised at the balance sheet date as follows:

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

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			
	2002 \$000	2002 \$000	2002 \$000	2002 \$000	2002 \$000	2002 \$000	2002 %
<i>(i) Financial Assets</i>							
Other Financial Assets	217,002	-	-	-	-	217,002	4.5954
Receivables	-	-	-	-	5,324	5,324	-
Total financial assets	217,002	-	-	-	5,324	222,326	
<i>(ii) Financial Liabilities</i>							
Payables	-	-	-	-	176,984	176,984	-
Total financial liabilities	-	-	-	-	176,984	176,984	

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2003

(b) Credit Risk

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

(c) Net Fair Value

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

12. POST BALANCE DATE EVENTS

There are no events subsequent to reporting date requiring disclosure.

End of Audited Financial Information

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 below, the financial report of the Crown Property Portfolio:

- (a) presents fairly the Portfolio's financial position as at 30 June 2003 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).

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

Qualifications

- **Finance Lease**

The Crown Property Portfolio has entered into a contractual arrangement for the use of a portion of the Colonial State Bank Centre. As indicated at Note 12, the Crown Property Portfolio recognises this arrangement as an operating lease. The payment for the right to use the floor space, together with the Portfolio's other contractual obligations, effectively transfers to it substantially the risks and benefits incident to ownership of the entire property. In my opinion the substance of the contractual arrangement, consistent with the principles in Australian Accounting Standard AAS 17 "Accounting for Leases", requires recognition of the present obligation and related asset. I estimate the value of this obligation to be \$186 million (\$186 million at 30 June 2002), but am unable to quantify the value of the unrecognised related asset and the effect that this may have on the operating result. Adoption of this accounting treatment would require reversal of the recognition of the liability of \$11.2 million (\$9.3 million at 30 June 2002), being the difference between the head lease and the sub lease for the Colonial State Bank Centre. My opinion for the year ended 30 June 2002 was similarly qualified.

- **Provision for Land Remediation and Other Costs**

As disclosed at Note 12 (b), the Portfolio has recognised a provision for land remediation and other costs of \$103.8 million. In my opinion, the recognition of this provision breaches Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" because the amount of the provision cannot be measured reliably. The financial effect of recognising the provision understates the operating result for the year by \$103.8 million and overstates current and non-current provisions by \$1.4 million and \$102.4 million respectively.

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 failed in his reporting obligation.

My opinion does *not* provide assurance:

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

Audit Independence

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

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



R J Sendt
Auditor-General

SYDNEY
31 October 2003

CROWN PROPERTY PORTFOLIO

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

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.



John Pierce
Secretary
NSW Treasury
30 October 2003

CROWN PROPERTY PORTFOLIO

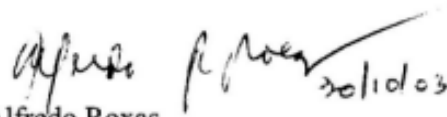
ADOPTION OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003


We have prepared the financial statements and all the necessary disclosure notes of the Crown Property Portfolio for the year ended 30 June 2003. The preparation of these statements was done consistent with the previous year having regard with the accounting policies being adopted by the Crown Property Portfolio. Any changes to the accounting policies have been adequately disclosed in the financial report. In our opinion, adequate systems of internal control exist to ensure that all material transactions are recorded in the accounting records underlying the financial report and no irregularities have occurred which could have material effect on the accounts.

We declare that:

- (1). The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Property Portfolio, as at 30 June 2003 and the results of its operation for the year then ended.
- (2). The statements have been prepared in accordance with the provision of the Public Finance and Audit Act, 1983, the Public Finance and Audit Act (General) Regulation, 1995, the Treasurer's Directions as they relate to the preparation of those Accounts and with the requirements of applicable Australian Accounting Standards and the Urgent Issues Group Consensus Views,

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


Alfredo Roxas
Portfolio Accountant,
State Property
Department of Commerce (NSW)


Roger Green
Portfolio Manager - Planning and Finance
State Property
Department of Commerce (NSW)

CROWN PROPERTY PORTFOLIO
Statement of Financial Performance
for the financial year ended 30 June 2003

	Notes	2003 \$'000	2002 \$'000
Revenues from ordinary activities			
Property rental income	2, 8	155,465	142,388
Assets received free of charge		-	2,930
Contribution received for land remediation	4	103,987	-
Other revenues	5	362	1,283
Consolidated fund allocation	6	21,424	55,210
Total revenues		<u>281,238</u>	<u>201,811</u>
Expenses from ordinary activities			
Loss on disposal of property	3	15	2,753
Depreciation	1(f), 15	5,527	6,649
Amortisation	1(g), 15	2,686	2,686
Borrowing costs – finance leases	1(e)	16,660	16,415
Head leases expenses	1(e), 7	115,181	96,795
Property expenses	8	11,710	9,204
Refurbishment expenses		5,598	4,912
Management Fee		8,958	6,742
Assets disposed of free of charge	9	16,160	-
Increase/ (Decrease) in the Provision for sub-lease income shortfall	12 (a)	3,289	(8,334)
Correction of a prior year error	18	25,860	-
Provision for land remediation	12 (b)	103,987	-
Provision for doubtful debts	14	40	126
Other		296	588
Total expenses		<u>315,967</u>	<u>138,536</u>
Operating surplus/(deficit) from ordinary activities	20	<u>(34,729)</u>	<u>63,275</u>
Total revenue, expenses and valuation adjustments recognised directly in equity		<u>-</u>	<u>-</u>
Total changes in equity other than those resulting from transactions with owners as owners	20	<u>(34,729)</u>	<u>63,275</u>

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

CROWN PROPERTY PORTFOLIO
Statement of Financial Position
as at 30 June 2003

	Notes	2003 \$'000	2002 \$'000
Current assets			
Cash	13 (a)	121,798	13,329
Receivables	14	<u>5,829</u>	<u>89,685</u>
Total current assets		<u>127,627</u>	<u>103,014</u>
Non-current assets			
Property, plant and equipment	15	<u>449,823</u>	<u>480,755</u>
Total non-current assets		<u>449,823</u>	<u>480,755</u>
Total Assets		<u>577,450</u>	<u>583,769</u>
Current liabilities			
Payables	17	8,351	5,173
Interest bearing liabilities	21 (b)	16,852	15,896
Provisions			
-Sub-lease income shortfall	12 (a)	4,050	2,475
-Land remediation and other costs	12 (b)	1,365	-
Other			
-Rent received in advance		3,267	1,794
-Deferred income	19	<u>3,819</u>	<u>3,819</u>
Total current liabilities		<u>37,704</u>	<u>29,157</u>
Non-current liabilities			
Interest bearing liabilities	21 (b)	78,860	79,052
Provisions			
-Sub-lease income shortfall	12 (a)	8,524	6,810
-Land remediation and other costs	12 (b)	102,463	-
Other			
-Deferred income	19	<u>9,546</u>	<u>13,365</u>
Total non-current liabilities		<u>199,393</u>	<u>99,227</u>
Total Liabilities		<u>237,097</u>	<u>128,384</u>
Net Assets		<u><u>340,353</u></u>	<u><u>455,385</u></u>
Equity			
Asset revaluation reserve	20	120,164	130,771
Accumulated funds	20	<u>220,189</u>	<u>324,614</u>
Total Equity		<u><u>340,353</u></u>	<u><u>455,385</u></u>

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

CROWN PROPERTY PORTFOLIO
Statement of Cash Flows
for the financial year ended 30 June 2003

