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Annual Report 2005-06
Crown Entity

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Crown Entity Annual Report 2005-06

This is the third volume of New South Wales Treasury's Annual Report for 2005-06.

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

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

The annual reports for the Office of Financial Management (OFM) and the Office of State Revenue (OSR) are included in separate volumes. The NSW Self Insurance Corporation also issues its own annual report as required by its founding legislation.

Crown Entity Charter

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

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

Administration

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

Contact Details

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

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

Contents

Financial Statements

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

Total external costs associated with the production of this annual report were $3259 (GST included).

October 2006
ISSN: 1440-2181

Highlights 2005-06

This is the Crown Entity's first financial report using the Australian Equivalents to International Financial Reporting Standards, (AEIFRS).

The 2005 financial year comparatives have been restated in accordance with the new standards.

Statement of Financial Position ($m)

	30 June 2005	30 June 2006	Variation
Total Liabilities	46,283	44,732	(1,551)
Total Assets	21,297	24,032	2,735
Net Liabilities	24,986	20,699	(4,287)

The reduction in net liabilities between 30 June 2005 and 30 June 2006 is mainly explained by:

Superannuation

The new international accounting standard AASB 119 requires the recalculation of superannuation liabilities each year using a discount rate equal to the actual long-term government bond rate as at 30 June.

Previously the discount rate equated to State Super's estimated long term investment return of 7.3% and was reviewed triennially, instead of each year.

The reduction in 2006 superannuation liabilities of $2,102m was mainly caused by an increase in the discount rate from 5.2% as at 30 June 2005 to 5.9% as at 30 June 2006.

Higher than forecast investment returns offset the increase in gross liabilities resulting from active members additional year of service.

Borrowings

Crown borrowings decreased by $479 million primarily because the fair value of Commonwealth specific purpose loans has been reassessed by discounting the expected cash flows by the relevant Commonwealth bond rate. This more than offset an increase in Crown NSW Treasury Corporation loans.

Financial Assets

The financial asset increase of $2,569 million mainly resulted from 2005-06 Crown employer contributions to the General Government Liability Management Fund and higher than assumed investment returns for the General Government Liability Management Fund and NSW Self Insurance Corporation.

Other Liabilities

The balance of the movement in net liabilities is mainly represented by increases in payables, bank overdraft and employee benefits and a reduction in deferred income.

Highlights 2005-06

Statement of Financial Performance ($m)

	2004-05	2005-06	Variation
Total Revenues	36,476	39,766	3,290
Total Expenses	40,692	35,925	(4,767)
Gain/(Loss) on Disposal of Non-Current Assets	27	(32)	(59)
Deficit	**4,188**		
Surplus		**3,809**	**7,997**

The favourable movement in the Crown result for the year is principally due to a $8,003 million decrease in superannuation expenses between 2005 and 2006.

Uneven trends are explained by changing discount rates.

When AEIFRS was adopted in 2005 the discount rate used for superannuation liabilities reduced from 7.3% to 5.2%.

This caused a significant increase in reported superannuation liability and related expenses.

In 2006 the discount rate increased from 5.2% to 5.9%, causing the liability/expense to fall.

Adoption of AASB 119 will result in reported superannuation liabilities/expenses changing significantly from year to year even if the underlying member benefit obligations do not change materially.

Recent actuarial advice confirms that general government sector superannuation liabilities are expected to be fully funded by 2030 based on current forecasts of Crown and other employers cash contributions.

Liability Management

NSW Self Insurance Corporation

The financial year 2005-06 introduced many major changes to the operation of the NSW Self Insurance Corporation (SICorp).

From 1 July 2005, the claims management of workers compensation is handled by three providers: GIO Australia Limited (GIO), Employers Mutual Limited and Allianz Australia Limited. In the past GIO was solely responsible for this role.

Also from 1 July 2005, the NSW Self Insurance Corporation Branch (SICorp Branch) of NSW Treasury commenced operation. Further information about the work and responsibility of the SICorp Branch can be found in the ***NSW Self Insurance Corporation 2005-06 Annual Report***.

Some of SICorp Branch's main functions are:

- administering the Treasury Managed Fund (TMF), which provides cover for all insurance exposures (other than compulsory third party insurance) faced by general government sector budget dependent agencies. TMF membership is also available to all other public sector agencies on a voluntary basis;
- managing liabilities from a number of closed schemes: the Governmental Workers' Compensation Account, the Transport Accidents Compensation Fund and the Pre-managed Fund Reserve;
- systems management of the TMF data warehouse;
- collecting and analysing data provided by the claims providers;
- providing reporting to member agencies; and
- monitoring the performance of claims providers.

Other key finance functions of the SICorp Branch are outsourced to the Crown Assets and Liabilities Management (CALM) branch of NSW Treasury.

The services provided by CALM are:

- cash management;
- banking;
- accounting; and
- budgeting.

Reserve Funding Policy

SICorp's 'Reserve Funding Policy' was also introduced during the 2005-06.

Established in March 2006, the Policy was created following consecutive years of:

- lower than expected claim costs due to the effectiveness of the Government's workers compensation and tort law legislative reforms;
- improved OH&S performance in major agencies; and
- above average investment returns, placing SICorp in an over-funded position.

The Policy states that reserves in SICorp are a targeted surplus of 10% of outstanding claims liabilities plus the amount of reinsurance retention that the fund would retain for a single loss.

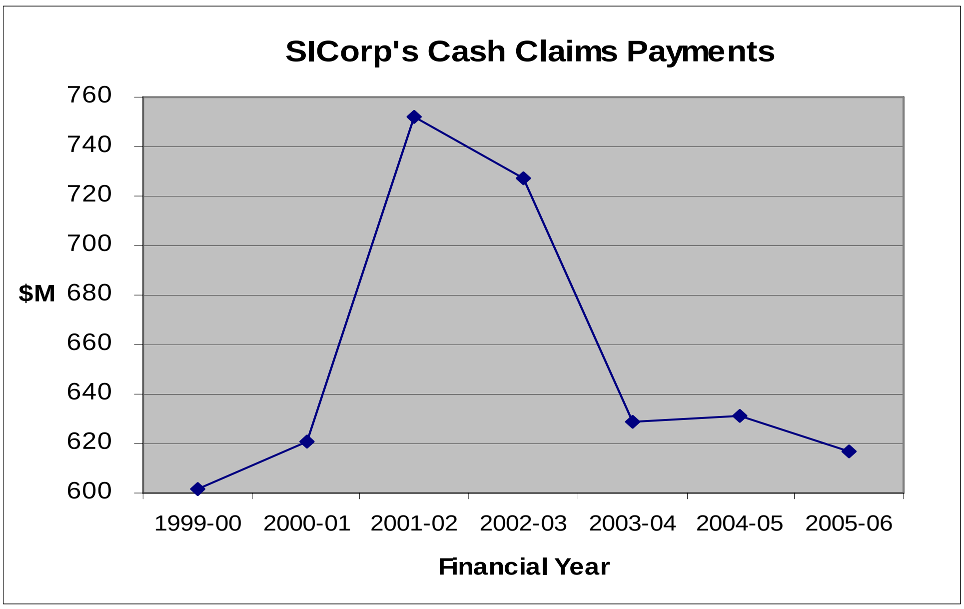
The adequacy of the fund's reserves will be reviewed annually based on the financial results as at 31 December.

The first review held at 31 December 2005 resulted in a transfer of SICorp's $1 billion above targeted surplus to the General Government Liability Management Fund during June 2006. This transfer represented a part repayment of previous NSW Government capital contributions made to SICorp.

SICorp remains in a sound financial position as at 30 June 2006 and is fully-funded with total assets exceeding gross liabilities by $925 million.

This strong result was due to:

- improvements in the current claims environment resulting in continual decline of cash claim payments due to government tort law reforms;
- better than expected investment returns; and
- a change in accounting policy in the year resulting in SICorp being treated as a self insurance entity rather than an insurance company.



Community Insurance Issues

Professional Standards Legislation

All states and territories have now enacted Professional Standards legislation.

The NSW Government is committed to continuing its work with all jurisdictions to achieve greater national consistency, with a focus on proportionate liability.

Long Term Care for the Catastrophically Injured - Lifetime Care and Support Scheme

The NSW Government announced in June 2005 a proposal for a new scheme to assist people with catastrophic injuries from motor vehicle accidents.

The Scheme was established under the *Motor Accidents (Lifetime Care & Support) Act 2006*.

The Lifetime Care and Support Authority was established on 1 July 2006 to administer the scheme.

This initiative will provide treatment, rehabilitation and attendant care to people who have been severely injured in a motor accident regardless of who was at fault in the accident.

Insurance cover is provided for children injured on or after 1 October 2006, and for adults injured on or after 1 October 2007.

HIH Liabilities

The NSW Government assumed liability for the outstanding compulsory third party claims under policies in force with HIH prior to 31 December 2000, and assumed liability for claims under home warranty insurance policies with HIH prior to 15 March 2001.

Outstanding claim liability assumed by the NSW Government was over $700 million.

In 2005-06 over $50 million in claim payments has been made to holders of former HIH compulsory third party and home warranty policies.

After payments and an actuarial revaluation, outstanding claims have fallen to $177 million.

The administrators appointed to manage the liquidation of the former HIH group believe that it will take five to eight years to complete the liquidation.

In 2005-06 the NSW Government received an initial disbursement from the liquidator of over $28 million.

Assistance to Local Councils affected by HIH Collapse

Local councils affected by the collapse of HIH continue to receive financial assistance under an agreement between the NSW and Commonwealth Governments.

In 2005-06 the NSW Government provided almost $2 million in assistance to local councils who would otherwise have been unable to meet their HIH liabilities. It is expected that further assistance payments will be made in 2006-07 to local councils affected by the collapse of HIH.

To date the NSW Government has provided financial assistance to Balranald, Ballina, Copmanhurst, Evans and Nundle Shire Councils.

Builder Warranty Catastrophe Reinsurance

Due to the insurance crisis that arose in 2001-02, the insurance companies that provided coverage to Home Building contractors were unable to obtain reinsurance protection for risks above their retention levels.

To restore stability in the builders warranty insurance market the Government agreed to underwrite builders warranty reinsurance.

Builders warranty reinsurance remains unavailable in the commercial market.

The NSW Government continues to provide this service, ensuring that insurers remain in the builders warranty market and that builders and consumers continue to be able to obtain insurance protection.

Community Insurance

The Australian Competition and Consumer Commission, ACCC believes that insurance market conditions have improved to such an extent in the past few years that there are now many insurers offering affordable public liability insurance to the Not-for-Profit sector.

The ACCC therefore recently announced that they would not be extending the operating agreement held by Community Care Underwriting Agency (CCUA).

As a result of the NSW Government's tort law reform, the cost of public liability insurance continues to reduce.

The latest report from the Australian Prudential Regulation Authority (APRA) states that premiums in NSW have reduced an average 13% in the past twelve months.

Superannuation Liability Management

Introduction of new Accounting Standards

Adoption of Australian Accounting Standard AASB 119 "Employee Benefits" required the Crown Entity to recalculate 2004-05 and 2005-06 superannuation liabilities using a discount rate equal to the actual long term government bond rate as at 30 June.

This resulted in reported superannuation liabilities and related expenses changing significantly, even though the underlying State Super scheme benefit obligations to members are unchanged. This matter is discussed in detail in Budget Paper No. 2 (2006-07), Chapter 4.

The State Super Fund has a 74% strategic allocation to growth assets.

The superannuation scheme trustee itself, SAS Trustee Corporation, will continue to report the schemes' financial position based on a discount rate which reflects forecast investment earnings.

This is because superannuation schemes will remain subject to their current accounting standard (AAS 25), which was not revised when other new Australian Equivalent International Financial Reporting Standards (AEIFRS), including AASB 119, came into effect.

The adoption of AASB 119 for accounting reporting purposes has had no impact on the level of Crown employer cash contributions required to meet the 2030 funding target, as the Government's funding plan will continue to be calculated in accordance with AAS 25.

Note 19 of the Crown Entity financial statements discloses that as at 30 June 2005 the AAS 25 Crown Entity superannuation liability figure of $17.4 billion is approximately $5.5 billion less than the AASB 119 amount of $22.9 billion.

The movement between years under AAS 25 is also less volatile, the $300 million increase in liability being due to an extra year of service for active scheme members.

Superannuation Funding Plan

Despite the significant increase in reported superannuation liabilities resulting from the introduction of the AASB 119, recent actuarial advice confirms that the general government sector superannuation liabilities are expected to be fully funded by 2030 based on current planned employer cash contribution levels

In this context, "fully funded" means that by 2030 no further employer contributions will need to be made.

The amount of reserves at that time, plus expected investment returns for the remainder of the life of the State Super schemes will be sufficient to fund future expected benefit payments.

Until the mid 1990's, superannuation was largely funded on a "pay-as-you-go" basis.

Cash employer contributions were made to only match emerging benefit payments to members.

Over the last ten years, contributions have been greater than benefit payments.

The table below demonstrates the financial benefits of the government policy of moving to full funding of superannuation liabilities

From 2007-08 onwards, Crown cash contributions to the State Super fund are significantly below actual benefits paid to members.

If the Government had adopted a "pay-as-you-go" approach, contributions would have had to equal benefits paid.

The Commonwealth Treasury issued a consultation paper in July 2006 titled "Amendment of legislative provisions governing use of pre 1 July 1988 funding credits". The principles outlined in this paper may affect NSW's entitlement to funding tax credits.

This current Commonwealth legislative uncertainty could cause a revision to proposed short term Crown employer contribution levels.

Crown Employer Contributions
Compared to Forecast Benefits Payments

	Actual	Budget	Estimate			
	2005-06 $m	2006-07 $m	2007-08 $m	2008-09 $m	2009-10 $m	Total $m
Member Benefit Payments	2,081	2,581	2,794	2,990	3,419	13,865
Contributions	2,420	2,114	869	888	907	7,198
Difference	(339)	467	1,925	2,102	2,512	6,667

Crown Finance Entity Debt Portfolio

The Crown debt portfolio is managed by NSW Treasury Corporation to meet the objectives of:

- minimising the market value of debt within specified risk constraints; and
- minimising the cost of debt.

TCorp uses an active management style that aims to add value relative to a benchmark portfolio.

During 2005-06 changes were made to the management of the debt portfolio. The benchmark modified duration was narrowed and the portfolio was split into core, strategic and tactical portfolios. This split will improve management of the debt portfolio, particularly as it will improve the transparency of TCorp's debt management activities.

The memorandum of understanding between Treasury and TCorp governs the management of the portfolios. It includes a requirement to adhere to finance expense budget allocations, which are agreed at the beginning of each financial year. The General Government Debt Management Committee consisting of representatives of TCorp, Treasury and the Roads and Traffic Authority meets quarterly to monitor debt strategy.

Public Authorities (Financial Arrangements) Act 1987

The *Public Authorities (Financial Arrangements) Act 1987* (PAFA Act) outlines regulatory controls to manage risks resulting from government agencies' financial arrangements.

It regulates the powers of government agencies to borrow, use derivatives, invest, use funds managers and enter into joint ventures or joint financing arrangements.

The Crown Finance Entity, is responsible for the Act's administration.

The PAFA Act has been updated on an incremental basis since 1987 to reflect particular changes in financial risk management.

A broad review of the PAFA Act framework has commenced to refine the risk management measures contained in the Act.

Deloitte was reappointed in 2005-06 as the Crown Finance Entity's PAFA risk management advisor.

Deloitte reviews the risk management policies and procedures of selected agencies based on an assessment of their risk levels.

Agencies with large borrowing/ investment exposures are reviewed by Deloittes. Crown Finance Entity reviews the others, which are mostly general government sector budget dependent agencies.

The reviews focus on determining the robustness of the agencies' risk management framework.

Crown Finance Entity surveys are distributed to the selected agencies to examine the adequacy of agencies' staff, computer systems, risk management systems, internal reporting procedures and policy documents.

This table shows PAFA risk reviews undertaken by Deloitte and Treasury for the year ended 30 June 2006.

**PAFA Risk Review Program
Number of Reviews**

Reviewed by	2005-06
Consultant: Mainly Public Trading Enterprises and Public Financial Corporations	27
Treasury: Mostly General Government agencies	19

advisor continuously refine the agency review methodologies. The aim is to ensure the effectiveness of the PAFA review process and the Government's financial risk management framework.

Financial Asset Management

The Role of Assets in Financial Management

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

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

Assets are also held in the TMF to ensure that the Government's self-insured liabilities can be met as claims are made.

Assets are accumulated to ensure that taxpayers at the time the liability is incurred meet the cost of the liability, rather than place undue burden on future generations.

The Government manages the level of its financial assets to achieve the key fiscal targets in the *Fiscal Responsibility Act 2005*, namely:

- reducing the general government sector's net financial liabilities to 6% of gross state product by 2015, and
- eliminating total State sector unfunded superannuation liabilities by 30 June 2030.

Investment Returns – SICorp

As at 30 June 2006, SICorp's investment (inclusive of cash and cash equivalents) total $5.25 billion. Investments of the TMF account for $5.03 billion (95.8 percent) of this total.

The strategic asset allocation of TMF was reviewed and amended during the year following a review by asset consultants Intech Investment Consultants. Steps were taken to transition TMF's investments from an allocation of 60 percent bonds and 40 percent shares to 50 percent bonds and 50 percent shares by 30 June 2007.

Further information on NSW Self Insurance Corporation is available in its Annual Report, published for the first time this year.

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

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

TMF's Investment Asset Class Returns

Asset Class	2005-06 (%)	2004-05 (%)
Bonds	2.97	7.96
Cash	5.70	5.58
Australian shares	23.76	25.56
Australian Indexed shares	23.66	26.14
International shares	21.64	(1.53)
International Indexed shares	20.10	(0.15)
Listed property	18.50	18.76
Average	10.90	9.37

TMF Portfolio Investment Returns

Year Ended 30 June	Growth (% p.a.)
2002	1.53
2003	3.80
2004	9.66
2005	9.37
2006	10.90
Average 2 Years	10.14
Average 3 Years	9.98
Average 5 Years	7.05

Investment Returns - State Super

State Super's strategic asset allocation of 74.5% growth assets, 25.5% defensive assets remains within a margin of plus or minus 5%.

The Fund's asset allocations are reviewed formally at least once a year and are constantly monitored during the year.

State Super Investment Asset Class Returns

	2005-06 %	2004-05 %
Australian Equities	37.5	34.0
International Equities	27.9	25.9
Unlisted Equities	1.9	3.2
Mature Infrastructure	2.6	2.6
Property		
- direct	5.5	5.1
- listed property trusts	1.3	3.5
global listed property securities	2.0	
Australian Fixed Interest	9.7	11.1
International Fixed Interest	6.7	7.4
Cash	4.9	7.2
Average	**15.8**	**13.0**

State Super Portfolio Investment Returns

Year Ended 30 June	Investment Return % pa
2002	-7.0
2003	-1.7
2004	13.5
2005	13.0
2006	15.8
Average 2 Years	14.4
Average 3 Years	14.1
Average 5 Years	6.3

Investment Returns – Liability Management Ministerial Corporation (LMMC)

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

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

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

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

The Crown 2005-06 employer contributions to defined benefit superannuation schemes were invested through the GGLMF.

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

At 30 June 2006 the balance of the Fund was $6,729 million, including contributions during 2005-06 of $2,420 million from the Crown Finance Entity and investment income of $259 million.

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

Crown Finance 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 refunds where appropriate.	Payment of petrol and alcohol subsidies, and remissions and refunds, under certain circumstances, in regard to State taxation and other Crown revenues.
Other Asset and Liability Management Activities	▪ To provide funding for assumed Crown superannuation costs and past service accrued liabilities. ▪ To provide asset/liability management services for cash, superannuation, insurance and other liabilities.	Periodic payments towards costs of accrued defined benefit employer superannuation liabilities and Crown employer superannuation guarantee charge contributions. Compensation payments for risks not covered under insurance arrangements, working capital advances, interest subsidies and State Bank loan indemnity claims.
Natural Disasters Relief	▪ To alleviate hardship suffered by individuals as a result of bushfires, floods, drought and other natural disasters. ▪ To restore community assets damaged by natural disasters.	Provision of funds to various departments and authorities (including local government) involved in administering joint Commonwealth/State schemes.

Crown Entity Undertakings

Consolidated Fund

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

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

Crown Finance Entity

As detailed in program objectives and descriptions (refer page 14).