	Notes	2003 \$'000	2002 \$'000
Cash flows from operating activities			
Receipts			
Property rental income		153,428	125,096
Goods and services tax received		26,769	12,021
Contributions for land remediation and other received		103,987	-
Other		5,079	97
Total Receipts		<u>289,263</u>	<u>137,214</u>
Payments			
Operating head leases		(114,190)	(96,150)
Property expenses		(20,709)	(14,282)
Borrowing cost - finance leases		(15,895)	(14,999)
Goods and services tax paid		(26,190)	(12,567)
Other		(9,117)	(6,742)
		<u>(186,101)</u>	<u>(144,740)</u>
Cash flows from government			
Recurrent fund allocation		8,494	13,039
Capital fund allocation		12,930	42,171
Asset sale proceeds transferred to NSW Treasury		(83,542)	(4,111)
Contributions to NSW Treasury		(4,100)	(6,168)
		<u>(66,218)</u>	<u>44,931</u>
Net cash provided by operating activities	13 (b)	<u>36,944</u>	<u>37,405</u>
Cash flows from investing activities			
Purchases of property, plant and equipment		(12,026)	(42,171)
Proceeds from disposal of property		83,565	4,063
Property disposal costs		(14)	(38)
Net cash provided by/ (used in) investing activities		<u>71,525</u>	<u>(38,146)</u>
Net increase/ (decrease) in cash held		108,469	(741)
Cash at the beginning of the financial year		<u>13,329</u>	<u>14,070</u>
Cash at the end of the financial year	13 (a)	<u>121,798</u>	<u>13,329</u>

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

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

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. Staffs 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 7)

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 12 (a))

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

(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. There is no substantive difference between the fair value valuation methodology and the previous valuation methodology adopted in the NSW public sector.

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 assets'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. Revaluation is based on capitalisation of net income stream. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower value.

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

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

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

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

(i) Comparative Figures

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

(j) Taxation

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

(k) Contributions to Treasury

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

(l) Revenue Recognition

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

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

Contributions from Treasury (Note 6) are recognised as revenues when the Portfolio obtains control over the assets comprising the contributions. Control over contributions is normally obtained upon the receipt of cash.

Lease incentives are recognised as revenue over the term of the lease. (Note 19).

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

(m) *Financial Instruments*

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

(i) Cash

Cash comprises cash on hand and balances at banks.

(ii) Receivables

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

(iii) Payables

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

(iv) Financial Lease Liability

The liabilities in respect of these leases are carried at their net fair value. The interest rate in connection with the leases is disclosed in Note 21 (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 \$4.75M (2001/02, \$7.811M). (Note 15)

(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 2003

2. PROPERTY RENTAL INCOME

	2003 \$'000	2002 \$'000
Owned property	35,423	39,524
Leased property	120,042	102,864
	<u>155,465</u>	<u>142,388</u>

Rental income from leased property includes \$3.819M amortisation of Deferred Income referred to in Note 18.

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

	2003 \$'000	2002 \$'000
Proceeds from disposal of property	93	83,655
Less:		
Property disposal expenses	17	38
Written down value of assets disposed	91	86,370
	<u>(15)</u>	<u>(2,753)</u>

The lands sold during the year comprised of 3 lots located at Bathurst and Kempsey.

The sale proceeds during 2001-02 were mainly from the sale of the Sydney Markets property (also known as Flemington Markets) to the Sydney Markets Limited (the Lessee) in June 2002 for \$83.5M.

4. CONTRIBUTION RECEIVED FOR LAND REMEDIATION

An amount of \$108.987M (exclusive of GST) was paid to the Crown by BHP Billiton to compensate for the total estimated cost of remediation and other works in the former BHP main steelworks site and the Kooragang Islands waste emplacement site which were acquired from BHP by the Crown in June 2002. Included in the amount is \$5M held 'on trust' by the Crown in relation to the funding proposal for the implementation of the Revised Heritage Interpretation Strategy on behalf of the Newcastle City Council and the University of Newcastle. The \$5M is shown as Liability under Payables line item in the Statement of Financial Position.

5. OTHER REVENUES

	2003 \$'000	2002 \$'000
Telephone rebate	-	5
Interest	80	92
Lessor incentive	-	1,186
Bad debts recovered (Refer to Note 14)	282	-
	<u>362</u>	<u>1,283</u>

The Lessor incentive during 2001-02 refers to the cost of refit works in the Colonial (State Bank) building that AMP (Lessor) agreed to repay to the CPP in six quarterly instalments commencing July 2002

6. CONSOLIDATED FUND ALLOCATION

	2003 \$'000	2002 \$'000
Contributions for costs of capital works, asset acquisitions and property refurbishments	18,661	53,030
Contributions for Management fee paid to NSW Department of Commerce re Accommodation Strategic Alliance	2,763	2,180
	<u>21,424</u>	<u>55,210</u>

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

The Consolidated Fund Allocation was received from NSW Treasury and includes the costs for the construction of new government office buildings in Nowra and Lithgow, major works of the Chief Secretary Building in Sydney and refurbishments works in other buildings.

The Consolidated Fund Allocation received during 2001-02 includes the costs for the acquisition of the main steel site and another 3 parcels of land in Newcastle from BHP, \$34.36M.

7. HEAD LEASE EXPENSES

	2003 \$'000	2002 \$'000
Minimum lease payments	92,473	78,950
Contingent rentals	11,374	7,991
Rental expenses arising from sub-lease	11,334	9,854
	<u>115,181</u>	<u>96,795</u>

Head leased office accommodation properties are sub-leased to government agencies.

The terms of the operating head leases ranged from 3 to 10 years with the option of renewal of further terms. The lease agreements allow Lessors the right to review rents on specified dates. The expenditure for recurrent outgoings (including repairs and maintenance, electricity, cleaning, expenses for common areas and public risk insurance), subject to exclusion of repairs and maintenance of a structural or capital nature, is the responsibility of the Lessee (the CPP).

Contingent rentals are variations due to market reviews and changes to Consumer Price Index between the actual lease and the amounts of minimum lease payments determined at the inception of the lease.

8. 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.

During the current year, the CPP paid to the Office of the State Revenue \$1.78M (including interest charge of \$0.56M) after receiving a notice of assessment for car parking levy liability covering the period from 1992 to 2002. This payment was included in the Property Expenses but not recovered from the tenants.

9. ASSETS DISPOSED OF FREE OF CHARGE

The assets disposed of free of charge were comprised of:

Particulars	Written down value \$'000
Grazing land at Glen Davis, NSW	53
Residual foreshore at Gloucester Boulevard, Port Kembla	20
Former Coal & Allied site at Ball Head Road, Waverton, NSW	4,987
Former Caltex site at Ball Head Road, Waverton, NSW	1,700
Former BP Australia oil terminal at Waverton, NSW	9,400
	<u>16,160</u>

The lands at Waverton, NSW were transferred to the Waverton Peninsula Reserve Trust for the benefit of the public.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

10. AUDIT FEES

	2003 \$'000	2002 \$'000
Fee for the audit of current year's annual accounts	52	50
	<u>52</u>	<u>50</u>

The Auditor did not receive nor is the Auditor due to receive any other benefit.

11. CONSULTANTS

Expenditure on consultants during the year totalled \$0.018M (2001/02, \$0.115M).