NSW Self Insurance Ministerial Corporation

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

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

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

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

Liability Management Ministerial Corporation

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

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

Electricity Tariff Equalisation Ministerial Corporation

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

Crown Lands Homesites Program

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

Land Development Working Account

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

Crown Property Portfolio

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

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

Crown Leaseholds

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

It reports on the value of vacant Crown land.

New South Wales
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Crown Entity

Consolidated Financial Report
for the year ended
30 June 2006

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

CROWN ENTITY

To Members of the New South Wales Parliament

Qualified Audit Opinion

In my opinion, except for the effects of such adjustments, if any, as might have been required had the limitation discussed in the qualification paragraph below not existed, the financial report of the Crown Entity:

- presents fairly the Crown Entity's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with sections 45E of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

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

Qualification

As disclosed in Note 2 Summary of Significant Accounting Policies, the Crown Entity is undertaking a project to identify and value the Crown reserves it controls under the *Crown Lands Act 1989*. Until that project is completed, I am unable to obtain all the information I require to form an opinion on the value of those Crown reserves that should be recognised as land in the financial report.

My audit report for the year ended 30 June 2005 referred to the same matter.

Scope

The Financial Report and the Secretary of Treasury's Responsibility

The financial report comprises the consolidated operating statement, consolidated statement of changes in equity, consolidated balance sheet, consolidated cash flow statement and the accompanying notes to the financial statements of the Crown Entity, for the year ended 30 June 2006.

The Secretary of Treasury is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Secretary of Treasury in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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 Treasury had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

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

Audit Independence

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

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

A T Whitfield
Deputy Auditor-General

SYDNEY
20 October 2006

CROWN ENTITY

CONSOLIDATED FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2006

STATEMENT BY DEPARTMENT HEAD

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

(a) The accompanying consolidated financial report exhibits a true and fair view of the financial position of the Crown Entity as at 30 June 2006 and the transactions for the year then ended; and

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

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

John Pierce
Secretary
20 October 2006

CROWN ENTITY

CONSOLIDATED OPERATING STATEMENT
for the year ended 30 June 2006

	Notes	2006 $000	2005 $000
Expenses Excluding Losses			
Superannuation - defined benefit plans		(2,059,528)	5,943,016
Long service leave		399,139	453,344
Maintenance		19,128	8,289
Depreciation and amortisation		43,412	56,472
Grants and subsidies	3(a)	93,139	94,779
Finance costs	3(b)	1,048,323	1,014,391
Insurance claims	3(c)	418,550	825,061
Recurrent appropriations	35	32,391,869	28,918,083
Capital appropriations	35	2,695,648	2,476,937
Other	3(d)	875,407	902,108
Total Expenses		**35,925,088**	**40,692,480**
Revenue			
Taxation, fines and regulatory fees	4(a)	16,601,992	15,850,019
Commonwealth grants	4(b)	17,895,429	16,072,110
Financial distributions	4(c)	1,689,720	1,419,423
Sale of goods and services	4(d)	1,128,069	1,131,164
Investment income	4(e)	996,684	791,960
Share of profit of an associate	6	73,791	85,562
Other	4(f)	1,380,199	1,126,437
Total Revenue		**39,765,884**	**36,476,675**
Gain/(Loss) on Disposal of Non-Current Assets	5	(32,192)	27,565
SURPLUS /(DEFICIT) FOR THE YEAR		**3,808,603**	**(4,188,240)**

The accompanying notes form part of these financial statements.

CROWN ENTITY

CONSOLIDATED STATEMENTOF CHANGES IN EQUITY
for the year ended 30 June 2006

	Notes	2006 $000	2005 $000
CHANGES IN EQUITY - TRANSACTIONS WITH OWNERS AS OWNERS			
Employee entitlement liability - Admin restructure		-	(160,000)
Investment transferred in		137,127	-
Capital restructure		49,000	76,000
Other net increases/(decreases) in equity		2,321	(410)
		188,448	(84,410)
CHANGES IN EQUITY - OTHER THAN TRANSACTIONS WITH OWNERS AS OWNERS			
Net increase / (decrease) in property, plant and equipment asset revaluation reserve		200,526	1,358,023
Transfer of asset revaluation reserve for assets held for sale		-	(14,880)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		**388,974**	**1,258,733**
Surplus / (deficit) for the year		3,808,604	(4,188,240)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR		**4,197,578**	**(2,929,507)**
EFFECT OF CHANGES IN ACCOUNTING POLICY			
AASB 139/TC 06-04 Financial Instruments and or first time adoption changes and correction of errors		89,377	(5,615,325)
Property, plant and equipment transfer out - admin restructure		200	4,220
Transfer of asset revaluation reserve for Assets Held for Sale		-	14,880
TOTAL CHANGES DUE TO CHANGES IN ACCOUNTING POLICY		**89,577**	**(5,596,225)**
Accumulated Funds		4,097,675	(9,860,600)
Reserves		189,480	1,334,868
TOTAL CHANGES IN EQUITY		**4,287,155**	**(8,525,732)**

The accompanying notes form part of these financial statements

CROWN ENTITY

CONSOLIDATED BALANCE SHEET
as at 30 June 2006

	Notes	2006 $000	2005 $000
ASSETS			
Current Assets			
Cash and cash equivalents	28	949,770	645,970
Financial assets at fair value	8	1,500,121	-
Other financial assets	7	-	99
Derivatives	18	301,881	-
Advances repayable to the Crown	9	151,294	88,281
Inventories	10	17,467	24,022
Receivables	11	2,426,044	2,066,380
Assets held for sale	13	24,290	25,245
Other		-	1,670
Total Current Assets		**5,370,867**	**2,851,667**
Non-Current Assets			
Property, plant and equipment	12	6,606,561	6,578,171
Investments in an associate	6	752,719	582,401
Financial assets at fair value	8	10,172,258	-
Other financial assets	7	-	9,103,124
Advances repayable to the Crown	9	926,931	1,548,162
Inventories	10	3,751	3,866
Receivables	11	176,833	190,312
Investment property	14	15,718	15,713
Intangible assets	15	6,560	2,090
Other		180	421,688
Total Non-Current Assets		**18,661,511**	**18,445,527**
Total Assets		**24,032,378**	**21,297,194**
LIABILITIES			
Current Liabilities			
Payables	16	443,234	249,350
Bank overdraft	28	2,488,809	2,156,786
Borrowings	17	1,481,682	2,804,231
Derivatives	18	302,110	-
Unfunded superannuation	19	-	103,000
Employee benefits and other provisions	20	2,747,911	2,614,951
Provision for outstanding insurance claims	21	672,339	683,159
Deferred Income	32	21,920	4,975
Other	33	154,880	152,206
Total Current Liabilities		**8,312,885**	**8,768,658**
Non-Current Liabilities			
Payables	16	70,026	86,494
Borrowings	17	8,896,536	8,053,470
Unfunded superannuation	19	22,928,806	24,927,100
Employee benefits and other provisions	20	279,097	271,875
Provision for outstanding insurance claims	21	3,889,398	3,913,889
Deferred Income	32	235,959	110,536
Other	33	118,820	151,477
Total Non-Current Liabilties		**36,418,642**	**37,514,841**
Total Liabilities		**44,731,528**	**46,283,499**
Net Assets/(Liabilities)		**(20,699,149)**	**(24,986,305)**

CROWN ENTITY

CONSOLIDATED BALANCE SHEET
as at 30 June 2006

	Notes	2006 $000	2005 $000
EQUITY			
Reserves	22	2,394,829	2,205,348
Retained deficit	22	(23,093,978)	(27,191,653)
Total Equity		**(20,699,149)**	**(24,986,305)**

The accompanying notes form part of these financial statements.

CROWN ENTITY

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 June 2006

	Notes	2006 $000	2005 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee related		(277,092)	(1,277,376)
Grants and subsidies		(160,157)	(174,946)
Borrowing costs		(848,228)	(722,587)
Recurrent appropriation	35	(32,391,870)	(28,918,083)
Capital appropriation	35	(2,695,647)	(2,476,936)
Other		(2,032,275)	(1,882,205)
Total Payments		**(38,405,269)**	**(35,452,133)**
Receipts			
Taxation, fines and regulatory fees		16,787,294	15,811,435
Sale of goods and services		1,286,270	1,326,691
Commonwealth grants	35	17,895,803	16,072,110
Interest received		1,004,031	710,176
Dividend from an associate		40,600	63,800
Financial distribution from non-budget sector		1,359,920	1,357,226
Other		1,676,123	1,041,376
Total Receipts		**40,050,041**	**36,382,814**
NET CASH FLOWS FROM OPERATING ACTIVITIES	29	**1,644,772**	**930,681**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		(2,302,966)	(2,283,470)
Purchase of property, plant & equipment		(101,417)	(140,019)
Advances made		(42,026)	(139,036)
Other		(804)	(1,991)
Proceeds from sales of investment		209,463	(45,887)
Proceeds from sales of property, plant & equipment		64,426	237,300
Advance repayments received		127,850	141,982
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(2,045,474)**	**(2,231,121)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings and advances		579,290	1,125,937
Repayment of borrowings and advances		(255,811)	(331,864)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**323,479**	**794,073**
NET INCREASE/(DECREASE) IN CASH		**(77,223)**	**(506,367)**
Opening cash and cash equivalents		(1,510,816)	(1,080,449)
Proceeds of capital restructure	35	49,000	76,000
CLOSING CASH AND CASH EQUIVALENTS	28	**(1,539,039)**	**(1,510,816)**

The accompanying notes form part of these financial statements

CROWN ENTITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

1. CROWN ENTITY INFORMATION

Reporting Entity

The Crown Entity is a government department for financial reporting purposes under section 45A(1A) of the *Public Finance and Audit Act 1983*. It is controlled by the Treasurer, but is not a government department or a statutory authority under the *Public Finance and Audit Act 1983*. As a separate reporting entity, it reports on the following Crown finance and property transactions:

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

- the Crown debt portfolio
- the Crown superannuation agency group
- long service leave liability for certain general government budget dependent agencies now in the non-budget dependent sector.

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

Consolidated Fund
The Consolidated Fund collects state taxation, Commonwealth grants and financial distributions from the non-budget dependent agencies. Payments comprise recurrent and capital appropriation payments to budget dependent agencies. Note 35 details the Fund's receipts and payments.

Other consolidated Crown entities are:

NSW Self Insurance Corporation (SICorp)
SICorp operates under the *NSW Self Insurance Corporation Act 2004*. It is a statutory body that largely provides self-insurance coverage for general government budget dependent agencies.

SICorp includes the:

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

SICorp was previously called the Insurance Ministerial Corporation. Since 1 July 2005, the funds have been managed by a combination of GIO General Limited, Allianz Australia Insurance Limited and Employers Mutual Limited.

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

Land Development Working Account
This entity develops and sells Crown land for residences in country NSW and for commercial purposes statewide.

Crown Property Portfolio
This entity manages the subleasing of multiple occupancy buildings to public sector agencies, heritage properties and industrial sites.

Electricity Tariff Equalisation Ministerial Corporation
This corporation manages the Electricity Tariff Equalisation Fund (ETEF) which oversees purchase-cost risk management for electricity suppliers of small retail customers.

Crown Leaseholds
This entity collects Crown land purchase instalments and generates revenue from leases, licences and permissive occupancies. It reports on the value of vacant Crown land.

Liability Management Ministerial Corporation (LMMC)
This corporation manages the General Government Liability Management Fund (GGLMF). The Fund invests accumulated Crown funds pending the payment of Crown employer contributions to the SAS Trustee Corporation superannuation fund.

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

Notes 25, 26 and 27 detail the contingent liabilities and assets and/or guarantees for specific activities. The Report on State Finances lists State sector contingencies/guarantees.

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

This financial report has been authorised for issue by the Secretary on 20 October 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

This consolidated financial report is a general purpose financial report which meets all Australian Accounting Standards (AASBs), including:

- Australian equivalents to International Financial Reporting Standards (AEIFRS)
- all requirements of the *Public Finance and Audit Act 1983*
- the Public Finance and Audit Regulation 2005
- Treasury Accounting Policy Statements.

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

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

- investment properties
- land and building
- derivative financial instruments
- held-for-trading investments
- available-for-sale investments.

Which have been measured at the lower of the carrying amount or fair value less costs to sell.

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

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

STATEMENT OF COMPLIANCE

This is the Crown Entity's first financial report using AEIFRS and it has restated comparatives for the year ended 30 June 2005. Using the exemption in AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards, the Crown Entity did not apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement to the comparative period.

Note 38 details reconciliation of AEIFRS equity and operating results for 30 June 2005 to the 2004-05 financial report balances, and at the AEIFRS transition point. It also discusses the impact of adopting these standards.

The following Accounting Standards are being early adopted. Any initial impacts on first time adoption are detailed in Note 38.

AASB Amendment	Affected Standards
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement*
2005-6	AASB 3*: Business Combinations*

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

Crown Entity did not use the following recent Australian Accounting Standards that are not yet effective:

AASB Amendment	Affected Standards
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-5	AASB 1 *First-time adoption of AIFRS* AASB 139 *Financial Instruments: Recognition and Measurement*
2005-9	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-10	AASB 7 *Financial Instruments: Disclosures.*
2006-1	AASB 121 *The Effects of Changes in Foreign Exchange Rates*

BASIS OF CONSOLIDATION

The consolidated financial report is the financial report of the Crown Entity and the entities that it controls at 30 June each year. Each Crown entity prepares its own financial report using consistent accounting policies. The consolidated financial report does not show inter-entity transactions and balances. Consolidation occurs on the date when the Crown Entity or its entities are given control. Consolidation stops on the date when control is transferred elsewhere.

EXPENSES

Employee Benefits and Other Provisions

Wages, salaries, annual leave and sick leave

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

- the Department of Commerce
- the Department of Lands
- Landcom
- NSW Treasury Corporation (TCorp)
- NSW Treasury.

SICorp is administered by GIO General Limited, Allianz Australia Insurance Limited, and Employers Mutual Limited.

The Crown Finance Entity is staffed by the Crown Asset and Liability Management Branch in the NSW Treasury. The Crown Entity pays these staffing costs.

Superannuation

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

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

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

In calculating the liability, forecasts are made for:

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

With the introduction of the AEIFRS in 2005-06, the scheme actuary uses the after tax long-term Commonwealth Government bond rate (plus 10 basis points to recognise the extra long term nature of superannuation liabilities). The new standard for employee benefits (AASB 119) requires the discount rate to be revised each year and tied to the actual long term Commonwealth Government bond rate as at 30 June.

The pension accounting costs are accrued using the projected unit credit method. The cost of pensions is charged to operations to spread the cost over the service lives of current and past employees. Independent actuaries do a full valuation of the plans every three years. Actuarial gains and losses are immediately recognised in profit and loss in the year when they occur.

In 2004-05, superannuation expense included defined contribution payments to the First State Superannuation Fund for budget dependent agencies. From 1 July 2005, these costs were directly met by the relevant department.

Long service leave

Although 95 per cent of long service leave (LSL) liability is classified as current, the total entitlement is not expected to be paid in the next 12 months for both budget and non-budget dependent agencies.

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

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

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

The Crown Entity recognises the LSL liability for non-budget dependent agencies using the short-hand measurement techniques of AASB 119 Employee Benefits (G6). This nominal method measures the liability as the present value of future payments anticipated for the employee services that the Crown has taken on at the reporting date. It estimates the long service leave liability for all employees with 5 and more years service.

It is not materially different from the estimated present value as confirmed by an actuary.

Depreciation of Physical Non-Current Assets

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

Land is not depreciated. Depreciation on buildings is 2.5 per cent, motor vehicles 12.5 per cent, and computer equipment 33.3 per cent.

Amortisation of Physical Non-Current Assets

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

Grants and Subsidies

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

An exception is the Snowy Scheme Reform payments to the Joint Government Enterprise established by the Commonwealth, NSW, Victorian and South Australian governments to increase the Murray and Snowy river flows. The Victorian Government is the fund manager.

Finance Costs

Borrowing costs are recognised as an expense in the period in which they are incurred

Goods and Services Tax

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

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

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

Recurrent and Capital Appropriations and Contributions from Other Bodies

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

An exception is year-end unspent appropriations where the amount is repaid to the Fund in the following financial year. The Fund accounts for unspent appropriations then as receivables rather than expenses. Agencies account for unspent appropriations as liabilities, not as revenue.

REVENUE

Revenues are recognised as probable economic benefits to the Crown Entity that can be reliably measured. It uses the following criteria to identify revenue:

Taxation, Fines and regulation fees

The Crown Entity recognises state taxation by:

- measuring government-assessed revenues when assessments are issued, mainly for land tax
- recognising taxpayer-assessed revenues when the tax collecting agency receives the funds, such as for payroll tax and stamp duty. It recognises additional revenues after reviewing taxpayers returns
- recognising fees when the cash is received, such as RTA fees
- measuring and recognising fines when issued, such as court fines. It recognises additional revenue from overdue fines
- recognising all other infringements when the cash is received, such as Infringement Processing Bureau fines.

Commonwealth Grants

Commonwealth grants help NSW meet expenditure responsibilities. Specific purpose grants are for both recurrent and capital purposes. Grants are recognised as revenues when cash is received, except for a Commonwealth-documented prepayment where the Crown Entity recognises the receipt as a liability in the financial statements.

Financial Distributions

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

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

Sales of goods and services

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

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

Investment income
Year ended 30 June 2006
Revenue is recognised as interest accrued by using the effective interest method. The Crown Entity calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. It uses the effective interest rate.

This exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the asset.

Year ended 30 June 2005
Revenue is recognised when the right-to-receive payment is established.

ASSETS

Cash and Cash Equivalents

Cash and short-term deposits in the Statement of Financial Position comprise:

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

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

Financial assets

Year ended 30 June 2006.
AASB 139 gives the scope for classifying financial assets at:

- fair value through profit or loss
- loans and receivables,
- held-to-maturity investments
- available-for-sale investments.

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

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

(i) Financial assets at fair value through profit and loss

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

(ii) Held-to-maturity investments

When the Crown Entity intends to hold non-derivative financial assets with fixed or determinable payments and fixed maturity, to maturity, it classifies them as held-to-maturity. This does not include investments that it intends holding for an undefined period.

Held-to-maturity investments, such as bonds, are subsequently measured at amortised cost. This is the initially recognised amount, less principal repayments, plus or minus the cumulative amortisation. The Crown Entity calculates this using the effective interest method. It measures the difference between the initially recognised amount and the maturity amount and it includes:

- all contractual paid or received fees and points that are an integral part of the effective interest rate
- transaction costs and all other premiums and discounts.

For investments carried at amortised cost, gains and losses are recognised in the profit and loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest method. When they are derecognised or impaired, gains and losses are recognised in profit or loss, and through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that can be sold or are not classified under points 1 to 3 above. After being initially recognised, they are measured at fair value, with gains or losses recognised as a separate component of equity until derecognition or impairment occurs. Then, the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The Crown Entity determines fair value of actively traded investments by the quoted financial market-bid prices at the close of business on the Statement of Financial Position date. Ways that it determines the fair value of investments with no active market include:

- recent arm's length market transactions
- the current market value of a substantially similar instrument
- discounted cash flow analysis
- option pricing models.

Year ended 30 June 2005
Financial instruments are a financial asset of either the Crown Entity or its counterparty and a financial liability of the other party. These include:

- cash at bank
- receivables
- investments
- creditors
- finance leases
- derivative financial instruments, such as interest rate swap contracts, forward foreign exchange contracts and foreign currency option contracts.

All classes of financial assets are carried at cost or market value except for derivative financial instruments.

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

Derecognition of financial assets

Year ended 30 June 2006
The Crown Entity derecognises a financial asset including a part of an asset, or a part of a group of similar assets, when its right to receive cash flows from the asset has expired. It can retain this right and agree to pay all cash flows without material delay to a third party in a pass-through arrangement. Or it can transfer its right by either substantially transferring all risks and rewards or its control of the asset.

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

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

Year ended 30 June 2005
The Crown Entity derecognises financial assets when it no longer has the right to receive cash, or is obliged to deliver cash or other assets.

Derecognition of Financial liabilities
Year ended 30 June 2006
The Crown Entity derecognises a financial liability when its obligation to it is discharged, cancelled or expires.

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

Year ended 30 June 2005
The Crown Entity derecognises financial liabilities when it no longer has the right to receive cash, or is obliged to deliver cash or other assets.

Impairment of financial assets

Year ended 30 June 2006
The Crown Entity assesses if a financial asset or group of financial assets is impaired at each reporting date.

(i) Financial assets carried at amortised cost

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

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

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale investments

If the Crown Entity finds that an available-for-sale investment is impaired, it transfers the difference between its cost, net of any principal repayment and amortisation, and its current fair value, less any previously recognised impairment loss in profit or loss, from equity to the Operating Statement. Impairment loss reversals for equity instruments classified as available for sale are not recognised in profit. The Crown Entity reverses any debt instrument impairment losses through profit or loss if it finds that the instrument's increase in fair value occurred after it recognised the impairment loss in profit or loss.

Derivative financial instruments and hedging

The Crown Entity has applied the option available under AASB 1 and adopted AASB 132 and AASB 139 from 1 July 2005. Following are the relevant accounting policies for derivative financial instruments and hedging for the 2004-05 and 2005-06 financial years.

Year ended 30 June 2006
The Crown Entity uses derivatives such as interest rate swaps to hedge risks associated with interest rate fluctuations. These instruments are initially recognised at fair value on the start date of a derivative contract then subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any changes in their fair value, except for any cash flow hedges, are taken directly to the Operating Statement.

It sets the fair value of derivatives by referring to the market value for similar instruments. The Crown Entity does not use hedge accounting because the transactions are immaterial.

Year ended 30 June 2005
The Crown Entity enters into derivatives to reduce the risks of interest rate fluctuations on its debt portfolio. It does not recognise interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.

Inventories

Inventories are valued at the lower of cost and net realisable value.

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

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

Receivables

Year ended 30 June 2006
Taxes, fees and fines are recognised and carried at the original levied amount less an allowance for any uncollectible amounts.

The Crown Entity makes an allowance for doubtful debts on sound evidence that it cannot collect a debt. It writes off bad debts when it identifies them.

Year ended 30 June 2005
Taxes, fees and fines were recognised and carried as originally levied, less a provision for uncollected debts. The Crown Entity estimated doubtful debts when collecting the full debt was no longer probable. Bad debts were written off as incurred.

Assets held for Sale

Where non-current assets will be mainly recovered through immediate and highly likely sale, and not through continuing use, they are classified as held for sale in the Statement of Financial Position.

Such assets are measured at the lower of their carrying amount when classified, or their fair value less costs to sell.

Property, Plant, and Equipment

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

Land and buildings are measured at fair value less accumulated depreciation on buildings and any impairment losses recognised after their revaluation date.

Revaluations

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

The fair value of Crown land is determined using Treasury Policy TPP05-3 The Valuation of Physical Non-Current Assets at Fair Value, which is in line with AASB 116 Property, Plant and Equipment. This fair value valuation method does not differ from the previous method used in the public sector.

The Crown Entity revalues leasehold land yearly. This includes perpetual leases, such as term leases, permissive occupancies and enclosure permits. It estimates fair value by discounting cash flows and by considering the lease conditions.

It revalues vacant Crown land every 5 years so that the carrying value of each asset in the class does not differ materially from its fair value at the reporting date.

Any revaluation increment is credited to the asset revaluation reserve in the equity section of the Statement of Financial Position, except where it reverses a revaluation decrease of the same class of assets that it previously recognised in the Operating Statement. It then recognises the revaluation increment in the Operating Statement.

Any revaluation decrease is recognised in the Operating Statement, except where it reverses a revaluation increase of the same class of assets that it previously recognised in the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets. Where the Crown Entity revalues an asset, it restates the gross amount of the asset and the related accumulated depreciation of the class of the revalued assets. When it disposes of an asset, it transfers any of the asset's revaluation reserve to retained earnings.

Derecognition and disposal

The Crown Entity derecognises a property, plant and equipment item when disposing of it, or when no future economic benefit is expected of it. It calculates any gain or loss on asset derecognition as the difference between the net disposal proceeds and the asset's carrying amount. This appears in the Operating Statement in the year the asset is derecognised.

Leased Assets

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

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

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

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

Impairment of assets

As detailed in TPP5-03, where an asset of a not-for-profit entity does not belong to a cash generating unit, it cannot be impaired under AASB 136, unless selling costs are material. In effect this exempts most assets from impairment testing.

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

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

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

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

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

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

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

Investment in associate

The Crown Entity recognises the NSW Government's 58 per cent investment in Snowy Hydro Limited (SHL) as an associate. It accounts for this using the equity method of accounting. This is due to the Crown's significant influence and because the investment is not a subsidiary or a joint venture.

With the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus acquisition. This changes for the associate's share of net assets. The Crown Entity then determines whether it needs to recognise any extra impairment loss of the net investment in the associate.

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

Where a change is recognised directly in the associate's equity, the Crown Entity recognises its share in the Statement of Changes in Equity.

The associate and the Crown Entity have the same reporting dates and accounting policies for like transactions and events.

Investment Property

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

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

The Crown Entity derecognises the properties when:

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

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

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

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

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

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

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

Crown Reserves

There are approximately 33,000 Crown reserves in New South Wales. The NSW Government manages some of these reserves and local governments and trusts manage others.

A project is in progress to identify and value Crown reserves that are 'controlled' by the NSW Government, and therefore should be recognised as assets of the NSW Government in the Total State Sector Accounts.

To determine which entity controls the Crown reserves requires an evaluation of complex requirements under the Crown Lands Act 1989 and the Local Government Act 1993 and the interaction of these legislative requirements with the concept of control under accounting standards, including AASB127 Consolidated and Separate Financial Statements, AAS31 Financial Reporting by Governments and AAS27 Financial Reporting by Local Governments and AASB117 Leases.

Evaluation to date has not been conclusive and further investigation is necessary to determine the extent to which Crown reserves should be recognised in the Crown Entity Accounts. In finalising this evaluation, current proposed amendments to the current standards will also be taken into account.

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

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

Intangible assets

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

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

Policies for the Crown Entity's intangible assets

Assets	Useful life	Amortis-ation method	Internally generated or acquired	Impair-ment testing
Sydney Opera House car park lease	50 years	Straight-line	Right acquired	Where an indicator exists
Computer software	5 years	Straight-line	Acquired	Where an indicator exists

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

LIABILITIES

Payables

Year ended 30 June 2006
Payables are carried at amortised costs and represent liabilities for goods and services provided but not paid for by the year's end. The Crown Entity must make future payments for goods and services even if it has not been billed for them.

Year ended 30 June 2005
Liabilities are recognised for future payments for goods and services even if the Crown Entity has not been billed for them.

Borrowings

Year ended 30 June 2006
The Crown Entity initially recognises all loans and borrowings at the fair value of the consideration received, less directly attributable transaction costs. After this, it then uses the effective interest method to measure interest-bearing loans and borrowings at amortised cost. Gains and losses are recognised in the Operating Statement when the liabilities are derecognised.

Year ended 30 June 2005
Borrowings are funds raised from:

- TCorp's domestic and overseas borrowings
- loans by the Commonwealth for the NSW Government under the previous Financial Agreement
- advances by the Commonwealth for housing and other specific purposes.

The Crown Entity carries borrowings at current capital value, which is face value less the unamortised premium. It treats discount premiums as finance charges and amortises them over the term of the debt. It includes gains and losses from foreign exchange and debt restructuring transactions in the Statement of Financial Performance when they occur. It recognises borrowing costs as expenses when incurred.

Provisions

Provisions are recognised for a current obligation due to a past event where it is likely that the Crown Entity must commit economic resources and can reliably estimate the cost. This obligation can be legal or constructive. Where it is certain that some or all of a provision will be reimbursed, as in an insurance contract, the reimbursement is recognised as a separate asset – but only when the reimbursement is virtually certain. A provision expense is presented in the Operating Statement, net of any reimbursement.

Where there is a material effect due to the time value of money, the Crown Entity discounts a provision using a current pre-tax rate that reflects the specific liability risk.. With discounting, the increase in the provision because of time passing is recognised as a borrowing cost.

Outstanding Insurance Claims

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

- outstanding claims
- estimated unreported claims
- settlement costs.

The Crown Entity calculated outstanding claims under AASB 1023 General Insurance Contracts until 30 June 2005. From 1 July 2005, it has used AASB 137 Provisions, Contingent Liabilities and Contingent Assets. This reduced the outstanding claims by $297 million in 2004-05. This also removed the previous difference from the figures consolidated at the whole-of-government level where SICorp is treated as a self -insurer.

The Crown Entity measures the liability for outstanding claims as the present value of expected future payments. This is based on the ultimate cost to settle claims, taking into account settlement factors such as normal and superimposed inflation. Superimposed inflation is factors such as trends in court awards, as in a rise in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on the estimated long-term investment earnings of the insurance asset portfolio.

Comparative Figures

Comparative figures have been restated using AEIFRS except for financial instruments information. That has been prepared under AAS 33, the previous Australian Generally Accepted Accounting Principles (AGAAP) standard, and as AASB 1.36A allows. The AEIFRS point for financial instruments information was 1 July 2005. Note 36 discusses the impact of adopting AASB 132 and AASB 129.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

3. EXPENSES

	2006 $000	2005 $000
(a) Grants and Subsidies		
Natural disaster relief	22,071	6,967
Snowy River water rights	15,000	15,000
Health capital grant	21,870	22,700
Australian Inland Energy - operating subsidy	5,300	5,300
Sydney Harbour Foreshore Authority (Australian Technology Park)	-	41,267
Advances	21,387	-
Other	7,511	3,545
	93,139	**94,779**
(b) Finance Costs		
Finance Charges Incurred to:		
NSW Treasury Corporation	612,378	587,107
Commonwealth Government	70,813	78,229
NSW budget-dependent agencies	64,142	49,311
Other	31,349	57,682
Unwinding of discounts	269,641	242,062
	1,048,323	**1,014,391**
(c) Insurance Claims		
Claims paid	616,242	632,124
Increase in outstanding claims	301,646	109,361
Management fees and legal expenses	79,522	67,683
Claims expense	(599,860)	-
Provision for HIH insurance claims	21,000	15,893
	418,550	**825,061**
(d) Other Expenses		
Asset revaluation adjustment	60,819	11,750
Head leases	104,615	112,613
State Bank post sale expenses	(1,194)	4,358
Remissions/refunds Crown revenue	69,705	66,232
Bad debts write off	843	28,482
Outward reinsurance expense	26,549	22,926
Audit fees - financial statements	467	684
Audit fees - performance audits	1,550	1,500
Other auditors - review of financial report	105	-
Other auditors - taxation services	40	-
Production of Auditor-General's reports to Parliament	1,380	1,345
Electricity Tariff Equalisation payments to Retailers	311,302	391,513
GST administration costs	201,565	197,830
Actuarial fees	4,570	-
Snowy Hydro sale costs	11,115	25
Statutory Fees - WorkCover Levy	21,452	-
Other	60,521	62,850
	875,407	**902,108**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

4. REVENUE

	2006 $000	2005 $000
(a) State Taxation		
Payroll tax	5,822,131	5,405,229
Stamp duties	4,816,252	4,801,953
Petroleum, tobacco and liquor licences	1,797	2,226
Gambling and betting	1,519,161	1,428,678
Land tax	1,717,248	1,642,369
Motor vehicle taxes and fees	1,477,334	1,407,071
Debits tax	-	81
Fees and fines	336,633	355,819
Fire insurance levy	350,773	317,068
Other	560,664	489,525
	16,601,992	**15,850,019**
(b) Commonwealth Grants		
National competition payments	291,784	233,601
Revenue replacement	31,936	25,677
Specific purpose - recurrent	5,178,092	4,873,905
- capital	1,965,508	991,205
GST revenue	10,428,109	9,947,722
	17,895,429	**16,072,110**
(c) Financial Distributions		
Dividends	1,160,508	998,487
Income tax equivalents	529,212	420,936
	1,689,720	**1,419,423**
Tax of agencies in the TER (calculated at 30% for 2005)	850,796	590,477
Tax effect of permanent differences	(312,584)	(169,541)
Tax expense of agencies in the TER	**538,212**	**420,936**
(d) Sales of Goods and Services		
Property rental	155,778	156,344
Insurance premium revenue	970,716	974,359
Reinsurance and other recoveries revenue	1,575	461
	1,128,069	**1,131,164**
(e) Investment Income		
Interest		
- Health Super Gowth Fund	21,118	24,470
- Advances	96,873	77,220
- Short Term Money Market deposit	886	1,923
- Other	18,155	9,101
Market value increment/(decrement) on investments	859,652	679,246
	996,684	**791,960**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

4. REVENUE (Cont)

	2006 $000	2005 $000
(f) Other Revenue		
Royalty on minerals	503,722	396,349
Electricity Tariff Equalisation Contributions from Retailers	374,215	341,988
Revenue from Crown Leasehold assets	46,237	41,394
Contribution from Environmental Trust	27,350	2,960
Fire Brigade levy from Local Government	57,308	52,861
Crown share of Budget Agency asset sales	66,331	19,840
Builders Warranty premium revenue	571	1,205
Repayments of previous years appropriation	97,509	63,190
Long service leave contributions	28,606	32,021
Employers superannuation contribution	8,505	4,480
Unclaimed monies	17,702	26,246
Bona Vacantia - Public Trustee	6,760	7,256
Motor vehicle rental income	47,602	66,824
HIH Insurance recoveries	28,162	-
Other	69,621	69,823
	1,380,199	**1,126,437**

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

	2006 $000	2005 $000
Proceeds from sale	163,354	297,383
Written down value of property, plant and equipment sold	(195,546)	(269,818)
Net gain/(loss) on disposal of property, plant and equipment	**(32,192)**	**27,565**

6. INVESTMENT IN AN ASSOCIATE – SNOWY HYDRO LTD

	2006 $000	2005 $000
Investment in an associate	752,719	582,401
	752,719	**582,401**

Snowy Hydro Limited (SHL) was incorporated on 27 June 2001. Its principal activities are the generation and marketing of flexible and renewable electrical energy.

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

	2006 $000	2005 $000
Share of associate's balance sheet		
Current assets	66,314	52,559
Non-current assets	1,263,409	1,043,944
	1,329,723	1,096,503
Current liability	58,108	87,470
Non-current liability	518,896	426,632
	577,004	514,102
Net assets	**752,719**	**582,401**
Share of associate's profit		
Revenue	296,079	246,433
Profit before income tax	111,152	115,208
Income tax expense	(37,361)	(29,645)
Profit after income tax	**73,791**	**85,563**
Commitment of expenditure		
Share of capital expenditure commitment contracted for	53,087	41,242
Share of other expenditure commitment contracted for	46,591	39,564
	99,678	**80,806**
Contingent liabilities of associate		
Share of contingent liabilities incurred jointly with other investors	-	7
	-	**7**

7. OTHER FINANCIAL ASSETS

	2006 $000	2005 $000
Current:		
Short Term Money Market Investment	-	-
Deposits at call	-	-
Other	-	99
	-	**99**
Non -Current:		
"Hour Glass" investments		
- Australian shares	-	695,957
- Indexed Australian shares	-	246,196
- International shares	-	849,732
- Indexed international shares	-	249,449
- Listed property	-	200,041
Bond portfolio	-	6,861,075
Other	-	674
	-	**9,103,124**

8. FINANCIAL ASSETS AT FAIR VALUE

	2006 $000	2005 $000
Current:		
"Hour Glass" investments		
- Australian shares	161,803	-
- Indexed Australian shares	55,327	-
- International shares	149,656	-
- Indexed international shares	51,788	-
- Listed property	39,905	-
Bond portfolio	1,041,521	-
Other	121	-
	1,500,121	**-**
Non -Current:		
"Hour Glass" investments		
- Australian shares	782,679	-
- Indexed Australian shares	267,399	-
- International shares	754,772	-
- Indexed international shares	250,617	-
- Listed property	197,078	-
Bond portfolio	7,918,959	-
Other	754	-
	10,172,258	**-**

9. ADVANCES REPAYABLE TO THE CROWN

	2006 $000	2005 $000
Current:	151,294	88,281
Non-Current:	926,931	1,568,692
Less: allowance for doubtful debts	-	(20,530)
Non-Current (net)	**926,931**	**1,548,162**
Total Advances	**1,078,225**	**1,636,443**
Represented by:		
Rural Assistance Authority	81,340	84,620
Sydney Water Corporation	39,052	41,614
Commonwealth housing advances	732,048	1,280,790
Administered advances	24,508	18,829
Department of Primary Industries	28,750	35,728
Department of Education	76,149	65,749
NSW Business Link	13,500	13,500
NSW Health Department	-	33,600
Department of Environment and Conservation	31,452	39,103
Other	51,426	22,910
	1,078,225	**1,636,443**

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

10. INVENTORIES

	2006 $000	2005 $000
Current:		
Developed land held for sale - at valuation	-	-
Land development works in progress	17,467	24,022
Current:	**17,467**	**24,022**
Non-Current:		
Developed land held for sale	3,751	3,866
Non-Current:	**3,751**	**3,866**

11. RECEIVABLES

	2006 $000	2005 $000
Current:		
Taxes, fees and fines	717,193	748,464
Less: allowance for doubtful debts	(41,632)	(47,789)
Net -Taxes, fees and fines	675,560	700,675
Dividends	1,219,293	983,125
Tax equivalents	248,802	161,084
Reinsurance and other recoveries receivable	29,384	28,117
Unspent appropriations	78,909	44,005
Insurance	-	716
ETEF Tariff	23,125	33,689
GST Receivable	91,927	2,204
HIH Insurance recoveries	4,862	-
Other	54,182	112,765
	2,426,044	**2,066,380**
Non-Current:		
Reinsurance and other recoveries receivable	144,286	144,256
Conversions - Crown Leaseholds	25,551	27,456
Other	6,996	18,600
	176,833	**190,312**

12. PROPERTY, PLANT AND EQUIPMENT

	2006 $000	2005 $000
Finance Lease	148,060	336,019
Owned	6,458,501	6,242,152
	6,606,561	**6,578,171**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

	Leasehold Building $000	Motor Vehicles $000	Total $000
Fair Value			
Opening balance 1 July 2005	101,500	287,261	388,761
Add: Acquisition	-	46,750	46,750
Add: Asset revaluation increment/(decrement)	3,516	-	3,516
Less: Transfer of McKell Bldg to owned property	(96,500)	-	(96,500)
Less: Disposals	-	(158,977)	(158,977)
Closing Balance 30 June 2006	**8,516**	**175,034**	**183,550**
Accumulated Depreciation			
Opening balance 1 July 2005	5,816	46,926	52,742
Add: Charge for the year	2,908	36,575	39,483
Less: Disposals	-	(48,261)	(48,261)
Less: Reversal due to asset revaluation	(8,474)	-	(8,474)
Closing Balance 30 June 2006	**250**	**35,240**	**35,490**
Net Carrying Amount			
Balance 1 July 2005	95,684	240,335	336,019
Balance 30 June 2006	**8,266**	**139,794**	**148,060**

	Leasehold Building $000	Motor Vehicles $000	Total $000
Fair Value			
Opening balance 1 July 2004	101,500	457,409	558,909
Add: Acquisition	-	123,445	123,445
Less: Disposals	-	(293,593)	(293,593)
Closing Balance 30 June 2005	**101,500**	**287,261**	**388,761**
Accumulated Depreciation			
Opening balance 1 July 2004	2,908	77,346	80,254
Add: Charge for the year	2,908	50,888	53,796
Less: Disposals	-	(81,308)	(81,308)
Closing Balance 30 June 2005	**5,816**	**46,926**	**52,742**
Net Carrying Amount			
Balance 1 July 2004	98,592	380,063	478,655
Balance 30 June 2005	**95,684**	**240,335**	**336,019**

a) Finance Lease

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

During 2005/06 an option to purchase McKell Building was settled in June 2006 resulting in the movement from finance lease to land and buildings. The leasehold building as at 30 June 2006 is related to Noel Park House, Marius Street, Tamworth. Noel Park is being amortised over the life of the lease.