12. PROVISIONS

(a) Provision for sub-lease income shortfall

	2003 \$'000	2002 \$'000
Carrying balance at the beginning of year	9,285	17,619
Additional provisions recognised, including increases to existing provisions	3,289	-
Reductions in provisions from payments and other sacrifices	-	(7,761)
Reductions in provisions from re-measurements or settlement without cost	-	(573)
Carrying balance at the end of year	<u>12,574</u>	<u>9,285</u>
Current liability	4,050	2,475
Non current liability	8,524	6,810

The Provision for Sub-lease Income Shortfall is for the CPP head lease on Colonial State Bank Centre, Martin Place, Sydney and 400 Kent Street, Sydney. The provision is the net present value of the excess of the head lease commitments over the estimated sub-lease rentals over the expected period of the shortfall. The appropriate discounting factor of 8.46% over 8 years was used for Colonial State Bank. The level of the provision is reviewed at the end of each year and an adjustment made to the Statement of Financial Performance.

The CPP recognises the head lease on Colonial State Bank as an operating lease. However there is disagreement with The Audit Office of New South Wales over the economic substance of the lease.

(b) Provision for land remediation and other costs

	2003 \$'000	2002 \$'000
Carrying balance at the beginning of year	-	-
Additional provisions recognised, including increases to existing provisions	103,987	-
Reductions in provisions from payments and other sacrifices	(159)	-
Reductions in provisions from re-measurements or settlement without cost	-	-
Carrying balance at the end of year	<u>103,828</u>	<u>-</u>
Current liability	1,365	-
Non current liability	102,463	-

The Crown acquired the former BHP main steel works site, including another three parcels of lands in Newcastle, in June 2002. These lands will need remediation works to remove various contaminations associated with steel making. The Crown negotiated, as part of land acquisition package consideration, for BHP Billiton to pay an amount to compensate for the total estimated cost of land remediation and other works.

At the time the purchase was being negotiated, the Government sought advice on the estimated remediation costs for the main steel site and the Kooragang Island waste emplacement site. In providing this assessment, a number of assumptions as to the nature of future development and the method of remediating the sites were made.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

BHP Billiton Ltd agreed to pay \$108.987M, including \$5M for Heritage Interpretation Funding Proposal which was received by the Crown 'on trust' (Note 4) based the total negotiated estimated costs of remediation and other works as shown in the Environmental Deed dated 31 July 2002 between the BHP Billiton Ltd and the Crown, ie.

Works Particulars	2003 \$'000
Environmental remediation of steel works main site and Kooragang Islands waste emplacement site	100,000
Environmental monitoring of main site over 10 years	1,700
Heritage interpretation funding proposal	5,000
Relocation of the railway line to OneSteel (Moorandoo Crossing)	2,287
	<u>108,987</u>

Whilst the nature and type of remediation to be undertaken will be controlled by how the sites are to be reused or redeveloped and to what extent the ground will be disturbed, it is considered prudent to recognise provisions for future remediation and other costs. The Government established a special subsidiary corporation, the Regional Management Land Corporation (Note 16), which will provide its recommendations to the Government on the best possible use of the sites.

13. 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.

	2003 \$'000	2002 \$'000
Cash at bank	121,798	9,586
Cash in transit	-	3,743
	<u>121,798</u>	<u>13,329</u>

Included in the Cash balance is \$5M received by the Crown from BHP '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 (Note 4)

(b) Reconciliation of the Operating Surplus to the Net Cash Provided by Operating Activities:

	2003 \$'000	2002 \$'000
Operating surplus/ (deficit)	(34,729)	63,275
Lease incentive	(3,819)	(13,984)
Loss from disposal of property	15	2,753
Assets received free of charge	-	(2,930)
Assets disposed of free of charge	16,160	-
Depreciation	5,527	6,649
Amortisation	2,686	2,686
Provisions for land remediation and other costs	103,987	-
Provision for doubtful debts	40	126
Bad debts written off	(162)	(193)
Bad debts recovered	(282)	-
Increase/ (Decrease) in Provisions for sub-lease income shortfall	3,289	(8,334)
Asset sales proceeds transferred to NSW Treasury	(83,542)	(4,111)
Contributions to NSW Treasury	(4,100)	(6,168)
Decrement in asset value	25,860	-
Increase/ (Decrease) in Interest bearing liabilities	765	1,416
(Decrease)/ Increase in Provisions for land remediation	(159)	-
Decrease/ (Increase) in operating Receivables	644	(3,588)
Decrease/ (Increase) in Other assets	140	(159)
Increase in Payables	3,151	1,225
Increase/ (Decrease) in Rent in advance	1,473	(1,258)
Net cash provided by operating activities	<u>36,944</u>	<u>37,405</u>

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

14. RECEIVABLES

	2003 \$'000	2002 \$'000
Trade Receivables	2,740	3,508
Provision for doubtful debts	(89)	(493)
	<u>2,651</u>	<u>3,015</u>
Other Receivables		
GST receivable	147	726
Other	3,031	85,944
	<u>5,829</u>	<u>89,685</u>

The balance of other receivable as at 30 June 2002 includes the proceeds from sale of the Sydney Markets property of \$83.5M. The sale was settled in July 2002 and the proceeds from sale were transferred to the NSW Treasury.

Movement in the provision for doubtful debts

	2003 \$'000	2002 \$'000
Balance at the beginning of year	(493)	(560)
Increase in provision	(40)	(126)
Debts written off	162	193
Bad debts recovered	282	-
Balance at the end of year	<u>(89)</u>	<u>(493)</u>

15. PROPERTY, PLANT AND EQUIPMENT

	2003 \$'000	2002 \$'000
Land and buildings – at fair value		
Land	239,258	272,968
Building	216,059	208,588
Work in progress	3,470	-
	<u>458,787</u>	<u>481,556</u>
Less: Accumulated depreciation	14,106	8,386
	<u>444,681</u>	<u>473,170</u>
Leasehold – at fair value	6,000	6,000
Less: Accumulated depreciation	882	529
	<u>5,118</u>	<u>5,471</u>
Fixtures and fittings – at fair value	-	12,684
Less: Accumulated depreciation	-	10,570
	<u>-</u>	<u>2,114</u>
Computer equipment – at fair value	36	-
Less: Accumulated depreciation	12	-
	<u>24</u>	<u>-</u>
Total Property, plant and equipment – Net book value	<u>449,823</u>	<u>480,755</u>

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

(A) Property - Owned

	Land \$'000	Building \$'000	Work in Progress \$'000	Fixtures & Fittings \$'000	Computer Equipment \$'000	Total \$'000
Gross Value						
Opening balance 1 July 2002	257,968	138,588	-	12,684	-	409,240
Reclassification to work in progress	-	(5,179)	5,253	-	-	74
Add: Acquisitions	-	-	7,166	-	36	7,202
Add: Transfers from other government department	7,365	-	-	-	-	7,365
Add: Capitalised expenditure-Note 1 (n)	-	4,750	-	-	-	4,750
Add: Transfers from work in progress	799	8,150	(8,949)	-	-	-
Less: Correction of prior year error (Note 18)	(25,860)	-	-	-	-	(25,860)
Less: Disposals	(91)	-	-	-	-	(91)
Less: Assets disposed of free of charge (Note 9)	(15,923)	(250)	-	-	-	(16,173)
Less: Reversal of fully depreciated assets	-	-	-	(12,684)	-	(12,684)
Closing Balance 30 June 2003	224,258	146,059	3,470	-	36	373,823
Accumulated Depreciation						
Opening balance 1 July 2002	-	4,886	-	10,570	-	15,456
Add: Charge for the year	-	3,400	-	2,114	12	5,526
Less: Reversal due to assets disposed of free of charge	-	(13)	-	-	-	(13)
Less: Reversal due to fully depreciated assets	-	-	-	(12,684)	-	(12,684)
Closing Balance 30 June 2003	-	8,273	-	-	12	8,285
Written Down Value						
Balance 1 July 2002	257,968	133,702	-	2,114	-	393,784
Balance 30 June 2003	224,258	137,786	3,470	-	24	365,538

(B) Property – Finance Lease

	Land \$'000	Building \$'000	Leasehold \$'000	Total \$'000
Gross Value				
Opening balance 1 July 2002	15,000	70,000	6,000	91,000
Closing Balance 30 June 2003	15,000	70,000	6,000	91,000
Accumulated Amortisation				
Opening balance 1 July 2002	-	3,500	529	4,029
Add: Charge for the year	-	2,333	353	2,686
Closing Balance 30 June 2003	-	5,833	882	6,715
Written Down Value				
Balance 1 July 2002	15,000	66,500	5,471	86,971
Balance 30 June 2003	15,000	64,167	5118	84,285

Total Owned and Leased Assets	Land	Building	Work in Progress	Leasehold	Fixtures & Fittings	Computer Equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance 1 July 2002	272,968	200,202	-	5,471	2,114	-	480,755
Closing Balance 30 June 2003	239,258	201,953	3,470	5,118	-	24	449,823

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

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 approximates their recoverable amount.