The leasehold building was independently revalued on 1 January 2006. The independent qualified valuers, Savills and Landmark White, undertook valuations and provided the current fair value on a highest and best use basis. Where the property was occupied, the market valuation reflects the actual lease, licence or tenancy agreement in place.

b) Owned Property

	Land $000	Building $000	Leasehold Land $000	Plant & Equipment $000	Total $000
Fair Value or Cost					
Opening balance 1 July 2005	5,169,348	312,619	765,722	38	6,247,727
Add: Acquisition	5,829	3,901	-	628	10,358
Add: Asset revaluation increment/(decrement)	25,885	21,701	139,406	-	186,992
Less: Disposals	(42,527)	-	(14,112)	-	(56,639)
Add: Trsf from other government agencies	1,866	-	-	-	1,866
Less: Trsf between classes	(28,037)	-	(9,818)	-	(37,855)
Add: Capitalised expenditure	-	50,521	-	30	50,551
Less: Trsf to invest property for long term lease	-	(40,179)	-	-	(40,179)
Add: Trsf of McKell bldg from finance lease	-	96,500	-	-	96,500
Add: Revaluation of transferred assets	856	-	-	-	856
Closing Balance 30 June 2006	**5,133,220**	**445,063**	**881,198**	**696**	**6,460,177**
Accum Depreciation					
Opening balance 1 July 2005	-	5,538	-	37	5,575
Add: Charge for the year	-	3,225	-	139	3,364
Less: Reversal due to asset revaluation	-	(7,263)	-	-	(7,263)
Closing Balance 30 June 2006	**-**	**1,500**	**-**	**176**	**1,676**
Net Carrying Amount					
Balance 1 July 2005	5,169,348	307,081	765,722	1	6,242,152
Balance 30 June 2006	**5,133,220**	**443,563**	**881,198**	**520**	**6,458,501**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

	Land $000	Building $000	Leasehold Land $000	Plant & Equipment $000	Total $000
Fair Value or Cost					
Opening balance 1 July 2004	3,981,582	298,412	616,231	36	4,896,261
Add: Acquisition	15,105	-	-	2	15,107
Add: Assets received free of charge	390	-	-	-	390
Add: Asset revaluation increment/(decrement)	1,259,754	-	140,328	-	1,400,082
Less: Disposals	(31,662)	(156)	(4,188)	-	(36,006)
Add: Transfer from other government agencies	(100)	-	-	-	(100)
Less: Assets disposed free of charge	-	-	13,351	-	13,351
Less: Transfer between classes	(30,301)	-	-	-	(30,301)
Add: Capitalised expenditure	-	16,563	-	-	16,563
Less: Assets transferred to assets held for sale	(25,245)	-	-	-	(25,245)
Less: Assets transferred to intangible	-	(2,200)	-	-	(2,200)
Less: Prior period error correction	(175)	-	-	-	(175)
Closing Balance 30 June 2005	**5,169,348**	**312,619**	**765,722**	**38**	**6,247,727**
Accum Depreciation					
Opening balance 1 July 2004	-	2,987	-	24	3,011
Add: Charge for the year	-	2,606	-	13	2,619
Less: Transferred to intangible	-	(55)	-	-	(55)
Closing Balance 30 June 2005	**-**	**5,538**	**-**	**37**	**5,575**
Net Carrying Amount					
Balance 1 July 2004	3,981,582	295,425	616,231	12	4,893,250
Balance 30 June 2005	**5,169,348**	**307,081**	**765,722**	**1**	**6,242,152**

Crown Land Reserve No. R1011448

Included in the land is Crown land reserve No. R1011448 of $4,892 million (2005 $4,938 million). This land as at 30 June 2006 is stated at fair value which has been determined based on the independent valuation performed by the State Valuation Office in June 2002. This land is revalued at least every five years.

Due to the nature of the land holdings and the statutory restrictions on their disposition and use, the basis of the valuation is the value in use which represents the highest and best use of Crown lands taking into account of zoning. Evidence of value can be determined from assets that are similar in use, type and condition, ie. National parks, State Forests, etc.

The Chief Valuer at Valuation Services within Land and Property Information NSW has advised that on a reasonable basis the value of vacant Crown land has increased by 30% ($1,137 million) since 2002. Given this advice, management has decided to adjust the value of vacant Crown land upwards by $1,137 million against the asset revaluation reserve effective 1 July 2004. The adjustment has been made on this date on the basis that the major movement in land values ocurred prior to this date. The revalued amount for vacant Crown land has been used in calculating the gain or loss on disposal of vacant Crown land on or after 1 July 2004.

Crown Property Portfolio

The land and buildings held by the Crown Property Portfolio of $635 million (2005: $500 million) are stated at fair value.

All properties were independently revalued on 1 January 2006. The independent qualified valuers, Savills and Landmark White, undertook valuations and provided the current fair value on a highest and best use basis. Where the property was occupied, the market valuation reflects the actual lease, licence or tenancy agreement in place.

All owned government office buildings under the highest and best use basis of valuation were valued using the income capitalisation valuation approach and discounted cash flow method. Both valuation firms were provided with market rentals for all government office buildings that were determined as at 1 January 2005 and were required to adopt these rentals as part of their valuation.

Under the income capitalisation approach, valuers were required to estimate market outgoings for the building to deduce a net market income for the property and then capitalise the net income using a yield that had been sourced from available market evidence. Below the line deductions were made for letting up periods and required capital works over the next 12 months. However, Land Mark White adjusted the capitalisation rate to reflect the quality of the building.

With regards to the discounted cash flow method, the following rates were adopted:

- Rental growth rates used generally range between 2.00-5.00% per annum depending on the location of the property, supply coming on to the market and the likely future demand for accommodation.
- Outgoing growth rates used are generally in the range of 3.00-4.00% per annum.
- Discount Rates used were influenced by many factors including the returns available from alternative investments, long term bond rates, current property yields, expected CPI increases, rental growth and the perceived risk of illiquidity associated with the property. Discount rates ranging from 9.00-12.00% have typically been adopted for the majority of the Portfolio.
- Terminal yields ranging from 8.00-12.00%. These rates assume that prevailing market conditions are similar to those being experienced as at the date of valuation. The valuer has also had regard to the level of capital works to be undertaken over the holding term and the quality of the building at the end of ten years.

Leasehold Land

Leasehold land includes perpetual leases, term leases, permissive occupancies and enclosure permits. This land is stated at fair value which is reviewed by management every year based on the rental revenue in perpetuity. Independent valuation is carried out at least every five years. The last independent valuation was performed in June 2002 by the State Valuation Office.

The management has valued the land as at 30 June 2006 based on the capitalisation of the rental revenue in perpetuity using an interest rate of 4.97%. This interest rate is the same rate used in the June 2002 independent valuation as there have been no significant changes to conditions which would result in that rate requiring alternation.

The method of valuation utilised was mass valuation techniques, taking into account of the conditions attached to the leases.

13. ASSETS HELD FOR SALE

	2006 $000	2005 $000
Fair value		
Land	24,290	25,245
	24,290	**25,245**

The following properties classified, as assets held for sale, were disposed during 2005-06, 34 Burrows Rd, St Peters, and Fauna Sanctuary, Cooranbong. The remaining three properties, Birmingham Gardens, Lot 380, John Street, Newcastle, 6A Huntley Street, Alexandria and 14-16 Rivers Street, Macksville were not disposed during 2005-06, but are expected to be disposed of during 2006-07 and therefore remain classified as assets held for sale.

14. INVESTMENT PROPERTY

	2006 $000	2005 $000
Land	15,673	15,690
Building	45	23
	15,718	**15,713**
Reconciliations		
Reconciliations of carrying amount		
Land - Net carrying amount at beginning of year	15,690	15,690
Add: transfer from property, plant & equipment	40,179	-
Add: initial cost of new operating lease arrangement	603	-
Less: net loss from fair value adjustment[1]	(40,799)	-
Closing balance	**15,673**	**15,690**
Building - Net carrying amount at beginning of year	23	23
Add: net gains from fair value adjustment	22	-
Closing balance	**45**	**23**
Total Investment Property	**15,718**	**15,713**

[1]*Includes valuation adjustment of $40,179 for the new long-term lease transferred from property, plant & equipment. Lease is measured at fair value, which is zero at the commencement of the lease and increasing value (ie. re-emerging) towards the end of the lease term.*

Investment property relates to seven properties leased out to non-government tenants on long-term (over 50 years) operating leases.

All investment properties were independently revalued on 1 January 2006, except for the newly entered lease which is recorded as Nil at inception. The valuation was performed by independent qualified valuers, Savills and Landmark White, both having recent experience in comparable markets and category of the investment properties being valued.

NOTES TO THE FINANCIAL STATEMENTS
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The methods of valuation differ slightly for each property but all rely on the valuers having regard to recent sales evidence to determine the property's market value. The present value of the annual net rental cash flow derived under the lease of the property is then added to the emerging value to arrive at the Entity's interest in the property. The discount rate used in the analysis to arrive at market value for the investments is 5%.

A change in the current property investment climate could materially affect the value of these properties for the next reporting period.

15. INTANGIBLE ASSETS

	2006 $000	2005 $000
Intangible	7,098	2,200
Less : Accumulated amortisation	(538)	(110)
	6,560	**2,090**

	Sydney Opera House Car Park Lease $'000	Computer Software Costs $'000	Total $'000
Year ended 30 June 2006			
At 1 July 2005			
Net of accumulated amortisation and impairment	2,090	-	2,090
Acquisition	-	3,024	3,024
Asset revaluation increment	1,875	-	1,875
Disposals	-	-	-
Amortisation	(78)	(487)	(565)
Reversal of amortisation due to asset revaluation	136	-	136
Impairment	-	-	-
At 30 June 2006			
Net of accumulated amortisation and impairment	**4,023**	**2,537**	**6,560**

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	Sydney Opera House Car Park Lease $'000	Computer Software Costs $'000	Total $'000
Year ended 30 June 2005			
At 1 July 2004			
Net of accumulated amortisation and impairment	-	-	-
Acquisition	2,145	-	2,145
Asset revaluation increment	-	-	-
Disposals	-	-	-
Amortisation	(55)	-	(55)
Reversal of amortisation due to asset revaluation	-	-	-
Impairment	-	-	-
At 30 June 2005			
Net of accumulated amortisation and impairment	**2,090**	-	**2,090**

In 1993, the Crown leased the Sydney Opera House car park to a private consortium on a 50-year ground lease. The lessee has built and paid for a subterranean car park with a design life of 50 years. The government has the right to receive this when the lease ends. Lease rental income is reflected in the Operating Statement, with the value of the car park land recognised as an investment property and the emerging value of the structures recognised as an intangible asset.

Computer Software Costs represent the capitalisation of developments costs for the SICorp's Datawarehouse and computer softwares.

16. PAYABLES

	2006 $000	2005 $000
Current:		
Creditors	60,692	51,497
Financial charges	178,575	157,243
GST payable to Commonwealth	85,921	32
Motor Accident Authority - HIH liability to nominated claimants	22,096	32,992
Accrued ETEF tariffs	304	1,739
Other	95,646	5,847
	443,234	**249,350**
Non-Current:		
Motor Accident Authority - HIH liability to nominated claimants	70,026	86,494
	70,026	**86,494**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

17. BORROWINGS

	2006 $000	2005 $000
Current:	1,481,682	2,804,231
Non-Current:	8,896,536	8,053,470
	10,378,218	**10,857,701**
Analysed as:		
New South Wales Treasury Corporation	9,296,732	8,862,088
Commonwealth financial agreement	8,223	97,948
Commonwealth specific purpose advances	899,646	1,530,983
Finance leases	148,309	347,052
Administered loans	24,508	18,830
Other	800	800
Total Borrowings at amortised cost	**10,378,218**	**10,857,701**
Repayment of Borrowings at:		
Not later than one year	1,481,682	2,804,231
Between one and five years	3,794,488	1,924,172
Later than five years	5,102,048	6,129,298
Repayment of Borrowings at:	**10,378,218**	**10,857,701**

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

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

18. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Policies and Objectives

The Crown Entity's principal financial liabilities are borrowings from TCorp, Commonwealth specific and general purpose borrowings, and finance leases. Its main financial assets are advances, Hour-Glass facilities and bond investment portfolios. It also makes derivative transactions.

The financial instruments have two main purposes:

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

Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from operations.

Its derivative transactions are largely interest rate futures, interest rate swaps and cross-currency swaps. It enters into these to manage the interest rate and currency risk from its investments and finance sources.

Risk Management

The main financial instrument risks are:

- fair value interest rate risk
- price risk
- currency risk
- credit risk
- liquidity risk.

The Crown Entity has appointed TCorp to manage its treasury risks. TCorp addressed operational risks and has:

- comprehensive and detailed risk policies
- detailed controls for the security, integrity and accuracy of all key systems
- clear and appropriate reporting
- fully qualified staff.

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

Fair Value Interest Rate Risk

Because all the Crown Entity's long-term borrowings are at a fixed interest rate, their value fluctuates with changes in market interest rates.

TCorp manages fixed rate borrowings within agreed modified duration targets. It uses derivatives or physical securities to shorten or lengthen the modified duration of the strategic portfolio when interest rates change. It also takes limited tactical positions to add value to the borrowings.

The value of bond investment portfolios also fluctuates because of market interest rate changes. TCorp manages these portfolios to agreed benchmarks to minimise the fair value interest rate risk, or to reflect the duration of liabilities that the bond portfolio is offsetting.

The value of Hour-Glass unit trust investment fluctuates because of international interest rate changes. The Crown Entity regularly consults with external asset consultants about the appropriate exposure level for the insurance liabilities that the investment offsets.

Price Risk

The Crown Entity has some price risk exposure through its investment in TCorp Hour-Glass facilities. Their value fluctuates because of changes in the Australian and international equities markets and the Australian listed property market.

TCorp manages the Hour-Glass fund managers using agreed benchmarks. The Crown Entity regularly consults with external asset consultants about the appropriate price risk exposure level for the insurance liabilities that the investments cover.

The Crown Entity has no exposure to commodity price risk.

Currency Risk

The Crown Entity has no transactional or structural currency exposures.

It has foreign currency risk exposure from its Hour-Glass and bond investments. It fully hedges all foreign currency exposure for international fixed interest unit trust investments and foreign currency-denominated bond investments.

The Hour-Glass unit trust holds international equities on an unhedged basis. TCorp and an external asset consultant advise the Crown Entity on the currency risks from investing in the trust.

Credit Risk

The Crown Entity has a significant concentration of credit risk with NSW public sector entities.

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

Receivables include outstanding legally required taxes, fees and fines, collected by the Office of State Revenue (OSR) for the Consolidated Fund. OSR have extensive receivables management systems for managing outstanding receivables. Other receivables include dividends and outstanding tax equivalents from government businesses.

TCorp manages almost all the Crown Entity's other financial assets and it has credit risk policies for:

- cash and cash equivalents
- held for trading assets
- certain derivative instruments.

The Crown Entity's exposure to credit risk occurs where a counterparty defaults, with a maximum exposure equal to the carrying amount of these instruments.

Since advances and receivables result from legal requirements and government policy, the Crown Entity does not receive any collateral. Because recognised third parties provide its other financial assets, collateral is not required.

All government borrowings, while government guaranteed, are unsecured as no assets are secured by the borrowings.

Liquidity Risk

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

- bank overdrafts
- TCorp come-and-go facilities
- TCorp borrowings
- finance leases.

It indirectly manages the maturity of its TCorp borrowings through setting modified duration targets for the portfolio. The government's AAA credit rating allows it to refinance maturing borrowings as needed.

(b) Fair Value

All financial instruments are carried at either fair value or amortised cost.

In adopting AASB139, all financial assets were initially recognised at fair value in 2005-06.

The Crown Entity estimated the fair value of Commonwealth special purpose and general purpose loans by discounting the expected cash flows by the relevant Commonwealth bond rate. Treasury Policy TPP06-4 Accounting for Financial Instruments exemption allows it not to value the loans by the TCorp bond rate.

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

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

Cash and cash equivalents are carried at amortised cost, which is near their fair value. Receivables, payables, bank overdrafts and borrowings are carried at amortised cost after initial recognition at fair value. Derivatives and investments are carried at fair value based on market prices. Other financial assets are carried at fair value based on either market prices or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The aggregate fair values of financial assets and liabilities are:

	Carrying 2006 $000	Fair Value 2006 $000
Financial Assets		
Cash	949,770	949,770
Receivables	2,447,625	2,447,625
Investments		
-TCorp Hour Glass	2,711,024	2,711,024
-Bond Portfolio	8,960,480	8,960,480
-Others	753,593	753,593
Advances Repayable to the Crown		
-Funded by Commonwealth Specific Purpose Loans	772,889	772,889
-Funded by Others	280,818	280,818
-Administered Borrowings	24,508	24,659
Cross Currency Swaps	100,095	100,095
Interest Rate Swaps	200,593	200,593
Interest Rate Futures	1,193	1,193
Total	**17,202,587**	**17,202,738**
Financial Liabilities - Unsecured		
Overdraft	2,488,809	2,488,809
Payables	438,660	438,660
Borrowings		
-Finance Leases	148,309	148,309
-TCorp Borrowings	9,296,732	9,434,120
-Commonwealth General Purpose Borrowings	8,223	8,223
-Commonwealth Specific Purpose Borrowings	899,646	899,646
-Own Name Borrowings	800	800
-Administered Borrowings	24,508	24,659
Cross Currency Swaps	98,452	98,452
Interest Rate Swaps	203,326	203,326
Interest Rate Futures	331	331
Total	**13,607,797**	**13,745,336**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

(c) Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

Financial Instruments Year Ended 30 June 2006	Floating interest rate $000	Fixed interest rate maturing in:				Total $000	Weighted average effective interest rate %
		Less than 1 year $000	Greater than 1 year but less than 2 years $000	Greater than 2 years but less than 5 years $000	Greater than 5 years $000		
(i) Financial Assets							
Floating Rate							
Cash	949,770	-	-	-	-	**949,770**	5.75
Hour Glass Facility	2,711,024	-	-	-	-	**2,711,024**	21.53
						-	
Fixed Rate						-	
Bond Portfolio	-	1,000,001	7,002,062	-	958,417	**8,960,480**	5.88
Other Investments	-	-	-	-	753,593	**753,593**	10.59
Cwth Specific Purpose Advances	-	22,121	22,437	72,455	656,069	**773,082**	9.92
Other Advances	-	126,980	72,545	17,180	64,112	**280,818**	5.91
Administered Borrowings	-	2,240	2,946	4,968	14,355	**24,508**	8.86
Total Financial Assets	**3,660,794**	**1,151,342**	**7,099,990**	**94,603**	**2,446,547**	**14,453,275**	
(ii) Financial Liabilities							
Floating Rate							
Bank Overdrafts (1)	2,488,809	-	-	-	-	**2,488,809**	
Fixed Rate							
Finance Leases		101,575	35,846	8,347	2,541	**148,309**	6.26
TCorp Borrowings		1,343,630	1,678,794	1,951,939	4,322,369	**9,296,732**	6.09
Cwlth General Purpose Borrowings		8,223	-	-	-	**8,223**	2.95
Cwlth Specific Purpose Borrowings		26,015	26,528	85,121	761,983	**899,646**	4.60
Own Name Borrowings		-	-	-	800	**800**	6.82
Administered Borrowings		2,240	2,946	4,968	14,355	**24,508**	8.86
Total Financial Liabilities	**2,488,809**	**1,481,683**	**1,744,113**	**2,050,375**	**5,102,048**	**12,867,028**	

Note (1) The bank overdraft is for the Consolidated Fund. The Consolidated Fund 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 poistion. 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 facility.

NOTES TO THE FINANCIAL STATEMENTS
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Financial Instruments Year Ended 30 June 2005	Floating interest rate $000	Fixed interest rate maturing in: 1 year or less $000	Greater than 1 year but less than 5 years $000	Greater than 5 years $000	Non-interest bearing $000	Total $000	Weighted average effective interest rate %
(i) Financial Assets							
Floating Rate							
Cash	490,934	-	-	-	-	**490,934**	5.28
Hour Glass Facility	2,241,375	-	-	-	-	**2,241,375**	9.24
Fixed Rate							
Bond Portfolio	-	362,450	1,426,000	1,073,090	-	**2,861,540**	5.63
Other Investments	33	1,972,393	2,627,924	591,066	774	**5,192,190**	6.93
Cwth Specific Purpose Advances	-	37,631	159,477	1,127,255	-	**1,324,363**	4.73
Other Advances	-	29,854	191,200	39,076	53,650	**313,780**	4.69
Administered Borrowings	-	7,896	10,708	225	-	**18,829**	5.99
Total Financial Assets	**2,732,342**	**2,410,224**	**4,415,309**	**2,830,712**	**54,424**	**12,443,011**	
(ii) Financial Liabilities							
Floating Rate							
Bank Overdrafts (1)	2,156,786	-	-	-	-	**2,156,786**	Note (1)
Fixed Rate							
Finance Leases	-	147,264	99,046	3,007	-	**249,317**	5.25
TCorp Borrowings	-	2,408,646	1,629,980	4,823,462	-	**8,862,088**	6.29
Cwlth General Purpose Borrowings	-	97,947	-	-	-	**97,947**	5.97
Cwlth Specific Purpose Borrowings	-	44,743	184,438	1,301,801	-	**1,530,982**	4.49
Own Name Borrowings	-	-	-	800	-	**800**	6.82
Administered Borrowings	-	7,896	10,708	225	-	**18,829**	6.08
Total Financial Liabilities	**2,156,786**	**2,706,496**	**1,924,172**	**6,129,295**	**-**	**12,916,749**	

Note (1) The bank overdraft is for the Consolidated Fund. The Consolidated Fund 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 poistion. 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 facility.

(d) Derivatives

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

Debt portfolio

TCorp was appointed to manage the Crown Entity's debt portfolio and to give Treasury management advice. The Crown Entity has interest rate future contracts at a nil face value (2005: $1,309 million) to hedge against unfavourable interest rate movements and to maintain the portfolio duration within the agreed band.

It assumed three interest rate swaps in the FreightCorp sale. It managed exposures to interest rate risk by swapping from a fixed to a floating rate obligation. It exchanged the rate difference, calculated by the notional principal of $102 million for the three contracts, with the counterparty. It received monthly floating interest payment and paid semi-annual fixed interest. The swaps matured by May 2006.

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

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

	2006 $000	2005 $000
Derivative Financial Instruments Receivable		
Interest Rate Swaps	-	102,002
Interest Rate Futures	-	138
	-	**102,140**
Derivative Financial Instruments Payable		
Interest Rate Swaps	-	106,136
Interest Rate Futures	-	-
	-	**106,136**
Net amount receivable/(payable) under derivative financial instruments	-	**(3,996)**

Investment Portfolio

TCorp has been appointed to manage the Crown Entity's investments. It is authorised to invest assets of the portfolio in derivative instruments as long as the portfolio is not geared, and this does not create a net short position for the portfolio.

TCorp may use these derivatives:

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

Fair value of the Crown Entity's investment portfolio derivatives outstanding at year end

	2006 $000	2005 $000
Derivative Financial Instruments Receivable		
Cross currency swaps	100,095	-
Interest rate swaps	200,593	-
Interest rate futures	1,193	-
	301,881	-
Derivative Financial Instruments Payable		
Cross currency swaps	98,452	-
Interest rate swaps	203,326	-
Interest rate futures	331	-
	302,110	-
Net amount receivable/(payable) under derivative financial instruments	**(228)**	-

19. UNFUNDED SUPERANNUATION LIABILITY

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

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

SASS Trustee Corporation actuary, Mercer Human Resource Consulting, calculated the unfunded liabilities of state public sector superannuation schemes for 2005-06.

In 2005-06, unfunded superannuation liabilities decreased by $2,081 million. It does not include funds held in the General Government Liability Management Fund (GGLMF), a non-superannuation investment fund.

The decrease in unfunded liabilities was caused by the net effect of such factors as:

- current State Super scheme contributors providing the extra year of service
- one year less discounting for the present value of total future benefit payments
- an increase in the liability discount rate from 5.2% to 5.9%
- higher salary increases than expected
- transfer of some liabilities from liabilities from the Crown to other employee sectors

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

- positive 15.8% per cent investment return on State Super Fund
- no Crown superannuation employer contributions into the State Super Fund
- transfer of reserves from the Crown superannuation reserves to the reserves of other employer sectors.

The Crown will continue to make employer contributions into GGLMF, rather than into the State Super Fund, until at least 30 June 2007.

Actuaries calculated unfunded superannuation liabilities at 30 June 2006 using:

- scheme membership data at 30 April 2006
- demographic assumptions of the 2006 Triennial Valuation of the State Super Fund Superannuation Schemes.

An employer does not have to recognise the Future Service Liability (FSL), as this is used to determine if there should be an asset ceiling limit (AASB 119, paragraph 58, July 2004). Under AASB 119, any recognised prepaid superannuation asset cannot be more than the total unrecognised past service cost and the present value of any available economic benefits in plan refunds or future plan contribution reductions. If there is no surplus in excess of recovery, an asset ceiling limit is not imposed.

Fund information

State Super holds in trust the investments of these closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Police Superannuation Scheme (PSS)
- State Authorities Non-Contributory Superannuation Scheme (SANCS).

These are all defined benefit schemes where at least a component of the final benefit is derived from a multiple of member salary and years of membership. All the schemes are closed to new members.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

The following figures are 2006 actuals

Member Numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS	TOTAL
Contributors	38,702	61,624	19,717	3,268	149	128	120,043
Deferred benefits	0	0	2,957	181	0	0	2,957
Pensioners	4,225	0	28,281	5,715	145	234	32,506
Pensions fully commuted	0	0	12,564	0	0	0	12,564

Superannuation position for AASB 119

	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000
Accrued liability	8,024,830	1,844,159	22,159,608	7,069,116	580,911	390,256	40,068,880
Estimated reserve account balance	(4,763,339)	(669,487)	(10,511,807)	(919,342)	0	(276,100)	(17,140,075)
	3,261,491	1,174,672	11,647,801	6,149,774	580,911	114,156	22,928,805
Future Service Liability	(1,801,033)	(742,623)	(1,070,051)	(461,244)	0	0	(4,074,951)
Surplus in excess of recovery available from schemes	0	0	0	0	0	0	0
Net (asset)/liability to be disclosed in balance sheet	3,261,491	1,174,672	11,647,801	6,149,774	580,911	114,156	22,928,805

Reconciliation of the assets and liabilities recognised in the balance sheet for the year ended 30 June 2006

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Present value of defined benefit obligations	8,024,830	1,844,159	22,159,608	7,069,116	580,911	390,256	40,068,880
Fair value of plan assets	(4,763,339)	(669,487)	(10,511,807)	(919,342)	0	(276,100)	(17,140,075)
Net liability disclosed in balance sheet	**3,261,491**	**1,174,672**	**11,647,801**	**6,149,774**	**580,911**	**114,156**	**22,928,805**

Assets invested in entity or in property occupied by the entity

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

Movement in net liability/asset recognised in balance sheet

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Net (asset)/liability at start of year	3,140,900	1,176,500	14,771,500	5,343,000	431,400	157,670	25,020,970
Net expense recognised in the operating statement	129,991	11,893	(3,110,532)	808,147	149,511	(27,657)	(2,038,647)
Contributions	(9,400)	(13,721)	(13,167)	(1,373)	0	(15,857)	(53,518)
Net liability disclosed in balance sheet	3,261,491	1,174,672	11,647,801	6,149,774	580,911	114,156	22,928,805

Total expense recognised in operating statement

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Current service cost	281,128	92,306	234,925	65,156	21,604	9,077	704,196
Interest on obligation	379,238	94,129	1,227,222	321,288	27,975	19,702	2,069,554
Expected return on plan assets	(317,626)	(48,955)	(670,579)	(63,435)	0	(17,756)	(1,118,351)
Net actuarial losses/(gains) recognised in year	(212,748)	(125,587)	(3,902,100)	485,139	99,932	(38,680)	(3,694,044)
Total included in "employee benefits exp"	129,992	11,893	(3,110,532)	808,148	149,511	(27,657)	(2,038,645)

Actual Return on plan assets

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Actual return on plan assets	570,153	57,058	1,666,425	168,949	0	36,719	2,499,304

Valuation method and principal actuarial assumptions at the reporting date

(a) Valuation Method

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

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

(b) Economic Assumptions (State Super Scheme)

	At 30 June 2006
Discount rate	5.9%
Expected rate of return on plan assets	7.6%
Expected salary increases	4.0%
Expected rate of CPI increase	2.5%

(c) Demographic Assumptions

The demographic assumptions at 30 June 2006 are those used for the (current) 2006 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors

Age nearest Birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:								Additional promotional salary increase rate %
	Death	Total & Permanent Disability	Retirement		Resignation		Redundancy		
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	4	8	0	0	280	395	150	0	2.90
40	6	10	0	0	150	285	150	0	1.80
50	11	30	0	0	112	172	150	0	0.00
60	30	0	1,400	950	0	0	150	0	0.00
Females									
30	2	2	0	0	372	700	150	0	2.90
40	3	6	0	0	175	320	150	0	1.80
50	7	28	0	0	144	270	150	0	0.00
60	18	0	1,500	1,500	0	0	150	0	0.00

Note: The SASS Act 1987 divides employers into Part 1 (Crown and other employers), Part 2 (Local Government) and Part 3 (Hospitals and other health related bodies).

SSS Contributors

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:					Additional promotional salary increase rate %
	Death	Ill-health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	
Males						
30	4	42	-	178	95	2.90
40	6	54	-	80	140	1.80
50	11	144	-	20	50	0.00
60	30	0	6,500	0	0	0.00
Females						
30	2	6	-	204	124	2.90
40	3	21	-	72	105	1.80
50	7	103	-	30	90	0.00
60	18	0	6,300	0	0	0.00

Note: R60 stands for women who elected to retire at age 60 rather than 55.

SSS Commutation

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	.15	.20
	Widow	Widower
55	.2500	.2500
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

SSS Pensioner Mortality

Age	Retirement Pensioners and Spouses and Widows		Invalidity Pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

SSS Pensioner Mortality Improvements

Age	Improvement rates- (for years post 2006)	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

Arrangements for employer contributions for funding

The following is a summary of the 30 June 2006 financial position of the Fund calculated in accordance with AAS 25 - Financial Reporting by Superannuation Plans.

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Accrued benefits	7,761,842	1,753,866	18,688,097	5,672,867	384,590	307,918	34,569,180
Net market value of Fund assets	(4,763,339)	(669,487)	(10,511,807)	(919,342)	0	(276,100)	(17,140,075)
Net (surplus)/deficit	2,998,503	1,084,379	8,176,290	4,753,525	384,590	31,818	17,429,105

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Expected Crown employer contributions	0	0	0	0	0	0	0

The following figures are 2005 comparatives

Member Numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS	TOTAL
Contributors	40,868	65,788	21,218	3,702	0	0	127,874
Deferred benefits	0	0	3,150	194	0	0	3,150
Pensioners	4,557	0	27,197	5,403	0	0	31,754
Pensions fully commuted	0	0	12,498	644	0	0	12,498

Superannuation position for AASB 119

	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000	A$ 000
Accrued liability	7,499,655	1,871,030	24,049,586	6,338,484	431,400	296,400	40,486,555
Estimated reserve account balance	(4,358,755)	(694,530)	(9,208,086)	(995,484)	0	(199,600)	(15,456,455)
	3,140,900	1,176,500	14,841,500	5,343,000	431,400	96,800	25,030,100
Future Service Liability	(1,993,751)	(847,317)	(1,532,687)	(449,024)	0	0	(4,822,779)
Surplus in excess of recovery available from schemes	0	0	0	0	0	0	0
Net (asset)/liability to be disclosed in balance sheet	3,140,900	1,176,500	14,841,500	5,343,000	431,400	96,800	25,030,100

Reconciliation of the assets and liabilities recognised in the balance sheet

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Present value of defined benefit obligations	7,499,655	1,871,030	24,049,586	6,338,484	431,400	296,400	40,486,555
Fair value of plan assets	(4,358,755)	(694,530)	(9,208,086)	(995,484)	0	(199,600)	(15,456,455)
Net liability disclosed in balance sheet	**3,140,900**	**1,176,500**	**14,841,500**	**5,343,000**	**431,400**	**96,800**	**25,030,100**

Assets invested in entity or in property occupied by the entity

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

Movement in net liability/asset recognised in balance sheet

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000
Net (asset)/liability at start of year	3,876,255	1,613,901	9,601,593	4,452,789		
Net expense recognised in operating statement	952,404	347,420	2,731,747	889,597		
Contributions	(1,687,759)	(784,822)	2,508,160	614		
Net liability disclosed in balance sheet	3,140,900	1,176,499	14,841,500	5,343,000	431,400	96,800

Total expense recognised in operating statement

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Current service cost	265,807	88,262	215,330	68,494	14,074	8,083	660,050
Interest on obligation	428,094	98,035	1,240,461	326,914	19,990	5,498	2,118,992
Expected return on plan assets	(192,311)	672	(750,581)	(67,188)	0	0	(1,009,408)
Net actuarial losses/(gains) recognised in year	450,814	160,451	2,026,537	561,377	74,736	3,119	3,277,034
Total included in "employee benefits exp"	952,404	347,420	2,731,747	889,597	108,800	16,700	5,046,668

Actual Return on plan assets

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Actual return on plan assets	349,978	(5,103)	1,356,105	157,735	0	0	1,858,715

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

Valuation method and principal actuarial assumptions at the reporting date

(a) Valuation Method

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

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

(b) Economic Assumptions (State Super Schemes)

	At 30 June 20(
Discount rate	5.2%
Expected rate of return on plan assets	7.3%
Expected salary increases	4.0%
Expected rate of CPI increase	2.5%

(c) Demographic Assumptions

The demographic assumptions at 30 June 2005 are those used in the 2003 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors

Age nearest Birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:								Additional promotional salary increase rate %
	Death	Total & Permanent Disability	Retirement		Resignation		Redundancy		
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
Males									
30	5	10	0	0	280	395	150	0	2.90
40	6	13	0	0	145	285	150	0	1.80
50	12	41	0	0	88	172	150	0	0.00
60	36	0	1600	1300	0	0	150	0	0.00
Females									
30	2	2	0	0	372	700	150	0	2.90
40	3	7	0	0	190	320	150	0	1.80
50	8	41	0	0	172	270	150	0	0.00
60	20	0	1800	1600	0	0	150	0	0.00

Note: The SASS Act 1987 divides employers into Part 1 (Crown and other employers), Part 2 (Local Government) and Part 3 (Hospitals and other health related bodies).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

SSS Contributors

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:					Additional promotional salary increase rate %
	Death	Ill-health Retirement	Retirement (R60 for females)	Cash Resignation (R60 for females)	Preservation (R60 for females)	
Males						
30	5	30	-	178	92	2.90
40	6	39	-	52	63	1.80
50	12	103	-	23	80	0.00
60	36	0	6800	0	0	0.00
Females						
30	2	6	-	204	124	2.90
40	3	21	-	72	105	1.80
50	8	103	-	30	90	0.00
60	20	0	6400	0	0	0.00

Note: R60 stands for women who elected to retire at age 60 rather than 55.

SSS Commutation

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	.20	.25
	Widow	**Widower**
55	.2500	.2500
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

SSS Pensioner Mortality

Age	Retirement Pensioners and Spouses and Widows		Invalidity Pensioners	
	Males	Females	Males	Females
55	0.0025	0.0015	0.0093	0.0092
65	0.0072	0.0051	0.0158	0.0152
75	0.0232	0.0145	0.0371	0.0275
85	0.1063	0.0487	0.1063	0.0681

SSS Pensioner Mortality Improvements

Age	Short term Improvement rates- (for years 2002-2006)		Long term Improvement rates- (for years post 2006)	
	Males	Females	Males	Females
55	0.0342	0.0231	0.0152	0.0113
65	0.0230	0.0174	0.0101	0.0065
75	0.0188	0.0144	0.0087	0.0068
85	0.0062	0.0065	0.0052	0.0080

Arrangements for employer contributions for funding

The following is a summary of the 30 June 2005 financial position of the Fund calculated in accordance with AAS 25 - Financial Reporting by Superannuation Plans

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Accrued benefits	6,938,935	1,649,556	18,712,801	5,065,445			32,366,737
Net market value of Fund assets	(4,358,755)	(694,530)	(9,208,086)	(995,484)			(15,256,855)
Net (surplus)/deficit	2,580,180	955,026	9,504,715	4,069,961			17,109,882

	SASS A$ 000	SANCS A$ 000	SSS A$ 000	PSS A$ 000	JPS A$ 000	PCSS A$ 000	Total A$ 000
Expected Crown employer contributions	0	0	0	0	0	0	0

Nature of asset/liability

If a surplus exists in the employer interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund actuary. As there is a deficiency for all Crown Entity superannuation schemes, the employer is ultimately responsible for the difference between the plan assets and the defined benefit obligations.

Funding method

The NSW Government wishes to fully fund superannuation liabilities by 2030. The Crown Entity intended to transfer $8.7 billion from the Liability Management Fund (LMF) to State Super in 2006-07. But this may not occur because of current uncertainty about the available Commonwealth pre-July funding credits. Accordingly no current superannuation liability has been shown in the accounts.

20. OTHER EMPLOYEE BENEFITS

	2006 $000	2005 $000
Current	2,747,911	2,614,951
Non-current	279,097	271,875
	3,027,008	**2,886,826**

Long Service Leave

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

Valuation Methodology

An actuary has considered the Crown Entity's assessment of present value of accrued liabilities. For each future year, the entitlements expected to be paid in service and at the end of employment have been determined by making a projection using:

- each employee's current salary and long service leave (LSL) balance
- assumed LSL rates
- rates of death, disablement, retirement and resignation
- salary escalation rates.

The resulting cash flows have been converted to a present value by discounting market yield on national government bonds at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

	2006 $000	2005 $000
a) Long Service Leave and On-costs		
Current		
Budget dependent long service leave and other leave benefits	2,660,089	2,554,939
Non-budget dependent long service leave pool	76,947	56,350
	2,737,036	**2,611,289**
Non-Current		
Budget dependent long service leave and other leave benefits	140,005	134,470
Non-budget dependent long service leave pool	4,050	2,966
	144,055	**137,436**
Total Long Service Leave Provision	**2,881,091**	**2,748,725**

Movement in Major Provisions:

	Budget Dependent Long Service Leave $000	Non-Budget Dependent Long Service Leave $000
Balance 1 July 2005	2,689,410	84,409
Add: Increase in liability during the year	388,131	5,508
Less: Payments	(277,447)	(8,920)
Balance 30 June 2006	**2,800,094**	**80,997**

SRA Workers Compensation Liability

This represents the actuarial estimates of the outstanding workers' compensation liability for pre-1996 incurred claims of State Rail Authority of NSW.

The actual cost of settling claims will not be known with any certainty until several years after the claims have been incurred, due to the long term nature of workers' compensation claims. There is therefore uncertainty in projecting the outstanding workers' compensation claim liabilities in each year. In addition, the future claim experience will be affected by future economic, social and environmental factors.

	2006 $000	2005 $000
b) SRA Workers Compensation Liability		
Current	10,875	3,662
Non Current	135,042	134,439
	145,917	**138,101**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

21. PROVISION FOR OUTSTANDING INSURANCE CLAIMS

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

The estimate is then discounted to a present value at the reporting date using discount rates based on investment opportunities for sufficient funds for the payable claims. The table below details the rates used.

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

	Treasury Managed Fund $000	Government Workers Compensation $000	TAC Fund $000	Building & Industry G'tee $000	Total $000
Balance at the beginning of the year	4,240,894	81,757	184,499	89,898	4,597,048
Additions	773,829	-	-	13,351	787,180
Payments	(590,508)	(4,725)	(21,521)	(19,185)	(635,939)
Reversal of unused provisions	(437,817)	(12,716)	(5,660)	-	(456,193)
Increase in discounts	254,845	4,137	9,048	1,611	269,641
Balance at the end of the year	**4,241,243**	**68,453**	**166,366**	**85,675**	**4,561,737**
Current - 2006	634,713	4,120	15,689	17,817	672,339
Non Current -2006	3,606,530	64,333	150,677	67,858	3,889,398
	4,241,243	**68,453**	**166,366**	**85,675**	**4,561,737**
Current - 2005	626,107	7,825	28,255	20,972	683,159
Non Current -2005	3,614,787	73,932	156,244	68,926	3,913,889
	4,240,894	**81,757**	**184,499**	**89,898**	**4,597,048**

(a) The TMF weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.86 years (2005: 6.33 years).