All properties were independently revalued on 1 January 2001 on the basis of capitalisation of net income stream. Either the Australian Valuation Office or Landmark White (NSW) Pty Ltd undertook valuations.

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

Details of assets transferred from other government agencies:

Particulars	Fair value \$'000
Tempe tip, Tempe NSW	1,500
Residual foreshore at Gloucester Boulevard, Port Kembla	20
Bunnerong rail sidings, Banksmeadow NSW	4,420
Native Fauna Sanctuary, Coorangbong NSW	785
Rural property, Apsley - Kanangra Vale, Walcha NSW	440
Decommissioned power station, Summerland Way, Koolkhan	200
	<u>7,365</u>

The Tempe tip was transferred from the NSW Waste Services and the other properties were received from the Pacific Power Corporation..

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

16. 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 \$47.627M 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.

17. PAYABLES

	2003 \$'000	2002 \$'000
Property expenses	3,315	5,148
Monies held 'on trust' (Notes 4 & 13)	5,000	-
Audit fees	36	25
	<u>8,351</u>	<u>5,173</u>

18. CORRECTION OF PRIOR YEAR ERROR

In June 2002, the former BHP main steel site, the Kooragang Island waste emplacement site, the West Wallsend site and the Belmont Sands were acquired from BHP for \$34.360M. This amount represented the estimated value at remediated state of the main steel site based on the advice received by the Crown at that time. The other 3 parcels of land were acquired at nil consideration as part of the acquisition package.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

Since the main steel site and the Kooragang Island waste emplacement site will require remediation works (refer to Notes 4 & 12 (b)), these properties are recognised at nil value.

The remaining parcels of land were valued by Colliers International. The valuation results on 'As Is' basis are shown below.

	Fair value "As Is basis" \$'000
West Wallsend site	5,500
Belmont Sands	3,000
	<u>8,500</u>

The asset value of the former BHP sites has been adjusted to \$8.5M. This required a correction of \$25.86M (ie. \$34.36M less \$8.5M), being a correction to a prior year error. This has been recognised in the Statement of Financial Performance.

19. DEFERRED INCOME - INCENTIVE FROM LESSOR

A lease incentive payment of \$68M was received from the former SAS Trustee Corporation in January 1995 and relates to a twelve-year lease on the Governor Macquarie Tower. The lease incentive is progressively reduced over the term of the lease on a straight-line basis by the transfer to Property Rental Income.

Due to the surrender of levels 16-23 (inclusive) in Governor Macquarie Tower effective from 1 July 2002, there was a one-off transfer of the lease incentive to Property Rental Income of \$8.3M reflecting the decrease in lease space during 2001/02.

During 2002/03, an amount of \$3.819M (2001/02, \$13.984M) was credited to Property Rental Income. From the remaining balance of \$13.365M as at 30 June 2003, \$3.819M (2001/02, \$3.819M) is classified as a current liability and \$9.546M (2001/02, \$13.365M) is classified as a non-current liability.

20. TOTAL EQUITY

	Accumulated Funds		Asset Revaluation Reserve		Total Equity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Balance at the beginning of financial year	324,614	282,913	130,771	137,671	455,385	420,584
<u>Changes in equity – transactions with owners as owners</u>						
Increase/ (Decrease) in net assets						
– Asset sale proceeds transferred to NSW Treasury	(83,568)	(4,111)	-	-	(83,568)	(4,111)
– Contributions to NSW Treasury	(4,100)	(6,168)	-	-	(4,100)	(6,168)
– Transfer of assets to other government departments	-	(18,195)	-	-	-	(18,195)
– Transfer of assets from other government agency	7,365	-	-	-	7,365	-
<u>Total</u>	<u>(80,303)</u>	<u>(28,474)</u>	<u>-</u>	<u>-</u>	<u>(80,303)</u>	<u>(28,474)</u>
<u>Changes in equity – other than transactions with owners as owners</u>						
Surplus/ (Deficit) for the year	(34,729)	63,275	-	-	(34,729)	63,275
Transfer of realised revaluation reserve to accumulated funds on disposal of asset	10,607	6,900	(10,607)	(6,900)	-	-
<u>Total</u>	<u>(24,122)</u>	<u>70,175</u>	<u>(10,607)</u>	<u>(6,900)</u>	<u>(34,729)</u>	<u>63,275</u>
Balance at the end of financial year	220,189	324,614	120,164	130,771	340,353	455,385

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

The Asset Revaluation Reserve is used to record increments and decrements on the revaluation of non-current assets. This accords with the CPP's policy on the revaluation of non-current assets as disclosed in Note 1 (h).

The total asset revaluation reserve is attributable to the following classes of non-current assets

	2003 \$'000	2002 \$'000
Land (owned)	87,263	97,870
Building (owned)	2,743	2,743
Finance lease asset (land)	7,340	7,340
Finance lease assets (building)	22,818	22,818
	<u>120,164</u>	<u>130,771</u>

Funds transferred to NSW Treasury were derived from:

	2003 \$'000	2002 \$'000
Surplus from rental operations	4,100	6,168
Proceeds from sale of property	83,568	4,111
	<u>87,668</u>	<u>10,279</u>

21. EXPENDITURE COMMITMENTS

(a) Capital Expenditure Commitments

	2003 \$'000	2002 \$'000
Capital expenditure contracted at balance date but not provided for:		
Payable within one year	20,764	1,300
Payable later than one year but not later than five years	7,842	-
Payable later than five years	-	-
	<u>28,606</u>	<u>1,300</u>

Capital expenditure commitments as at 30 June 2003 are inclusive of GST, including GST Recoverable Input Tax Credits of \$2.36M

(b) Lease Expenditure Commitments

Operating Leases

	2003 \$'000	2002 \$'000
Operating lease expenditure contracted at balance date but not provided for:		
Payable within one year	105,123	98,537
Payable later than one year but not later than five years	269,416	268,660
Payable later than five years	227,525	108,928
	<u>602,064</u>	<u>476,125</u>

Operating lease commitments as at 30 June 2003 are inclusive of GST.

Operating lease commitments as at 30 June 2003 include GST Recoverable Input Tax Credits of \$54.733M (2001/02, \$36.358M)

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

Finance Leases

Finance lease commitments (exclusive of GST) and reconciliation to carrying amount of lease liabilities:

	2003 \$'000	2003 \$'000	2002 \$'000	2002 \$'000
	Minimum Lease Payments	Lease Liability	Minimum Lease Payments	Lease Liability
Lease liability as at 30 June:				
Current		16,852		15,896
Non Current		78,860		79,052
Total		<u>95,712</u>		<u>94,948</u>
Payable within one year	16,852	80	15,896	(764)
Payable later than one year but not later than five years	37,644	3,172	53,301	2,702
Payable later than five years	10,556	7,460	11,751	8,010
Total	<u>65,052</u>	<u>10,712</u>	<u>80,948</u>	<u>9,948</u>
Liability at end of lease		<u>85,000</u>		<u>85,000</u>

Finance leases refer to leases on McKell Building and Noel Park House. The McKell Building lease has a lease term of 15 years with the option to purchase the asset at the completion of the lease term in 2006 for \$85M. The Noel Park House lease has a lease term of 25 years with no option to purchase the asset at the completion of the lease term in 2017. The discount rates implicit in the leases are 18.6% pa and 8.31% pa for McKell Building and Noel Park House, respectively.

22. CONTINGENT ASSETS

The CPP (Lessee) was in dispute with the Lessors, in respect to the payment of GST, for the lease of Governor Macquarie Tower, Sydney. The Lessors claimed that the lease of the premises entitled them to recover from the CPP an amount equal to the GST payable on the rent for the premises and that the CPP had failed, since 6 August 2001, to acknowledge that liability and reimburse the Lessors for the GST amounts.

The parties have now reached an in principle agreement on this matter and the CPP expects to claim input tax credits of \$4.2 million from the Australian Taxation Office.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2003

23. SEGMENT INFORMATION

Business segments	Leasing -Owned Properties		Sub Leasing -Leased Properties		Leasing -Surplus & Strategic Properties		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue								
Revenue from external customers								
Rental Income	26,960	26,527	120,042	102,864	8,463	12,997	155,465	142,388
Proceeds from sale of assets	-	-	-	-	93	83,655	93	83,655
Other revenues								
External customers	216	-	56	1,186	90	97	362	1,283
Contribution from NSW Treasury	16,040	6,482	1,292	11,037	1,329	1,151	18,661	18,670
Total segment revenue	43,216	33,009	121,390	115,087	9,975	97,900	174,581	245,996
Operating Result								
Segment result	24,368	14,600	(17,870)	(4,777)	4,082	7,878	10,580	17,701
Unallocated corporate revenue:								
Contribution from NSW Treasury for Strategic Alliance management							2,763	2,180
Contribution for land remediation and other works							103,987	-
Unallocated corporate expenses:								
Strategic alliance management fee-NSW Department of Commerce							(2,763)	(2,180)
Provision for land remediation and other works							(103,987)	-
Other							-	(50)
Consolidated operating surplus/ (loss) from ordinary activities							10,580	17,651
Significant items								
Contribution from NSW Treasury for acquisition of asset							-	34,360
Assets received free of charge							-	2,930
Assets disposed of free of charge							(16,160)	-
Correction of prior year error (Note 18)							(25,860)	
Adjustment on provision on shortfall in sub lease income							(3,289)	8,334
Net Profit/ (Loss)							(34,729)	63,275
Segment assets	206,370	199,680	84,287	86,971	159,166	194,104	449,823	480,755
Unallocated corporate assets							127,627	103,014
Consolidated total assets							557,450	583,769
Segment liabilities	-	-	121,651	123,767	103,828	-	225,479	123,767
Unallocated corporate liabilities							11,618	4,617
Consolidated total liabilities							237,097	128,384
Acquisition of property, plant & equipment	12,002	7,696	4	-	20	37,405	12,026	45,101
Depreciation	5,124	5,404	1	-	402	1,245	5,527	6,649
Amortisation	-	-	2,686	2,686	-	-	2,686	2,686
Other non-cash expenses	-	140	42	(24)	(2)	10	40	126

24. SYDNEY OPERA HOUSE CAR PARK LEASE

The Sydney Opera House Car Park is leased by the Crown to a private consortium on a 50-year ground lease, which commenced on 13 March 1993. The lessee has constructed at its own expense a subterranean car park with a design life of 50 years. At the expiration of the lease term the Government has the right to receive the car park. Rental income from the lease is reflected in the Statement of Financial Performance. The value of the Car Park land and emerging value of the structures are recognised as Property. (Note 15A)

25. POST BALANCE DATE EVENT

There are no events subsequent to balance date which would affect the financial reports.

End of Audited Financial Statements

Crown Lands Homesites Program



New South Wales
TREASURY



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

CROWN LANDS HOMESITES PROGRAM

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Crown Lands Homesites Program:

- (a) presents fairly the Program's financial position as at 30 June 2003; 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).

The 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 the Secretary of the Treasury had failed in his 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
- about the effectiveness of its internal controls.

Audit Independence

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

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



L I White FCA
Assistant Auditor-General

SYDNEY
15 October 2003

CROWN LANDS HOMESITES PROGRAM

STATEMENT BY THE SECRETARY OF THE NEW SOUTH WALES TREASURY ON ADOPTION OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Certificate Under the provisions of the Public Finance and Audit Act, 1983.

Pursuant to the provisions of the Public Finance and Audit Act, 1983 and in my capacity as Secretary of the Treasury, I declare that in my opinion:

1. The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Lands Homesites Program as at 30 June 2003 and transactions for the year then ended.
2. The statements have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, and the Treasurer's Directions.

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



J. PIERCE
Secretary of the
New South Wales Treasury

CROWN LANDS HOMESITES PROGRAM

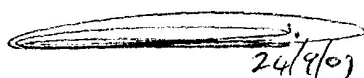
ADOPTION OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

The attached financial statements 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 statements for the year ended 30 June 2003 be adopted and the Secretary of the Treasury provide a statement to the effect that in his opinion the accompanying financial statements exhibit a true and fair view of the financial position and transactions of Crown Lands Homesites Program and that such 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, and further, that he is not aware of any circumstances which would render any particulars included in the financial statements 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.



24/9/03

G. SOUTH
General Manager, Finance & Corporate Services
LANDCOM



S. O'TOOLE
Managing Director
LANDCOM

**CROWN LANDS HOMESITES PROGRAM
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2003**

	Notes	2003 \$'000	2002 \$'000
Sales revenue	2	36,433	19,925
Cost of sales		<u>(6,493)</u>	<u>(6,538)</u>
Gross Profit		29,940	13,387
Other revenue from ordinary activities	2	923	608
Marketing expenses	3	(1,596)	(801)
Other expenses from ordinary activities	4	<u>(1,773)</u>	<u>(993)</u>
Expenses from ordinary activities		(3,369)	(1,794)
Profit from Ordinary Activities		<u>27,494</u>	<u>12,201</u>
Total Changes in Equity other than Resulting from Transactions with Owners as Owners	10	<u>27,494</u>	<u>12,201</u>

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 2003

	Notes	2003 \$'000	2002 \$'000
Current Assets			
Cash	11,12	4,861	14,195
Receivables	5	2	1,036
Inventories	6	<u>9,960</u>	<u>8,699</u>
Total Current Assets		14,823	23,930
Non-Current Assets			
Inventories	6	<u>22,213</u>	<u>25,613</u>
Total Non-Current Assets		22,213	25,613
Total Assets		<u>37,036</u>	<u>49,543</u>
Current Liabilities			
Payables	7	10,529	4,092
Provisions	8	<u>19</u>	<u>9,318</u>
Total Current Liabilities		10,548	13,410
Non-Current Liabilities			
Payables	9	<u>11,345</u>	<u>18,395</u>
Total Non-Current Liabilities		11,345	18,395
Total Liabilities		<u>21,893</u>	<u>31,805</u>
Net Assets		<u>15,143</u>	<u>17,738</u>
Equity			
Retained Profits	10	<u>15,143</u>	<u>17,738</u>
Total Equity		<u>15,143</u>	<u>17,738</u>