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

	2006 %	2005 %
Claims Expected to be Paid		
Not later than one year:		
Inflation rate	3.00 - 4.50	3.25
Discount rate	6.60	6.50
Superimposed inflation *	0 - 10.00	0 - 7.00
Later than one year:		
Inflation rate	2.50 - 4.50	3.25
Discount rate	6.60	6.40 - 6.50
Superimposed inflation *	0 - 10.00	0 - 7.00

CROWN ENTITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

22. CHANGES IN EQUITY

	Accumulated Deficit		Asset Revaluation Reserve		Total Equity	
	2006	2005	2006	2005	2006	2005
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July	(27,191,653)	(17,331,054)	2,205,348	870,480	(24,986,305)	(16,460,574)
Changes due to AASB 139/TC 06-04 Financial Instruments	89,377	-	-		89,377	-
First time adoption changes and correction of errors	-	(5,615,325)	-	1,125,021	-	(4,490,304)
Restated Opening Balance	(27,102,276)	(22,946,379)	2,205,348	1,995,501	(24,896,928)	(20,950,878)
Changes in equity - transactions with owners as owners						
Asset Revaluation Reserve Transfer In	856	100	(856)	(100)	-	-
Investment transfer in	137,127	-	-	-	137,127	-
Employee entitl. liability-admin restructure	-	(160,000)	-	-	-	(160,000)
Capital Restructure	49,000	76,000	-	-	49,000	76,000
Total	186,983	(83,900)	(856)	(100)	186,127	(84,000)
Changes in equity-other than transactions with owners as owners						
Surplus/(Deficit) for the year	3,808,604	(4,188,240)			3,808,604	(4,188,240)
Increase in Asset Revaluation Reserve						
- Land & Buildings	-	-	240,553	197,309	240,553	197,309
- Finance lease	-	-	(42,040)	-	(42,040)	-
- Intangible	-	-	2,013	559	2,013	559
- Adjustment relating to BHP properties	-	-	-	39,354	-	39,354
Transfer of asset revaluation reserve for assets held for sale	-	14,880	-	(14,880)	-	-
Admini Restructure - Out - Plant/Proper	200	4,220	-	-	200	4,220
Total	3,808,804	(4,169,140)	200,526	222,342	4,009,330	(3,946,798)
Transfers within equity						
Trsfr of realised revaluation reserve to accumulated funds on disposal of asset	-	122	(10,190)	(122)	(10,190)	-
Trsfr of revaluation reserve to accumulated funds for unallocated amounts	-	12,197	-	(12,197)	-	-
Asset reduction due to previous year error	-	75	-	(75)	-	-
Other equity changes	12,511	(4,628)	-	-	12,511	(4,628)
Total	**12,511**	**7,766**	**(10,190)**	**(12,394)**	**2,321**	**(4,628)**
Balance at 30 June 2006	**(23,093,978)**	**(27,191,653)**	**2,394,828**	**2,205,348**	**(20,699,150)**	**(24,986,304)**

23. INDIVIDUALLY SIGNIFICANT ITEMS

In 2005-06, there were the following significant items:

1. Superannuation was actually a negative expense of $2,060m compared to an expense of $5,943.0m in 2004-05. This uneven trend is explained by changing discount rates used to calculate the provision. When AEIFRS accounting was adopted in 2005 the discount rate fell from 7.3% to 5.2%. Whilst in 2006 there is an increase in the discount rate from 5.2% to 5.9% resulting in a fall in unfunded superannuation liabilities of approximately $2 billion. Further, in 2005 the Crown Entity was responsible for the payment of accumulation scheme employer contributions for budget agencies. This responsibility was transferred to agencies in 2006.

2. In 2006 insurance claims expense was $418.5 million, a fall of $406.6 million from 2005. This was due to SI Corp's provisions for insurance claims being written back following actuarial assessment of improved claims experience.

3. Recurrent appropriation payments were $32,276.9 m, an increase of $3,474m over 2005. The main increases went to Health $1199m, Education $672m, Transport $379m, Infrastructure & Planning $304m, Natural Resources $416m and Police $156m.

4. Revenue from Taxes, Fees and Fines was $ 16,602m an increase of $752m over 2005. The increase was mainly due to Payroll Tax $405m and Land Tax $158m.

5. Revenue from Commonwealth Grants was $17,895m an increase of $1,823m over 2005. The increase was mainly due to a Special Purpose Road Grant of $960m, increased GST Grant $480m, Health Care Grant $132m, Rural Adjustment Grant $93m and Government Schools Grant $113m.

In 2004-05 there were three individually significant items:

1. Superannuation expense was $5943.0 million in 2004-05. This was due to changing discount rates used to calculate the provision. During 2005 the discount rate fell from 7.3 to 5.2%. Accruing liabilities were largely offset be revenue of fund assets. Thus the increase unfunded superannuation liabilities was mainly due to the change in the discount rate.

2. The Crown Finance Entity made a grant of $975 million to the LMMC (2003-04: $1,124 million). The LMMC must use this to reduce the Crown Entity's superannuation liability while there is one. At 30 June 2005, the funds were invested following LMMC Investment Committee recommendations.

3. Investment income increased by $168 million because of increased investment returns from LMMC ($127 million) and SICorp ($80 million).

24. COMMITMENTS FOR EXPENDITURE

(a) Capital Commitments

At 30 June 2006 the Crown Entity has capital commitments of $248.7M principally relating to:

Crown Property Portfolio

Capital expenditure commitments are in relation to the construction of a new government office building in Queanbeyan $44.5M, development of the Parramatta Justice Precinct $99.9M, construction of a new government office building at Penrith $50.6M and refurbishment works in various other buildings $0.6M.

Snowy Hydro Limited

The Crown Entity's share (58%) of capital expenditure commitment included below is $53.1M. The details of the agreement are disclosed at Note 6 Investments in Associates and Note 25 Guarantees.

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

	2006 $000	2005 $000
Capital commitments contracted for at reporting date but not recognised as liability are as follows:		
- not later than one year	158,211	89,091
- later than one year but not later than five years	90,530	116,277
- later than five years	-	-
Total (including GST)	**248,741**	**205,368**

(b) Other Commitments

At 30 June 2006 the Crown Entity has other commitments of $49.6M principally relating to:

Land Development Working Account

In March 2004 the Land and Environment Court directed the Minister assisting the Minister for Natural Resources (Lands) to acquire a parcel of Land owned by Nedoni Pty Ltd. The Land is located at Byron Bay. It is intended that the Minister will acquire the parcel of Land on behalf of the Crown. The potential liability to LDWA could be up to $3 million being the land value and other costs of acquisition. Due to unresolved issues concerning the amount of land to be acquired, a reliable land valuation estimate could not be determined at this stage and a liability has therefore not been recognised.

Snowy Hydro Limited

The Crown Entity's share (58%) of other commitments included below is $46.6M. The details of the agreement are disclosed at Note 6 Investments in Associates and Note 25 Guarantees.

Other commitments contracted for at reporting date but not recognised as liability are as follows:

	2006 $000	2005 $000
Other commitments contracted for at reporting date but not recognised as liability are as follows:		
- not later than one year	49,591	2,603
- later than one year but not later than five years	-	-
- later than five years	-	-
Total (including GST)	**49,591**	**2,603**

(c) Operating lease commitments – Lessee

At 30 June 2006, the Crown Entity has Operating lease as a lessee commitments of $201.7M principally relating to:

Crown Property Portfolio

The Crown Property Portfolio has entered into approximately 88 operating Head Lease agreements as a lessee for office accommodation properties which are sub-leased to State government agencies.

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

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

Minimum lease payments were reduced by the $3.819M amortisation of a $68M lease incentive received in 1995.

NSW Self Insurance Corporation

The operating lease relates to the rental of SICorp's Head office. The lease is a non-cancellable lease with a term of six years and an option to extend for a further four years. A market review of rents payable is undertaken biannually. On expiration of lease the rental premise is to be returned to its original condition. A make good restoration provision has been taken up.

Future minimum rentals payable under non-cancellable operating leases – Lessee at 30 June:

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	2006 $000	2005 $000
Future non-cancellable operating lease rentals not provided for and payable:		
Not later than one year	66,031	81,866
Later than one year and not later than five years	101,331	123,308
Later than five years	34,332	37,388
Total (including GST)	**201,694**	**242,562**
In respect of non-cancellable operating leases the following liabilities have been recognised:		
Current:		
Onerous lease contracts (note 33)	2,671	3,107
Lease incentives (note 32)	1,909	3,819
	4,580	**6,926**
Non-Current:		
Onerous lease contracts (note 33)	11,784	8,690
Lease incentives (note 32)	-	1,909
	11,784	**10,599**

(d) Operating lease commitments –Lessor

At 30 June 2006 the Crown Entity has Operating lease as a lessor commitments of $463.2M principally relating to:

Crown Finance Entity– Motor Vehicle Leases

The Crown Finance Entity's Operating leases relate to the fleet of motor vehicles managed by the Department of Commerce that are leased to government agencies. These leases are under non-cancellable operating leases with terms between 1 to 2 years with no lease option to extend.

The Head Lessors (refer to (f) finance lease as a lessee below), lease vehicles to the Lessor (the Crown Entity) pursuant to a finance lease called the Head Lease. The Lessor on-leases the vehicles to the Lessee agencies under an operating lease. Although the Lessor bears the ultimate risk of losses on disposal of vehicles the Reserve Accounts are held by the Head Lessors during the term of the transaction for ease of administration.

Under the facility structure the Head Lessors are able to utilise the application of section 59(2A) of the Income Tax Assessment Act.

The pricing/Lease Rate are predicated on a defined set of assumptions similar to those found in other domestic tax based leasing transactions. The funding Margin varies according to the applicable interest rate and the assumed Residual Values for individual vehicles. Under most scenarios the effective funding/Lease Rate is below TCorp's cost of funds.

Individual vehicles are leased for an agreed period (normally 2 years) and then sold. The profit or loss on disposal of each User Group's vehicles is deposited into their respective Reserve Account. Specifically if the vehicle is sold for a profit, the profit is credited to the Reserve Account. Conversely, if the vehicle is sold for a loss the loss is debited to the Reserve Account.

Reserve Accounts have been established for the following User Groups:

- Health;
- RTA; and
- National Parks/Others.

Macquarie Bank, as Manager of the facility, determines the Residual Values which applies to the leased vehicles. The Residual Values were determined taking into account sales history analysis of each fleet on a two year average weighted in favour of the most recent experience, Macquarie's expectations for future Residual Values, and the respective Reserve Account balances.

Once set, Residual Values generally applied for a six month period after which they were updated to reflect trends in the market place and changes in future expectations. If there were large unexpected movements in the motor vehicle second hand market, Residual Values could be updated on a more regular basis with consultation with StateFleet and TCorp. Residual Risk Fees applied to vehicles from the commencement of their leases and, once set for an individual vehicle, did not change for that vehicle's lease term

The Residual Risk Fees are collected on a monthly basis and deposited into the respective Reserve Accounts.

The facility is managed by Macquarie on behalf of the Head Lessors, Lessor, Investors and Debt Financiers. State Fleet and TCorp manages the facility on behalf of the Lessee.

StateFleet also acts as Fleet Manager for the Head Lessors.

The Treasurer of NSW has granted an exemption from stamp duty for the lease between Macquarie Sydication (MS17) and NSW. MS 17 is a special purpose company set up to lease the vehicles to NSW and it funds itself from equity and debt from the Macquarie Bank Group (MS 12) and BNP Paribus Group (Henaross). Stamp duty is payable on the leases between MS17 and the Head Lessors (currently Henaross (for BNP Paribas) and Macquarie Syndication (MS12).

The RTA provides formal exemptions from transfer of registration duty for the sale and leaseback of vehicles.

The Crown Leaseholds Entity

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

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

Crown Lands Act 1989 (CLA)

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

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

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

Crown Lands (Continued Tenures) Act 1989 (CTA)

- **Perpetual Lease**
  This is the lease held in perpetuity over land (ie. It does not expire) subject to compliance with conditions including payment of annual rent, etc. Many of these can be purchased at a low value. If the lease is surrendered or terminated, no compensation is payable to the holder.

- **Term Lease**
  This is a lease held for a stated period of time. It is also held over land only and the land may be purchased if the Minister agrees. The purchase price for the land would be market value.

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

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

- **All non-cancellable leases rental charges are escalated annually on Consumer Price Index Basis.**

Crown Property Portfolio- Head Leases

Under the Memorandum of Understanding, the Crown Property Portfolio leases premises to various Government Agencies. The provisions of the Memorandum are generally based on market place conditions applicable to office buildings in commercial centres.

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

Market based rent reviews are conducted at two yearly intervals. There are no ratchet clauses in place and tenants are charged an effective rental, which takes into consideration incentives available in the market place at a particular point in time.

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

	2006 $000	2005 $000
Future non-cancellable operating lease receivables:		
Not later than one year	164,567	220,610
Later than one year and not later than five years	147,209	214,175
Later than five years	151,447	151,359
Total (including GST)	**463,223**	**586,143**

	2006 $000	2005 $000
Contingent Asset		
GST Recoverable input tax credits		
Capital commitments	22,613	18,670
Other commitments	4,508	237
Operating lease commitments - lessee	18,336	22,051
Total (including GST)	**45,457**	**40,957**
Contingent Liabilities		
GST Payable input tax debits		
Operating lease commitments - lessor	42,111	51,909
Total (including GST)	**42,111**	**51,909**

(e) Sub – Leases

Crown Property Portfolio

The Crown Property Property Portfolio has entered into commercial property leases by subleasing out majority of its Head leased office accommodation properties to government agencies. The details are disclosed at (d) above.

	2006 $000	2005 $000
Future minimum lease paymtents under non-cancellable operating lease that will be recouped under sub-leases but not provided for:		
- not later than one year	65,702	81,866
- later than one year and not later than five years	99,791	123,308
- later than five years	33,618	37,388
Total (including GST)	**199,111**	**242,562**

(f) Finance lease commitments –lessee

At 30 June 2006 the Crown Entity has finance lease as a lessee commitments of $148.3M principally relating to:

Crown Finance Entity – Motor Vehicle lease

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

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

The facility had an initial 10 year term with an evergreen mechanism. These leases do not have renewal and or purchase options. The existing lease agreements are expected to terminate within the next 3 years and as a result no new leases have been issued since January 2006.

The weighted average interest rate impact of the leases for both the Crown Entity and the Crown Finance Entity is 5.7% (2005: 5.5%).

Crown Property Portfolio (Noel Park House)

Finance lease refers to lease on Noel Park House. The Noel Park House lease has a lease term of 25 years with no option to purchase the asset at the completion of the lease term in 2017. The discount rate implicit in the lease is 8.31% pa. The decrease in Finance Lease liability is due to an option to purchase the McKell Building being exercised during 2005-06, resulting in the transfer from Finance Lease to Owned Property.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are:

	2006 $000	2005 $000
Minimum lease payment commitments (exclusive of GST) in relation to finance leases payable as follows:		
Not later than one year	107,075	268,643
Later than one year and not later than five years	45,416	88,989
Later than five years	6,971	21,336
Minimum lease payments	159,462	378,968
Less: future finance charges	(11,153)	(31,916)
Present value of minimum lease payments	148,309	347,052
Classified as :		
Current borrowing (note 17)	100,886	244,270
Non-Current borrowings (Note 17)	47,423	102,782
	148,309	347,052

25. GUARANTEES

Snowy Hydro Limited

On 28 June 2002, the Commonwealth's Snowy Mountain Hydro-electric Authority and the electricity trading company, Snowy Hydro Trading Propriety Limited became a new public company, Snowy Hydro Limited (SHL). This is owned by NSW, Victoria and the Commonwealth. NSW owns a 58 per cent share in the company and it has entered into guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme. It is not possible to estimate the amount of exposure at this time for the following situations.

Each of the initial five SHL directors have a Deed of Indemnity against claim costs from liabilities transferred from the former Authority and for putting corporatisation agreements in place. The duration of the risk is for any claim lodged before June 2007. There are currently no known claims. Directors must maintain risk insurance cover and SHL has a back-to-back indemnity indemnifying the governments for any legally allowable claim costs incurred. These directors are no longer on the board.

If any change to the Snowy Water licence has an adverse financial impact for SHL, the company will receive that corresponding amount in compensation. NSW may recover 42 per cent of this compensation if Victoria and the Commonwealth agree to water licence changes. No major amendments to the Snowy Licence are currently proposed. The licence expires in 2079 or when ended.

If an instruction from the Water Ministerial Corporation to SHL causes spills or a Jindabyne Dam release causes downstream damage, the Crown Entity will compensate SHL for the proportion of claims it incurs. NSW will pay 58 per cent of the cost if the Commonwealth and Victoria also agreed with the instruction. No claims currently exist. The risk of exposure should be very low for several years after corporatisation while sufficient water savings are found and allocated to the Snowy River. This indemnity lasts while the licence is in place.

If legislation requires SHL to modify its structures or lower dam levels to reduce the impact of cold-water releases, NSW will provide 58 per cent of the amount necessary to maintain financial covenants and credit rating for up to 2009. Applicable legislation is the *Water Management Act 2000*. The Environmental Protection Authority has never asked for a dam structure to be modified for this reason in NSW. Any likelihood of this is further lessened by NSW's cold-water strategy where SHL does not have to modify dams or dam levels to reduce cold-water pollution until 2009.

Under a Tax Compensation Deed, NSW can receive 58 per cent of the income tax SHL pays under a tax sharing agreement with the Commonwealth. If accumulated dividend imputation credits within the company have not been fully distributed to a shareholder government before the sale of more than 5 per cent of its shares, the government selling its shares must repay the Commonwealth the value of the undistributed dividend imputation credits it was entitled to receive. The deed expires either with the end of the licence in 2077 or when government shareholders sell their shares.

TCorp Guarantees

The government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of $29.7 billion (2005: $31.0 billion) under the *Public Authorities (Financial Arrangements) Act 1987*.

State Bank (Privatisation) Act 1994

Under the *State Bank (Privatisation) Act 1994*, the State guaranteed all existing and future bank liabilities until 31 December 1997. It will not guarantee any new liabilities incurred after then, although existing liabilities will be guaranteed until maturity. At 30 June 2006, the total guaranteed bank liabilities were $10.0 million (2005: $106.7 million).

The State also gave indemnities for an estimated $4.5 million (2005: $6.3 million) in bank losses because of matters in its books at 31 December 1994.

Government Insurance Act 1927

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

Actuarial assessment of the GIO liabilities is:

	31 Dec 2005 $m	31 Dec 2004 $m
General insurance	215	234
Life insurance	75	80
Inward reinsurance	68	107
	358	**421**

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

TAB

The government indemnified TAB Limited against revenue drops from monitoring-fee reductions determined by the Minister for Gaming and Racing. Hoteliers and registered clubs pay TAB the fee for Centralised Monitoring System (CMS) gaming devices.

The government also indemnified TAB under the Deed of Undertaking and Indemnity against loss during the CMS licence term if the fee is redetermined. However, this excludes any redeterminations made in line with the method that the Independent Pricing and Regulatory Tribunal used to set a rate of return in the original 1998 fee determination.

The government is disputing a TAB claim for up to $1.51 million a month for May to December 2004 after the Minister redetermined the monitoring fee in April 2004.

NSW Treasury Corporation

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

It has also issued undertakings for other government authorities for their performance under contracts with third parties. These amounts are recoverable from the government authority participants and are government guaranteed. At year end, the agreed aggregate amounts were $571 million (2005: $542 million).

Sale of Pacific Power International

As a condition of the Pacific Power International sale, the State must compensate the electricity industry superannuation fund trustee if there is an actual shortfall of assets, if the investment return is less than assumed at 4.5 per cent (excluding CPI) a year and if one of the following occurs:

- the purchaser, Connell Wagner, is no longer is an employer in the fund
- the last benefit is paid
- the relevant assets are exhausted.

The compensation amount is the lower of the actual shortfall of the assets or the asset shortfall because of a lower than anticipated investment return. There is no expected liability with current forecasts on investment returns (2005: none).

Pacific Power – Power Stations

Pacific Power, through its subsidiary Pacific Power (Subsidiary No.1) Pty Limited was in a consortium to construct the Tarong North and Callide C power stations. The engineering procurement and construction contracts required a guarantee from the consortium's parent companies. When Pacific Power was dissolved, the Treasurer issued a replacement guarantee, and other Pacific Power guarantees were transferred to the Treasurer. Although the guarantees are enforceable under a range of conditions, they mainly cover the consortium's failure to meet contractual obligations.

The consortium has received an Interim Final Certificate for the Callide C power station. A certificate is also currently being issued to Pacific Power (Subsidiary No.1) for the Tarong North power station. These will significantly reduce the exposure from guarantees up to the 2006 scheduled completion dates.

Contracts with Private Sector Parties

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

- Macarthur Water Filtration Plant
- Illawarra and Woronora Water Treatment Plants
- Prospect Water Filtration Plant and Treatment Works
- Eastern Creek Waste Treatment Plant
- VISY Mill: Tumut Timber Supply Agreement

Floating Interest Rate Exposure on Motor Vehicle Financing Arrangements

The State's motor vehicles are financed under one external leasing arrangement (Tranche 3) and one internal leasing arrangement managed by StateFleet and funded by TCorp (Tranche 4). Two external leasing arrangements, Tranches 1 and 2, terminated in June 2006.

The two tranches are funded on a floating rate basis. Effectively there is a floating rate principal exposure of $578 million as at 30 June 2006 (2005 $599 million).

Going Concern Capacity

A number of government agencies are currently being restructured, including the State Rail Authority, the Rail Infrastructure Corporation and the State Transit Authority. The Crown Entity has guaranteed their 'going concern' capacity throughout this process.