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 2003**

	Notes	2003 \$'000 Inflows/ (Outflows)	2002 \$'000 Inflows/ (Outflows)
Cash Flows from Operating Activities			
Receipts			
Receipts from Customers		38,732	21,374
Interest Received		921	596
Payments			
Payments to Suppliers		(8,338)	(10,211)
GST Payments		<u>(1,265)</u>	<u>(914)</u>
Net Cash Flows from Operating Activities	11(b)	30,050	10,845
Cash Flows from Financing Activities			
Distribution to NSW Treasury		<u>(39,384)</u>	<u>(2,260)</u>
Net Cash Used in Financing Activities		(39,384)	(2,260)
Net Increase/(Decrease) in Cash Held		(9,334)	8,585
Cash at the Beginning Of the Year		14,195	5,610
Cash at the End of the Year	11(a)	<u>4,861</u>	<u>14,195</u>

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

CROWN LANDS HOMESITES PROGRAM

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE

The Crown Lands Homesites Program (CLHP) is a commercial activity of the Crown Entity. This activity encompasses the development and sale of residential Crown lands homesites. Landcom conducts this activity on behalf of the Crown Entity.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, PRACTICES AND DISCLOSURES

(a) Basis of Preparation of the Accounts

The Financial Statements of the Crown Lands Homesites Program are a general purpose financial report and have been prepared, except where otherwise stated, on an accrual basis at historical cost and in accordance with applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group (UIG) Consensus Views, the requirements of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000 and the Treasurer's Directions.

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

The following is a summary of the material accounting policies adopted by the Crown Lands Homesites Program in the preparation of the financial reports. The accounting policies have been consistently applied, unless stated otherwise. All amounts are rounded to the nearest one thousand dollars and expressed in Australian currency.

(b) Revenue Recognition

Revenue has been brought to account in accordance with generally accepted accounting principles and Treasurer's Directions and comprises:

- Land sales recognised on settlement of a legally binding contract and receipt of the agreed settlement price.
- Interest recognised in accordance with the set terms and conditions as it occurs.
- Other income based on the general principle that there is a right to be compensated for services rendered and it is probable that economic benefits will result and the revenue can be reliably measured.

(c) Cost of Sales

The cost of sales includes costs of land and development costs incurred in bringing the raw land to "Developed Land".

(d) Administration and Marketing Charges

Administration and marketing expenses are reimbursed to Landcom under a management agreement with the New South Wales Treasury. Administration charge assessment is based on apportionment of total operating expenditure incurred by Landcom during the year on the ratio of number of lots developed and registered for 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.

CROWN LANDS HOMESITES PROGRAM
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, PRACTICES AND DISCLOSURES (Continued)

(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.

(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 Instrument

Financial instruments give rise to positions that are a financial asset of Crown Lands Homesites Program and a financial liability (or equity instrument) of the other party. For Crown Lands Homesites Program these include cash, receivables and payables.

In accordance with AAS 33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 12, in respect of the credit risk and interest rate risk of financial instruments. All such amounts are carried in the accounts at net fair value unless otherwise stated. The specific accounting policy in respect of each class of such financial instrument is stated hereunder.

Cash

Cash comprises cash on hand and at the bank. Interest is earned on daily bank balances and investment balances. Interest is paid directly to the Treasury.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). The carrying amount approximates the net fair value. Sales are made on varying terms, but generally on a 30 day exchange and 30 day settlement basis. Interest is charged on overdue settlement monies where agreed settlement dates are not met. The rate of interest applied during the year was 10.95%.

CROWN LANDS HOMESITES PROGRAM

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, PRACTICES AND DISCLOSURES (Continued)

(h) Financial Instrument

Payables

All trade payables are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers are settled in accordance with the policy set out in 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. 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

The Crown Lands Homesites Program returns cash, in excess of working capital of \$4 million, to the Consolidated Fund at the close of the financial year. During the year ended 30 June 2003 Crown Lands Homesites returned \$30.089 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.

	2003 \$'000	2002 \$'000
2 REVENUE FROM ORDINARY ACTIVITY		
Sale of Land	36,433	19,925
Forfeited Sales Deposits	1	8
Interest	921	596
Other	1	4
	<u>923</u>	<u>608</u>
	<u>37,356</u>	<u>20,533</u>
3 MARKETING EXPENSES		
Agents' Commission	1,053	551
Advertising and Promotion	543	250
	<u>1,596</u>	<u>801</u>

CROWN LANDS HOMESITES PROGRAM
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE

	2003 \$'000	2002 \$'000
4 OTHER EXPENSES FROM ORDINARY ACTIVITY		
Estate maintenance	33	477
Management/Support fee	1,694	469
Project cost adjustments	1	3
The Auditor-General's fee for auditing the financial reports	15	15
Other contractors	14	19
Rates	9	2
Miscellaneous	7	8
	<u>1,773</u>	<u>993</u>
Management fees represent charges by Landcom for the cost of professional and corporate support services as well as commission on sale of land.		
Project cost adjustments represent items of expense where expenditure incurred on projects was written off as land did not proceed to appropriation.		
5 RECEIVABLES		
Current		
Prepayments	2	-
Debtors	-	1,036
	<u>2</u>	<u>1,036</u>
6 INVENTORIES		
Current		
Works in Progress (at cost)	7,718	7,577
Developed Land (at cost)	2,242	1,122
	<u>9,960</u>	<u>8,699</u>
Non Current		
Works in Progress (at cost)	-	11,148
Developed Land (at cost)	135	-
Undeveloped Land (at cost)	22,078	14,465
	<u>22,213</u>	<u>25,613</u>
Total Land Held for Resale	<u>32,173</u>	<u>34,312</u>
Details are:		
Cost of acquisition	20,978	21,766
Development expenses capitalised	11,195	12,546
Carrying Amount of the Land	<u>32,173</u>	<u>34,312</u>
7 PAYABLES		
Current		
Treasury - Crown Core (Note 9)	9,366	3,209
Trade Creditors	860	396
GST payable	118	-
Retention Monies	8	6
Trust Monies	132	60
Accrued Expenses and Development Costs	45	421
	<u>10,529</u>	<u>4,092</u>

CROWN LANDS HOMESITES PROGRAM
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE

	2003 \$'000	2002 \$'000
8 PROVISIONS		
Distribution to NSW Treasury	-	9,295
Estimated Future Costs	19	23
	<u>19</u>	<u>9,318</u>

Estimated future costs represent the costs that are to be incurred on developed lots and are added to the value of land prior to land released for sale.

9 PAYABLES - TREASURY CROWN CORE CREDITORS ACCOUNT

At 1 July:

Current Liability	3,209	3,666
Non Current Liability	18,395	19,636
	<u>21,604</u>	<u>23,302</u>

Payments to Treasury	(893)	(1,698)
	<u>20,711</u>	<u>21,604</u>

At 30 June:

Current Liability	9,366	3,209
Non Current Liability	11,345	18,395
	<u>20,711</u>	<u>21,604</u>

The total liability represents the cost of Crown Lands acquired at valuation by the Crown Land Homesites Program. The current liability represents land expected to be sold within the next 12 months. An amount is payable to NSW Treasury on the sale of land which represents the land value component of the cost of sales.