26. CONTINGENT LIABILITIES

The following contingent liabilities are for Crown finance and property activities. The Report on State Finances contains the residual Crown contingencies which are the responsibility of other state sector public sector agencies.

Commonwealth Native Title Act

Under the *Commonwealth Native Title Act 1993*, claims may be lodged for land currently held as inventories. However, inventories are not offered for sale until Native Title interests are extinguished through compulsory acquisitions or where the Native Title Tribunal grants a non-claimant application. These claims are complex and do not directly relate to the land value in the financial statements.

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

- **Structured Finance Activities**

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

- The Crown Entity indemnity for each transaction. The exposure is for change of law and administration risk to the parties in the lease agreement.

- The Crown Entity has a third-party risk for money on deposit with a counterparty. T he counterparty's contingent liability is estimated at $543 million (2005: $460 million) and reflects the term nature of the deposits and the value of the Australian dollar against the US dollar. TCorp regularly monitors the risk on behalf of the Crown.

During 2005-06, there were no significant changes in the deposit counterparties' credit standings of BBB+ to AAA.

Two leases over rail stock involve certain swap transactions for which the Crown Entity has provided indemnity. An additional potential exposure arises under these swaps. However, the overall lease transactions are structured such that there is a zero net position under the swaps.

Unclaimed Money

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

Office of State Revenue

The State Debt Recovery Office is reviewing some infringement matters to decide if special circumstances exist for payment returns. The Crown Solicitor is currently dealing with 74 matters for OSR, and the settlement estimate of each is unspecified.

GST Debts

The Crown Entity has operating lease revenue commitments of $463.2 million (2005: $496.2 million). These create a future GST contingent liability of $42.1 million (2005: $52 million).

27. CONTINGENT ASSETS

HIH Collapse

Because of the HIH collapse, the Crown Entity assumed builders warranty and third party motor insurance liabilities of about $650 million. An actuary estimated the discounted present value of the outstanding liability to be $176.8 million as at 30 June 2006.

In 2005, the liquidators announced a plan to initially distribute 10 cents in the dollar, with future further payment of between 10 and 15 cents in the dollar. In 2006, the Crown Entity received the initial payments totalling $28.2 million.

GST Credits

The Crown Entity has capital commitments of $248.7 million (2005: $164.1 million) and operating lease commitments of $201.7 million (2005: $496.2 million). The recoverable input tax credits constitute a contingent asset of $45 million (2005: $60 million).

28. CASH AND CASH EQUIVALENTS

	2006 $000	2005 $000
Cash on hand and at bank	949,770	645,970
Bank overdraft	(2,488,809)	(2,156,786)
Net Cash and Cash Equivalents	**(1,539,039)**	**(1,510,816)**

In 2005-06, the Governor approved a Crown Entity financial accommodation from TCorp for $2,500 million (2005: $2,500 million) under the *Public Authorities (Financial Arrangements) Act 1987*. The financing facility covered short term cash requirements caused by seasonal fluctuations in government receipts. At 30 June 2006, $743 million of this was drawn down (2005: $545.5 million).

Of the cash on hand and at bank, $150.9 million is restricted cash assets (2005: $121.1 million). This is cash in Special Deposit Accounts and trust funds that can only be used in line with the Special Deposit Account legislation and for trust fund purposes. Notes 31 (Special Deposits Accounts) and 30 (Trust Funds) detail these transactions.

Cash and short-term deposits in the Statement of Financial Position are:

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

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29. CASH FLOW INFORMATION

	2006 $000	2005 $000
(a) Reconciliation of Cash Flows from Operating Activities to the change in net assets		
Change in net assets for the year	3,808,604	(4,188,240)
Non cash items added back		
(Increase)/decrease of investment in associated company	(33,191)	(21,762)
Asset revaluation decrement	(27,648)	11,750
Write off/write down expenses	523	6,500
Provision for land remediation and other costs	-	38,440
Unrealised (gains)/loss on investments	-	(79,495)
Depreciation/amortisation	43,412	56,472
Non cash finance costs	(17,854)	25,465
Provision for doubtful debts	265	21,863
Loss/(gain) on asset disposals	28,848	11,903
Land transferred to other government agencies	3,632	5,200
Non cash adjustments for insurance claims	-	(28,508)
Other	(3,924)	(373)
Write back tax effect - Deferred tax assets and liabilities	-	201,913
Define superannuation change in discount rate	-	3,971,676
Equity restructure	-	(160,000)
	(5,937)	4,061,044
Change in Operating Assets and Liabilities		
Movement in working capital	173,259	298,487
Increase/(decrease) in other liabilities	(2,382,905)	1,017,860
(Increase)/decrease in other assets	51,751	(258,470)
	(2,157,895)	1,057,877
Movement for the year	(2,163,832)	5,118,921
Net Cash Flow from Operating Activities	**1,644,772**	**930,681**

30. TRUST FUNDS

	2006 $000	2005 $000
Trust monies held by the Crown Entity on behalf of:		
Olympic Coordination Authority Payables	1,698	1,684
Compensation Deposits re Land Acquisition Fund	168	150
Consumer Affairs trust	112	112
BHP land remediation trust	-	5,000
Other	50	145
	2,028	**7,091**

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

31. SPECIAL DEPOSIT ACCOUNTS

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

NSW Policyholders Protection Fund
The *Insurance Protection Act 2001* established this fund to hold taxes and other payments to meet home building and third-party motor accident insurance policy claims of declared insolvent insurers. In 2005-06, receipts were $86.8 million (2005: $81.3 million).

Non-Budget Long Service Leave Pool
This holds long service leave funds for certain budget dependent agencies that are now non-budget dependent.

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

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

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

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

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

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for the year ended 30 June 2006

General Government Liability Management Fund
The *General Government Liability Management Fund Act 2002* established the Fund to more flexibly manage the General Government Sector's financial position and its net financial liabilities with a non-superannuation investment fund. Employer superannuation contributions can temporarily be diverted into it when necessary.

Health Super-Growth Fund
The *Appropriation (Health Super-Growth Fund) Act 2003* established this to fund public health capital works and services from monies and investment proceeds. The fund was closed under the *State Revenue and Other Legislation Amendment (Budget Measure) Bill 2006* with the capital from the fund being transferred to the Liability Management Ministerial Corporation.

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

Accounts	NSW Policy Holders Protection Fund $000	Non Budget Long Service Leave Pool $000	Structured Finance Activities $000	Confiscated Proceeds Account $000	Petroleum Products Subsidy $000
Balance 1.7.2004	19,808	30,723	300	25,505	50
Opening balance 1.4.2005*	-	-	-	-	-
Plus receipts	81,533	3,543	133	12,869	551
Less payments	(76,060)	(9,173)	(127)	(689)	(551)
Balance 30.6.2005	**25,281**	**25,093**	**306**	**37,685**	**50**
Plus receipts	86,809	13,301	150	11,049	359
Less payments	(51,840)	(18,833)	(104)	(12,958)	(359)
Balance 30.6.2006	**60,250**	**19,561**	**352**	**35,776**	**50**

Accounts	Workers Compensation $000	Building Warranty Insurance $000	General Government Liability Management Fund $000	Health Super Growth Fund $000	NSW Self Insurance Corporation $000
Balance 1.7.2004	2,333	18,302	2,885,702	420,358	-
Opening balance 1.4.2005*	-	-	-	-	291,235
Plus receipts	7,464	2,239	1,172,878	24,470	15,498
Less payments	(4,464)	(206)	(3,430)	(23,140)	(231,408)
Balance 30.6.2005	**5,333**	**20,335**	**4,055,150**	**421,688**	**75,325**
Plus receipts	7,103	1,156	2,678,678	21,121	1,929,580
Less payments	(3,789)	(3)	(4,766)	(442,748)	(1,700,110)
Balance 30.6.2006	**8,647**	**21,488**	**6,729,062**	**61**	**304,795**

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

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

32. DEFERRED INCOME

	2006 $000	2005 $000
Current:	21,920	4,975
Non -Current:	235,959	110,536
	257,879	**115,511**

(a) Incentive from lessor

A lease incentive payment of $68M was received from the former SAS Trustee Corporation in January 1995 and relates to a twelve-year lease on the Governor Macquarie Tower. The lease incentive is recognised as a reduction of Head Lease Expenses over the term of the lease.

During 2005/06, an amount of $3.819M was recognised as a reduction against head lease expenses. The remaining balance of $1.909M as at 30 June 2006 is classified as a current liability.

(b) Prepaid long-term leases

The Crown Properties has leased the following properties on long term operating leases of over 50 years and received prepaid rentals, which it is recognising as income on a straight line basis over the lease terms: Goodsell Building, Colonial State Bank Centre, Aurora Place, Sir Stamford Hotel, Wentworth Chambers and Agar Steps Terraces.

During 2005/06 an amount of $1.299M was recognised as rental income and as at 30 June 2006, $1.764M has been classified as a current liability and $166.920M as a non-current liability.

(c) Licence Fees

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

During 2005/06 an amount of $ 87.3 million was deferred and $18.3 has been classified as current and $69 million classified as a non-current liability.

33. OTHER LIABILITIES

	2006 $000	2005 $000
Current:		
Unearned revenue	24,053	25,553
Stamp duty and tax	-	13,599
Builders warranty claim provision	21,489	20,335
Provision for shortfall in lease payments	2,671	3,107
Provision for land remediation	24,145	12,476
Provision for restoration costs	3,718	1,921
Rent received in advance	3,081	3,262
Payable - income tax equivalent refund	-	6,033
Confiscated drug proceeds	35,776	37,685
Premium paid in advance (SICorp)	4,688	15,288
Management, incentive and other fees (SICorp)	24,199	-
Special deposit and trust accounts	10,675	7,424
Other	385	5,523
	154,880	**152,206**
Non-Current:		
Provision for shortfall in lease payments	11,784	8,690
Provision for land remediation	99,710	129,791
Provision for restoration costs	6,995	11,925
Other	331	1,071
	118,820	**151,477**
Total	**273,700**	**303,683**

(a) Builders Warranty Insurance

This pool is used to manage re-insurance arrangements put in place by the Government to provide stability in the building warranty insurance market. Movement of this account is shown in Note 31.

(b) Confiscated Proceeds Account

This fund was established by the *Criminal Assets Recovery Act 1990* to hold monies recovered from criminals until these monies are used in accordance with the Act. Movement of this account is shown in Note 31.

(c) Provision for Shortfall in Lease Payments

The Provision for Sub-lease Income Shortfall is for the Crown Properties Portfolio (CPP) head leases on Colonial State Bank Centre, Martin Place, Sydney and Pacific Power Building, Sydney. The provision is the net present value of the excess of the head lease commitments over the estimated sub-lease rentals over the expected period of the shortfall. A discount rate of 5.79% was used and the level of the provision is reviewed at the end of each year and an adjustment made to the Operating Statement.

	2006 $000	2005 $000
Carrying balance at the beginning of year	11,797	12,423
Additional provisions recognised, including increases to existing	4,453	2,337
Reductions in provisions from payments and other sacrifices	(1,795)	(2,963)
Carrying balance at the end of year	**14,455**	**11,797**
Current liability	2,671	3,107
Non current liability	11,784	8,690
	14,455	**11,797**

(d) Provision for Land Remediation

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

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

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

The Government established a special subsidiary corporation, the Regional Management Land Corporation, which provided in June 2006, a revised estimated cost of the remaining remediation works. The liability is recognised using a discount rate of 5.79%.

	2006 $000	2005 $000
Environmental remediation of steel works main site and Kooragang Islands waste emplacement site, environmental monitoring of main site over 10 years, heritage interpretation funding proposal and relocation of the railway line to OneSteel (Moorandoo Crossing).	128,855	147,267
Less: Heritage interpretation funding proposal included in receivables	(5,000)	(5,000)
	123,855	**142,267**
Current liability	24,145	12,476
Non current liability	99,710	129,791
	123,855	**142,267**

(e) Makegood Restoration

The makegood restoration liability is calculated on all leased properties, where Crown entity is the lessee and reflects an estimate of the cost to makegood the premises to their original conditional at the end of the lease term.

	2006 $000	2005 $000
Makegood restoration liability on leased properties	10,713	13,846
	10,713	**13,846**
Current liability	3,718	1,921
Non current liability	6,995	11,925
	10,713	**13,846**

34. SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES

RECURRENT APPROPRIATIONS	Appropriation 2006	Expenditure 2006	Appropriation 2005	Expenditure 2005
ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE	**$000**	**$000**	**$000**	**$000**
Appropriation Act	3,408,628	2,891,606	3,799,226	3,284,722
Budget variation acts (additional appropriation)	1,000,000	1,000,000	-	-
Sec 22 - expenditure for certain works and services	-	-	163,272	161,737
Treasurer's Advance	17,864	17,864	1,125	900
Sec 28 - supplementation with offsetting savings (section 28 of the Appropriation Act)	(438,093)	-	(332,619)	8,705
Sec 16C - Insurance Protection Tax Act 2001	67,649	67,649	67,560	67,560
Total Appropriations/Expenditure (includes transfer payments)	**4,056,048**	**3,977,119**	**3,698,564**	**3,523,624**
LESS: Drawdowns from Treasury		4,020,429		3,601,685
Total Unspent Appropriations		(43,310)		(78,061)
CAPITAL APPROPRIATIONS				
Appropriation Act	632,488	417,744	216,563	127,086
Sec 22 - Expenditure for certain works and services	-	-	83,000	81,703
Treasurer's Advance	-	-	8,494	-
Sec 28 - Supplementation with offsetting savings	(80,000)	-	(71,384)	-
Total Appropriations/Expenditure (includes transfer payments)	**552,488**	**417,744**	**236,673**	**208,789**
LESS: Drawdowns from Treasury		417,744		208,789
Total Unspent Appropriations		-		-

35. CONSOLIDATED FUND TRANSACTIONS

	2006 $000	2005 $000
Cash Flows from Operating Activities		
Receipts		
State taxation, fines and regulatory fees	16,849,311	15,901,983
Commonwealth grants	17,895,802	16,072,110
Financial distributions	1,470,297	1,392,274
Other operating revenue	939,898	480,504
Total Receipts	**37,155,309**	**33,846,871**
Payments		
Recurrent appropriations paid to other Agencies	(32,391,869)	(28,918,083)
Recurrent appropriations paid to Crown Finance Entity	(4,020,429)	(3,601,685)
Capital appropriations paid to other Agencies	(2,695,647)	(2,476,937)
Capital appropriations paid to Crown Finance Entity	(417,745)	(208,789)
Total Payments	**(39,525,690)**	**(35,205,494)**
Net Cash Flow from Operating Activities	**(2,370,383)**	**(1,358,623)**
Cash Flow from Crown Finance Entity		
Proceeds from borrowing transferred	672,569	1,002,492
Investment income transferred	40,600	63,800
Interest receipts transferred	79,434	79,783
Advance repayments transferred	125,245	139,316
Other receipts transferred	1,057,238	27,196
	1,975,086	**1,312,587**
Net Increase/(Decrease) in Cash	**(395,297)**	**(46,036)**
Opening Cash and Cash Equivalents	**(2,140,952)**	**(2,170,916)**
Cash transferred in as a result of capital restructuring	49,000	76,000
Closing Cash Balances	**(2,487,248)**	**(2,140,952)**
Cash and Cash Equivalents		
Investment in Short Term Money Market	1,561	33
Bank overdraft	(2,488,809)	(2,140,985)
	(2,487,248)	**(2,140,952)**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

36. PROGRAM STATEMENT – EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2006

	Debt Servicing Costs $000	Refunds and Remissions of Crown Revenue $000	Other Service-wide Activities $000	Natural Disasters Relief $000	Not Attributable **	Total Crown Finance Entity * $000
Expense						
Superannuation	-	-	(2,059,528)	-	-	(2,059,528)
Long service leave	-	-	404,647	-	-	404,647
Maintenance	-	-	-	-	-	-
Depreciation/amortisation	-	-	36,575	-	-	36,575
Grant and subsidies	-	-	2,640,208	22,071	-	2,662,279
Finance costs	674,907	-	90,770	-	-	765,677
Insurance claims	-	-	20,999	-	-	20,999
Recurrent appropriations	-	-	-	-	-	-
Capital appropriations	-	-	-	-	-	-
Other	-	69,705	309,575	-	-	379,281
Total Expenses	**674,907**	**69,705**	**1,443,246**	**22,071**	**-**	**2,209,930**
Revenue						
Taxation, fines & regulatory fees	-	-	-	-	-	-
Commonwealth grants	-	-	-	-	-	-
Financial distributions	-	-	-	-	-	-
Sales of goods and services	-	-	-	-	-	-
Investment income	10	-	125,394	-	-	125,404
Share of profit of associate	-	-	73,791	-	-	73,791
Other	273	-	1,146,772	-	-	1,147,045
Revenue from Government	(672,569)	-	(1,345,827)	-	4,438,173	2,419,777
Total Revenue	**(672,286)**	**-**	**129**	**-**	**4,438,173**	**3,766,016**
Gain/(Loss) on disposal of non-current assets	-	-	(35,480)	-	-	(35,480)
SURPLUS/(DEFICIT) FOR THE YEAR	**(1,347,193)**	**(69,705)**	**(1,478,599)**	**(22,071)**	**4,438,173**	**1,520,607**

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

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

36. PROGRAM STATEMENT – EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2006 (Continued)

	Crown Finance Entity * $000	Consoldiated Fund * $000	Electricity Tariff Equalisation* $000	NSW Self Insurance Corporation* $000	Crown Leaseholds * $000	Crown Lands Homesites Program * $000	Land Development Working Account * $000	Crown Property Portfolio * $000	Liability Mangement Ministerial Corporation * $000	Elimination $000	Consolidated Total $000
Expense											
Superannuation	(2,059,528)	-	-	-	-	-	-	-	-	-	(2,059,528)
Long service leave	404,647	-	-	-	-	-	-	-	-	(5,508)	399,139
Maintenance	-	-	-	-	-	-	-	19,128	-	-	19,128
Depreciation/amortisation	36,575	-	-	625	-	-	-	6,212	-	-	43,412
Grant and subsidies	2,662,279	-	-	-	-	-	-	-	-	(2,569,140)	93,139
Finance costs	765,677	-	-	271,070	-	-	-	7,685	4,854	(962)	1,048,324
Insurance claims	20,999	-	-	398,063	-	-	-	-	-	(513)	418,549
Recurrent appropriations	-	36,412,299	-	-	-	-	-	-	-	(4,020,429)	32,391,869
Capital appropriations	-	3,113,391	-	-	-	-	-	-	-	(417,744)	2,695,647
Other	379,281	-	311,336	1,077,123	47,474	9,340	1,878	133,964	8	(1,084,997)	875,407
Total Expenses	**2,209,930**	**39,525,689**	**311,336**	**1,746,881**	**47,474**	**9,340**	**1,878**	**166,989**	**4,862**	**(8,099,293)**	**35,925,086**
Revenue											
Taxation, fines and regulatory fees	-	16,670,395	-	-	-	-	-	-	-	(68,403)	16,601,992
Commonwealth grants	-	17,895,429	-	-	-	-	-	-	-	-	17,895,429
Financial distributions	-	1,778,598	-	-	-	-	-	-	-	(88,878)	1,689,720
Sales of goods and services	-	-	-	972,479	-	-	-	155,778	-	(188)	1,128,069
Investment income	125,404	-	-	604,173	2,576	-	-	6,551	258,942	(962)	996,684
Share of profit of associate	73,791	-	-	-	-	-	-	-	-	-	73,791
Other	1,147,046	2,910,462	374,215	2,105	50,909	440	-	-	2,420,437	(5,525,414)	1,380,200
Revenue from Government	2,419,778	-	-	-	(61,152)	(12,414)	(6,500)	79,592	-	(2,419,304)	(0)
Total Revenue	**3,766,018**	**39,254,883**	**374,215**	**1,578,757**	**(7,667)**	**(11,974)**	**(6,500)**	**241,921**	**2,679,379**	**(8,103,149)**	**39,765,884**
Gain/(Loss) on disposal of non-current assets	(35,480)	-	-	-	(21,301)	12,542	11,571	476	-	-	(32,192)
SURPLUS/(DEFICIT) FOR THE YEAR	**1,520,609**	**(270,806)**	**62,879**	**(168,124)**	**(76,442)**	**(8,772)**	**3,193**	**75,408**	**2,674,517**	**(3,855)**	**3,808,606**

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

37. TRANSFER PAYMENTS

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

	2006 $'000	2006 $'000
Payments		
Non-Government schools - recurrent	1,650,317	1,563,963
Non-Government schools - targeted programs	114,557	69,075
Non-Government schools - capital	43,191	36,470
Local Government - financial assistance	375,902	358,153
Local Government - roads	144,844	137,339
	2,328,811	**2,165,000**
Receipts		
Non-Government schools - recurrent	(1,650,317)	(1,563,963)
Non-Government schools - targeted programs	(114,557)	(69,075)
Non-Government schools - capital	(43,565)	(36,470)
Local Government - financial assistance	(375,902)	(358,153)
Local Government - roads	(144,844)	(137,339)
	(2,329,185)	**(2,165,000)**

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

The Crown Entity has applied AEIFRS for the first time in the 2005/06 financial report. The key areas where changes in accounting policies have impacted the financial report are disclosed below. Some of these impacts arise because AEIFRS requirements are different from previous AASB requirements (AGAAP). Other impacts arise from options in AEIFRS that were not available or not applied under previous AGAAP. The Crown Entity has adopted the options mandated by NSW Treasury for all NSW pubic sector agencies. The impacts below reflect Treasury’s mandates and policy decision.