10 EQUITY

Retained Profits

Balance at the beginning of the financial year	17,738	15,395
Profits for the financial year	27,494	12,201
	<u>45,232</u>	<u>27,596</u>

Transaction with Owners as Owners :

Distribution paid to NSW Treasury	(30,089)	(563)
Distribution proposed to NSW Treasury	-	(9,295)
Balance at the end of the financial year	<u>15,143</u>	<u>17,738</u>

11 CASH FLOW INFORMATION

- (a) For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash	4,861	14,195
Total Cash	<u>4,861</u>	<u>14,195</u>

CROWN LANDS HOMESITES PROGRAM
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE

	2003 \$'000	2002 \$'000
(b) Reconciliation of Net Cash Flows from Operating Activities to Profit		
Profit from Ordinary Activities	27,494	12,201
Write Down Project Costs	1	3
Change in Assets and Liabilities		
(Increase)/Decrease in Receivables	935	(896)
(Increase)/Decrease in Inventory	2,172	832
Increase/(Decrease) in Provisions	(4)	(780)
Increase/(Decrease) in Payables	(548)	(515)
Net Cash Provided by Operating Activities	30,050	10,845

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.

2003		Fixed interest rate maturing in:						
Financial Instrument	Notes	Floating Interest Rate	1 Year or less	Over 1, but not later than 2 years	Over 2, but not later than 5 years	More than 5 years	Non Interest Bearing	Carrying Amount as per the Statement of Financial Position \$'000
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial Assets								
Cash	11	4,861						4,861
Receivables	5						2	2
Total Financial Assets		4,861					2	4,863
Weighted Average Interest Rate		4.07%						
Financial Liabilities								
Payables	7, 9						21,756	21,756
Total Financial Liabilities							21,756	21,756
Net Financial Assets/(Liabilities)		4,861					(21,754)	(16,893)

2002		Fixed interest rate maturing in:						
Financial Instrument	Notes	Floating Interest Rate	1 Year or less	Over 1, but not later than 2 years	Over 2, but not later than 5 years	More than 5 years	Non Interest Bearing	Carrying Amount as per the Statement of Financial Position \$'000
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial Assets								
Cash	11	14,195						14,195
Receivables	5						1,036	1,036
Total Financial Assets		14,195					1,036	15,231
Weighted Average Interest Rate		4.15%						
Financial Liabilities								
Payables	7, 9						22,487	22,487
Total Financial Liabilities		0	0	0	0	0	22,487	22,487
Net Financial Assets/(Liabilities)		14,195	0	0	0	0	(21,451)	(7,256)

CROWN LANDS HOMESITES PROGRAM
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE

b) Credit Risk

Credit risk is the risk of financial loss arising from another party to a contract/or financial position failing to discharge a financial obligation thereunder. Crown Lands Homesites Program's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the financial position.

There is no significant concentration of credit risk arising in respect of receivables.

c) Net Fair Value

All financial instruments are carried at Net Fair Value, unless stated otherwise.

13 SEGMENT REPORTING

Crown Lands Homesites Program operates in the land development industry in New South Wales.

14 EXPENDITURE COMMITMENTS

Capital Commitments:

Aggregate capital expenditure commitment for land development contracted for at balance date but not provided for:

	2003 \$'000	2002 \$'000
Not later than one year	9,008	3,836
Later than one year but not later than five years	-	-
Later than five years	-	-
Total (including GST)	<u>9,008</u>	<u>3,836</u>

The total capital commitments above includes input tax credits of \$819 thousand (\$213 thousand for 2001/02) that are expected to be recoverable from the ATO.

Other Operating Expenditure Commitments

Aggregate other expenditure commitment for operating contracted for at balance date but not provided for:

Not later than one year	10	224
Later than one year but not later than five years	-	-
Later than five years	-	-
Total (including GST)	<u>10</u>	<u>224</u>

The total operating expenditure commitments above includes input tax credits of \$1 thousand (\$20 thousand for 2001/02) that are expected to be recoverable from the ATO.

The Crown Lands Homesites Program does not have any operating lease commitments.

**CROWN LANDS HOMESITES PROGRAM
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE**

15 CONTINGENT LIABILITIES

Currently Crown Lands Homesites Program together with other developers is seeking a Declaratory Judgement from the Land and Environment Court regarding Sutherland Shire Council's right to charge the developers an Access Road levy. If an unfavourable ruling occurs, Crown Lands Homesites Program is expected to pay approximately \$1.5 million. Also, there may be potential unquantifiable liabilities under Native Title and Aboriginal land Rights legislation, which result from actions taken in the development and sale of Crown land.

16 RELATED PARTY TRANSACTION

Any transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

END OF AUDITED FINANCIAL STATEMENTS

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 - Activities Conducted by the Department of Lands (Land Development Working Account):

- (a) presents fairly the Crown Commercial Entity - Activities Conducted By the Department of Lands (Land Development Working Account) financial position as at 30 June 2003 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).

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

The Secretary of the New South Wales Treasury'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 Department of Sustainable Natural Resources 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 of the New South Wales Treasury had failed in his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Crown Commercial Entity - Activities Conducted by the Department of Lands (Land Development Working Account),
- 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. K. Brown

P K Brown FCPA
Director of Audit

SYDNEY
2 October 2003

THE CROWN COMMERCIAL ENTITY

ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS (LAND DEVELOPMENT)

Financial Statements

For the year ended 30 June 2003

Pursuant to section 41C (1B) of the *Public Finance and Audit 1983* and the Public Finance and Audit Regulation 2000, I state that:

- (a) the accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit 1983*, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions as they relate 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
15 September 2003

**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 2003**

	Notes	2003 \$000	2002 \$000
Sales Revenue	4	10,223	23,891
Cost of sales	5(a)	5,537	20,484
Gross Profit		4,686	3,407
Expenses from Ordinary Activities			
Administration Expenses		486	554
Marketing Expenses		4	15
Other Expenses		305	1,268
	5(b)	795	1,837
Profit from Ordinary Activities		3,891	1,570
Total changes in equity other than those resulting from transactions with owners as owners	13	3,891	1,570

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 2003**

	Notes	2003 \$'000	2002 \$'000
Current Assets			
Cash Asset	6	12,087	7,018
Receivables		474	230
Inventories	7	4,360	4,409
Total Current Assets		16,921	11,657
Non-Current Assets			
Inventories	7	3,542	3,894
Total Non-Current Assets		3,542	3,894
Total Assets		20,463	15,551
Current Liabilities			
Payables	9	1,316	1,167
Provisions	10	3,000	1,000
Others	11	7,862	5,990
Total Current Liabilities		12,178	8,157
Non Current Liabilities			
Others	12	3,000	3,000
Total Non Current Liabilities		3,000	3,000
Total Liabilities		15,178	11,157
Net Assets		5,285	4,394
Equity			
Retained profits	13	5,285	4,394
Total Equity		5,285	4,394

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 2003**

	Notes	2003 \$000	2002 \$000
Cash Flows from Operating Activities			
Receipts from customers		12,455	25,412
Payments to suppliers		(6,386)	(20,103)
Net Cash Provided by /(Used in) Operating Activities	14(b)	<u>6,069</u>	<u>5,309</u>
Cash Flows from Financing Activities			
Distribution to Treasury		(1,000)	(800)
Net Cash used in Financing Activities		<u>(1,000)</u>	<u>(800)</u>
Net Increase/(Decrease) Cash held		5,069	4,509
Cash at the beginning of the Financial Year		7,018	2,509
Cash at the end of the Financial Year	14(a)	<u>12,087</u>	<u>7,018</u>

The accompanying notes form part of these financial statements.

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS
(LAND DEVELOPMENT)**

**Notes to and forming Part of the Financial Statements
For the year ended 30 June 2003**

1. THE REPORTING ENTITY

Land Development Working Account comprises the Crown commercial activities, mainly 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. The Crown Commercial Entity activities were managed by the former Department of Land and Water Conservation from 1 July 2002 to 1 April 2003. Management was transferred to the Department of Lands under Public Sector Employment and Management (General) order 2003 on 2 April 2003. 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. CHANGE IN ACCOUNTING POLICY

Prior to 1 July 2002 Crown land acquired for sale as vacant land was only recognised at the time of settlement. Following valuation of the Crown Estate (vacant Crown land) as at 30 June 2002 this land is now recognised at the time of acquisition from the Crown Entity.

3. 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 agent for other Departments in regard to 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.

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS
(LAND DEVELOPMENT)**

**Notes to and forming Part of the Financial Statements
For the year ended 30 June 2003**

(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.

(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.

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS
(LAND DEVELOPMENT)**

**Notes to and forming Part of the Financial Statements
For the year ended 30 June 2003**

(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.

4. SALES REVENUE

	2003	2002
	\$000	\$000
Revenue from sale of land (Note 3(a))	12,053	26,292
Less:		
Land sold on behalf of other Departments (Note 3(b))	(1,830)	(2,401)
Net revenue received	<u>10,223</u>	<u>23,891</u>
Analysed as follows:		
Developed land	6,794	5,471
Vacant land	2,256	16,129
Land sold to NSW Government Agencies	946	2,111
Commission on Surplus Sites Sales	227	180
	<u>10,223</u>	<u>23,891</u>

5. COST OF SALES

5(a) Cost of Sales (Note 3 (c))

Cost of land	2,545	16,986
Development costs	<u>2,992</u>	<u>3,498</u>
	<u>5,537</u>	<u>20,484</u>

5(b) Operating Expenses

Administration Expenses

Auditor's remuneration – audit of the financial report	9	9
Fees for services rendered (including departmental management fee (Note 3(d))	<u>477</u>	<u>545</u>
	486	554

Marketing Expenses

Stores	2	2
Travelling and motor running expenses	<u>2</u>	<u>13</u>
	4	15

Other Expenses

Inventory write down	-	827
Other	<u>305</u>	<u>441</u>
	305	1,268
	<u>795</u>	<u>1,837</u>

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS
(LAND DEVELOPMENT)**

**Notes to and forming Part of the Financial Statements
For the year ended 30 June 2003**

6. CASH

	2003	2002
	\$'000	\$'000
Cash at bank	12,087	7,018
	<u>12,087</u>	<u>7,018</u>

7. INVENTORIES

Land held for resale – At Cost

Current	4,360	4,409
Non-current	3,542	3,894
	<u>7,902</u>	<u>8,303</u>

Land held for resale – At Cost

Acquisition Cost	5,424	4,889
Direct Development expenses capitalised	2,478	3,414
Carrying amount of the land	<u>7,902</u>	<u>8,303</u>

The basis of inventory valuation is set out in note 3(f).

8 PLANT AND EQUIPMENT

Computers – at cost	7	7
Less: Accumulated Depreciation	<u>7</u>	<u>7</u>
	<u>-</u>	<u>-</u>

9. PAYABLES

Due to other Government Departments (Note 3b)	834	1,087
Creditors	10	15
Prepaid Income	471	65
	<u>1,315</u>	<u>1,167</u>

10. PROVISIONS

Payments to Treasury

At 1 July	1,000	800
Payments	(1,000)	(800)
Provisions	3,000	1,000
At 30 June	<u>3,000</u>	<u>1,000</u>

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS
(LAND DEVELOPMENT)**

**Notes to and forming Part of the Financial Statements
For the year ended 30 June 2003**

11. OTHERS – CURRENT LIABILITIES

	2003	2002
	\$'000	\$'000
Amount due to the Crown Entity		
Balance at 1 July	5,990	12,685
Value of land transferred in	3,079	16,403
Value of land transferred out	(106)	(6,561)
Payments made during the year	<u>(1,101)</u>	<u>(16,537)</u>
Balance at 30 June	<u>7,862</u>	<u>5,990</u>

12. OTHERS – NON-CURRENT LIABILITIES

Treasury Advance		
Interest-free working capital advance	<u>3,000</u>	<u>3,000</u>

13. EQUITY

At 1 July	4,394	3,824
Total changes in equity recognised in the statement of financial performance	3,891	1,570
Transactions with owners as owners	<u>(3,000)</u>	<u>(1,000)</u>
At 30 June	<u>5,285</u>	<u>4,394</u>

14. NOTES TO THE STATEMENT OF CASH FLOWS

14 (a) Reconciliation of Cash

For the purposes of the Statement of Cash Flow, cash includes cash held in bank. Cash at the end of the financial year as shown in the Statement of Cash Flow is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	<u>12,087</u>	<u>7,018</u>
--------------	---------------	--------------

14 (b) Reconciliation of net cash flows in operating activities to the net profit from Ordinary Activities

Profit from Ordinary Activities	3,891	1,570
Add/(Less):		
Movement in assets and liabilities		
(Increase)/Decrease in Receivables	(92)	(379)
Decrease/(increase) in Inventories	401	10,713
(Decrease)/Increase in Payables	(4)	100
Increase/(Decrease) in Others	<u>1,873</u>	<u>(6,695)</u>
Net cash provided by operating activities	<u>6,069</u>	<u>5,309</u>

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS
(LAND DEVELOPMENT)**

**Notes to and forming Part of the Financial Statements
For the year ended 30 June 2003**

15. CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2003 there were no contingent liabilities or commitments (30 June 2002 - Nil).

16. NATIVE TITLE

Under the provisions of the Commonwealth Native Title Act claims may be lodged in respect of land currently held as inventories. However, inventories are not offered for sale until such time as Native Title interests are extinguished through compulsory acquisitions or the granting of a non-claimant application by the Native Title Tribunal. The nature and value of possible claims under the provisions of the Native Title Act are complex and are not directly related to the inventory value disclosed in the financial statements. Any future compensation claim which might arise under the Commonwealth Native Title legislation in regard to land disposals is accepted by the Crown rather than the purchaser. Therefore, there is no impact on the value of inventories disclosed in the financial statements.

During this financial year no compensation was paid under the Act (Nil- 2001/2002).

17. FINANCIAL INSTRUMENTS

Financial instruments give rise to positions that are a financial asset of the Crown Commercial Entity (or equity instrument) of the other party. For the Entity, these include cash, receivables, payables and others. All such amounts are carried at net fair value unless otherwise stated.

(a) Interest rate Risk

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

**THE CROWN COMMERCIAL ENTITY - ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS
(LAND DEVELOPMENT)**

**Notes to and forming Part of the Financial Statements
For the year ended 30 June 2003**

	Weighted average effective interest rate %	Floating Interest rate \$000	Non-interest Bearing \$000	Total carrying Amount \$000
30 June 2003				
<i>Financial Assets</i>				
Cash	3.75	12,087	-	12,087
Receivables		-	474	474
Total		12,087	474	12,561
<i>Financial Liabilities</i>				
Payables		-	1,315	1,315
Other – Amount due to Crown Entity			7,862	7,862
Other – Treasury advance			3,000	3,000
Total			12,177	12,177
30 June 2002				
<i>Financial Assets</i>				
Cash	3.52	7,018	-	7,018
Receivables		-	230	230
Total		7,018	230	7,248
<i>Financial Liabilities</i>				
Payables		-	1,167	1,167
Other - Amount due to Crown Entity		-	5,990	5,990
Other - Treasury advance		-	3,000	3,000
Total			10,157	10,157

(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.

End of Audited Financial Statements