The impacts of adopting AEIFRS on total equity and deficit as reported under previous AGAAP are shown below. There are no material impacts on the Crown Entity’s cash flows.

Reconciliation of Equity and Deficit for the year

	Notes	Revised Cumulative to 30 June 2005 $000	As at 1 July 2004 $000
Total Equity under AGAAP		**(16,390,186)**	**(16,460,574)**
Adjustment to Accumulated Funds			
Adjustment of prior year remediated property	1	25,860	25,860
Write-back Asset Revaluation Reserve for Investment Properties	2	11,979	11,979
Write-back Asset Revaluation Reserve for Assets Held for Sale	3	14,880	-
Defined Benefit Superannuation Adjustment for Change in Discount Rate	4	(8,590,586)	(4,618,910)
Write-back Tax Effect - Deferred Taxes Assets/Liabilities	5	(1,411,146)	(1,209,233)
Write-back Prudential Margins on Outstanding Claims Provisions	6	314,427	285,918
Adjustment to accumulated funds - deferred purchase of McKell building	7	(40,757)	-
Recognition of increase in finance charges due to McKell Building adjustment	7	(12,244)	-
Recognition of deferred liability on long term leases	8	(109,782)	(110,939)
Total Accumulated Funds Adjustment		**(9,797,369)**	**(5,615,325)**
Adjustment to Other Reserves:			
Write-back asset revaluation reserve in respect of remediated property	1	59,407	-
Write-back asset revaluation reserve for investment properties	2	(11,979)	(11,979)
Write-back asset revaluation reserve for assets held for sale	3	(14,880)	-
Write-back asset revaluation reserve for deferred purchase of McKell building	7	31,702	-
Increment on revaluation of land to correct error		1,137,000	1,137,000
Total Other Reserves Adjustment		**1,201,250**	**1,125,021**
Net AEIFRS decrease in equity (deficit)		(8,596,119)	(4,490,304)
Total Equity under AEIFRS		**(24,986,305)**	**(20,950,878)**

Reconciliation of Surplus under AGAAP to Surplus under AEIFRS

	Notes	$000
Loss under AGAAP		**(32,072)**
Defined Benefit Superannuation Discount Rate Adjustment	4	(3,971,676)
Write-back Prudential Margins on Outstanding Claims Provisions	4	28,509
Adjustment to income tax expense	5	(201,913)
Recognition of increase in finance lease liability	7	(12,244)
Recognition of deferred liability on long term leases	8	1,156
Net AEIFRS decrease in equity		**(4,156,168)**
Deficit under AEIFRS		**(4,188,240)**

Notes to Table above

1. AASB 116 *Property Plant and Equipment* requires an increase in the cost and fair value of property, plant and equipment for any estimated restoration costs if restoration provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. Because AGAAP did not previously require this, the provision, net carrying amount of property, plant and equipment, depreciation expense and finance costs relating to the unwinding of the restoration provision have now all increased.

2. Under AASB 140 *Investment Property* and Treasury's mandates, investment property is now recognised at fair value. Unlike its previous treatment as property, plant and equipment, it is not depreciated when recognised at fair value, and changes in fair value are now recognised in the Operating Statement, not the asset revaluation reserve. Any asset revaluation reserve balances have been written back to accumulated funds. Because of this, unrealised gains recognised in the Operating Statement have increased and depreciation expense has decreased.

3. AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* reclassifies held-for-sale non-current assets as current assets that are recognised at the lower of the carrying amount and fair value, less costs to sell. Held-for-sale assets are not depreciated. Previously, they were treated as property, plant and equipment and measured at fair value. The change has reduced the carrying amount of the affected assets and decreased the depreciation expense.

4. AASB 119 *Employee Benefits* requires the Defined Benefit Superannuation obligation to be discounted using the government bond rate at each reporting date, rather than using the long-term expected rate of return on plan assets. This has increased the superannuation liability, reduced the opening accumulated funds and increased the annual superannuation expense. In 2004-2005 the long-term bond rate rose by 0.7 per cent, significantly decreasing superannuation liability and expense.

   AASB 119 requires present value measurement for all long-term employee benefits. Previously, these were measured at nominal value. This has decreased the employee benefits liability and employee benefits expense.

   Under AASB 119 Paragraph 128(b), entities must reduce the liability recognised for long-term employee benefits by the fair value at reporting date of the plan assets if they settle obligations directly from the assets. With the Non-Budget Long Service Leave Pool, the Crown Finance Entity keeps a separate bank balance to settle the Pool's obligations. Under AEIFRS this has been offset against the liability of the Pool.

5. AASB 112 *Income Taxes* uses a balance sheet approach where the differences between the accounting and tax value of assets and liabilities are recognised as deferred tax assets or liabilities. Previously, AGAAP used an operating statement method to account for income tax by adjusting accounting profit for temporary and permanent differences to determine taxable income. AASB 112 changes the quantum and timing of recognised tax assets and liabilities, and the tax expense. The Crown Entity's Consolidated Accounts show only the annual tax payable because it has no assets or liabilities that meet AASB 112's definition of temporary difference. Treasury also does not recognise an asset or a liability for income tax that is receivable or payable in the future, such deferred tax liabilities for revalued assets.

6. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets,* applies to the TMF which is a self-insurance arrangement for the General Government Sector and the Total State Sector accounts. AASB 137 uses a discount rate to reflect the time value of money, adjusted for specific liability risks, instead of the expected rate of return on fund assets applied under AASB 1023. Prudential margins previously recognised under AGAAP have been written back to AEIFRS.

7. AASB 118 *Revenue*, Australian Guidance state that real estate legal title does not pass until completion of the settlement, instead of on exchange of contract under AGAAP. This change has meant that the 2004-05 purchase of the McKell building has been deferred under AEIFRS to 2005-06 which consequent changes to assets, depreciation and finance charges.

8. AASB 117 *Leases*, requires long-term leases to be classified as operating leases and that prepaid rentals be amortised over the lease term instead of being recognised as sales income in one lump sum.

Financial Instruments 1 July 2005 First Time Adoption Impacts

As discussed in note 1, the Crown Entity has not restated its 2005-06 comparative information for financial instruments. It has used AASB 132 and AASB 139 from 1 July 2005 with opening equity adjustments.

	Note	Accumulated Funds $'000	Other Reserves $'000	Total $'000
Total Opening equity 1 July 2005 AEIFRS Equity		**(27,191,653)**	**2,205,348**	**(24,986,305)**
Adjustments from changed impairment testing	9			
Movements in fair value recognised in the asset revaluation reserve not in profit and loss	10			
Interest-free loans measured at fair value on recognition	11	91,317		91,317
Medium and long term Hour-Glass Growth Facilities – change to bid price	12			
Financial instruments held for trading	13	(1,238)		(1,238)
Financial instruments – fair value through profit or loss	13	(702)		(702)
Available-for-Sale financial assets	14			
Total Changes due to AASB 139/TPP 06-04		**89,377**		**89,377**
Restated opening 1 July 2005 AEIFRS Equity (after applying AASB 139)		**(27,102,276)**	**2,205,348**	**(24,896,928)**

9. *Impairment testing.* All financial assets except those measured at fair value through profit and loss are reviewed for impairment. A specific impairment test must now be used with supporting evidence if a group of assets is impaired or uncollectible. This means that agencies can no longer raise a general provision for doubtful debts. As a result, the impairment allowance recognised under previous AGAAP has been reduced.

10. *Movements in fair value* Net gains on financial assets available for sale are recognised through the asset revaluation reserve. Previously, such assets were measured at fair value as current assets and movements in fair value were recognised through profit and loss. These gains have been reclassified from accumulated funds to the reserves.

11. *Interest-free loans* Interest-free loans must initially be recognised at fair value and after this, at amortised cost. The fair value of a long-term loan receivable that carries no interest is estimated as the present value of all future cash receipts, discounted using the prevailing market interest rate for a similar instrument with a similar credit rating. Loan amortisation is recognised in Investment Income. For the comparative information to have met AASB 139, similar types of adjustments would have been needed.

12. *Medium and long term Hour Glass growth facilities* – Medium and long-term hour glass growth facilities are measured using the bid price, not the mid-point market price. This makes the July opening balance slightly lower than the June closing balance under previous AGAAP.

13. *Financial Instruments held for trading.* Financial assets and financial liabilities held for trading, including derivatives, must be recognised at fair value through profit and loss. Previously, derivatives were not recognised in the balance sheet and were only disclosed in the notes, and other financial instruments now regarded as held for trading were recognised at amortised cost. This change has increased the recognised financial assets and unrealised gains/losses.

14. *Available for Sale financial assets.* Available for sale financial assets are recognised as fair value through a reserve. Previously, some were recognised at amortised cost. This change has increased the financial assets and other reserves.

For the Crown Entity to have also met AASB 139 requirements for its comparative information, it would have needed to have made similar types of adjustments. However, it is not practicable for it to detail adjustments:

- to the deficit and opening accumulated funds from the start of the comparative period
- for each resulting financial report line item for the current period.

Designation of financial assets – TCorp Hour Glass Investment facilities

The Hour Glass investment facilities are unit trust investment funds managed by TCorp. Entities consolidated into the Crown Entity have a number of units in the facilities based on the amount of the deposit and the unit value for the day.

Investments in the facilities were designated at fair value through profit and loss at 1 July 2005, in line with AASB 139 and AASB 1. They were previously classified as Other Financial Assets but measured on the same basis, at fair value through profit and loss. Medium term and long-term hour glass growth facilities are now measured using the bid price not the mid-point market price.

The facilities were designated at fair value through profit and loss using the second leg of the fair value option. This uses a documented fair value risk management strategy to manage and evaluate the facilities. TCorp shares this information with Crown Entity key managers.

Grant Recognition for Not-For-Profit Entities

As a not-for-profit entity, the Crown Entity applies AASB 1004 *Contributions* to both the contributions of assets, including grants, and the forgiveness of liabilities. Its recognition requirements are no different from the standard it replaces.

However, this may be amended by proposals in Exposure Draft 125 Financial Reporting by Local Governments (ED 125) and ED 147 Revenue from Non-Exchange Transactions (including Taxes and Transfers). Using these, revenue and/or expense recognition will not occur until either an entity consolidated into the Crown Entity supplies the goods and services, including grants as in-substance agreements for these, or until conditions are met. Because of this, ED 125 and ED 147 may delay revenue recognition, whereas with AASB 1004, grants are recognised when controlled. However, at this stage, the timing and dollar impact of these amendments is uncertain.

39. CHANGES IN ACCOUNTING POLICIES, CORRECTIONS OF ERRORS AND CHANGES IN ESTIMATES

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.

Outstanding claims were calculated under AASB 1023 General Insurance Contracts until 30 June 2005. From 1 July 2005, as per the Secretary’s direction, AASB 137 Provisions, Contingent Liabilities and Contingent Assets was applied. This has resulted decrease in the outstanding claims by $314m in year 2004-05. This eliminated the previous difference from the figures consolidated at the whole government level where SICorp is treated as a self Insurer.

In accordance with AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, Treasury deferred application of AASB 132 and AASB 139 until the beginning of the First AEIFRS reporting period (i.e. 1 July 2005 for 30 June year end entities). As a result changes reflecting AASB 139/TC 06-04 Accounting for Financial Instruments, is primarily due to:

- Revaluation and recognition of low and or interest free loans at fair value on inception using effective interest rates.
- Revaluation of the Liability Management Ministerial Corporation's and NSW Self Insurance Corporation's bond portfolios from mid to bid pricing.

Refer to details of the changes as disclosed at Note 38.

Crown Leasehold

Vacant Crown land was last valued by the State Valuation Office at 30 June 2002. It was subsequently recorded by management at $4 billion and adjusted annually for any further land transactions. It will be revalued in 2006-07. The Chief Valuer at Valuation Services within Land and Property Information New South Wales has advised that on a reasonable basis, the value of the vacant Crown land has increased by 30 per cent ($1,137 million) since 2002. Given this advice, management has decided to adjust the value of the land upwards by $1,137 million against the asset revaluation reserve. The adjustment has been made effective 1 July 2004, the commencement for the reporting period on the basis that the major movement in land values occurred prior to this date.

40. POST BALANCE DATE EVENTS

The Commonwealth Treasury issued a consultation paper in July 2006 titled "Amendment of legislative provisions governing use of pre 1 July 1988 funding credits". The principles outlined in this paper may affect NSW's entitlement to funding tax credits.

The State Property Authority Act 2006 No 40 was proclaimed by the Government on 30 August 2006. The Act commences on 1 September 2006. As stated in the Budget Estimates 2006-07, negotiations are underway to transfer the Crown Property Portfolio from the Crown Entity to the State Property Authority.

End of Audited Financial Information

New South Wales
TREASURY

Liability Management Ministerial Corporation

Financial Report
for the year ended
30 June 2006

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):

- presents fairly the Corporation's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

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

Scope

The Financial Report and the Secretary of the Treasury's Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Corporation, for the year ended 30 June 2006.

The Secretary of the Treasury is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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:

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

P G Thomas CA
Assistant Auditor-General

SYDNEY
9 October 2006

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

FINANCIAL REPORTING FOR THE YEAR ENDED 30 JUNE 2006

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

(a) The accompanying financial report exhibits a true and fair view of the financial position of the Liability Management Ministerial Corporation for the year ended 30 June 2006 and the transactions for the year then ended; and

(b) The financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000*, the Treasurer's Direction and Australian Accounting Standards.

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

Kevin Cosgriff
Acting Secretary
6 October 2006

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

INCOME STATEMENT
for the year ended 30 June 2006

	Note	2006 $000	2005 $000
Expenses			
Operating expenses		4,854	3,573
Other	3	8	6
Total expenses		**4,862**	**3,579**
Operating Revenue			
Contributions from the Crown Finance Entity	4 a)	2,420,430	975,000
Investment income	4 b)	258,942	197,877
Other revenue	4 c)	7	2
Total Revenue		**2,679,379**	**1,172,879**
PROFIT FOR THE YEAR		**2,674,517**	**1,169,300**

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2006

	Note	2006 $000	2005 $000
Net increase / (decrease) in property, plant and equipment asset revaluation reserve		-	-
Net increase / (decrease) in available for sale financial asset revaluation reserve		-	-
Other net increases / (decreases) in equity		-	-
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		-	-
Surplus / (deficit) for the year		2,674,517	1,169,300
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	10	**2,674,517**	**1,169,300**
EFFECT OF CHANGES IN ACCOUNTING POLICY AND CORRECTION OF ERRORS			
Accumulated Funds		(701)	-
Reserves		-	-
		(701)	-

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

BALANCE SHEET
as at 30 June 2006

	Note	2006 $000	2005 $000
ASSETS			
Current Assets			
Cash and cash equivalents	6	5,736	1,426
Receivables	5	-	54,189
Financial assets at fair value	7	1,500,000	-
Derivatives	14	100,094	-
Total Current Assets		**1,605,830**	**55,615**
Non-Current Assets			
Financial assets at fair value	7	5,221,684	-
Investments	8	-	3,999,535
Total Non-Current Assets		**5,221,684**	**3,999,535**
Total Assets		**6,827,514**	**4,055,150**
LIABILITIES			
Current Liabilities			
Derivatives	14	98,452	-
Payables	9	449	353
Total Current Liabilities		**98,901**	**353**
Total Liabilities		**98,901**	**353**
Net Assets/(Liabilities)		**6,728,613**	**4,054,797**
Equity			
Reserves			
Retained profit		6,728,613	4,054,797
Total Equity	10	**6,728,613**	**4,054,797**

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

CASH FLOW STATEMENT
for the year ended 30 June 2006

	Note	2006 $000	2005 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from Crown		2,420,437	975,002
Investment income		313,132	175,272
Valuation gains		-	2,800
Operating expenses		(4,766)	(3,430)
Net cash used in operating activities	12	2,728,803	1,149,644
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		(2,724,493)	(1,635,434)
Net cash used in investing activities		(2,724,493)	(1,635,434)
Net increase/(decrease) in cash and cash equivalents		**4,310**	**(485,790)**
Cash and cash equivalents at beginning of period		1,426	**487,216**
Cash and cash equivalents at end of period	6	**5,736**	**1,426**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

1. INFORMATION

The Liability Management Ministerial Corporation (LMMC) has been established to manage the General Government Liability Management Fund (GGLMF).

The Fund invests accumulated Crown funds pending the payment of Crown employer contributions to the SAS Trustee Corporation (State Super).

These accounts are consolidated into its parent, the Consolidated Crown Entity.

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

The NSW Government has a fiscal target to fully fund superannuation liabilities by 2030.

In accordance with this funding target the balance of the General Government Liability Management Fund was to be transferred to the SAS Trustee Corporation (State Super) during 2006-07. However due to current uncertainty about the amount of Commonwealth Pre July Funding Tax Credits available to State Super the expected transfer amount is now uncertain.

This financial report has been authorised for issue by the Acting Secretary on 6 October 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following are the key accounting policies that inform this financial report.

Basis of Preparation

This financial report has been prepared on an accruals basis. It meets all accounting standards, including:

- Australian equivalents to International Financial Reporting Standards
- all requirements of the *Public Finance and Audit Act 1983*
- the Public Finance and Audit Regulation 2000
- Treasury Accounting Policy Statements.

The financial notes include the key judgements, assumptions and estimations affecting the financial statements. All amounts are rounded to the nearest $1,000 Australian dollars ($'000).

Statement of Compliance

The financial statements and notes meet Australian Accounting Standards, including Australian equivalents to the International Financial Reporting Standards (AEIFRS).

This is LMMC's first financial report using AEIFRS and it has restated comparatives for the year ended 30 June 2005. Using the exemption in AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standard*s, it did not apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* to the comparative period. The following Accounting Standards are being early adopted. Any initial impacts on first time adoption are detailed in Note 16.

AASB Amendment	**Affected Standards**
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement*
2005-6	AASB 3*: Business Combinations*

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

In this reporting period, LMMC did not use the following recent Australian Accounting Standards that are not yet effective:

AASB Amendment	Affected Standards
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-5	AASB 1 *First-time adoption of AEIFRS* AASB 139 *Financial Instruments: Recognition and Measurement*
2005-9	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-10	AASB 7 *Financial Instruments: Disclosures*.
2006-1	AASB 121 *The Effects of Changes in Foreign Exchange Rates*

EXPENSES

Employee Entitlements

Because LMMC has no employees, there are no employee entitlements. NSW Treasury staff manages the workload and this work is not charged for, or measured.

Goods and Services Tax

The amount of goods and services tax (GST) incurred cannot be recovered from the Australian Taxation Office and is recognised as part of an expense item.

REVENUE

Revenue is recognised as probable economic benefits to LMMC that can be reliably measured. The following criteria are used to identify revenue:

Investment Income

Investment revenue includes interest income and net gains or losses from changes in the fair value of investments. Interest revenue is recognised as interest accrues.

Grant Recognition

As a not-for-profit entity, LMMC applies AASB 1004 *Contributions* to both the contributions of assets, including grants, and the forgiveness of liabilities.

The recognition requirements of the new AASB 1004 are no different from the standard it replaces. However, it may be amended by proposals in Exposure Draft 125 Financial Reporting by Local Governments (ED 125). Using this, revenue and/or expense recognition does not occur until either LMMC supplies the goods and services, including grants as in-substance agreements for these, or until conditions are met. Because of this, ED 125 may delay revenue recognition, whereas with AASB 1004, grants are recognised when controlled. However, at this stage, the timing and dollar impact of these amendments is uncertain.

ASSETS

Investments

The NSW Treasury Corporation (TCorp) manages LMMC's investments. The Fund is predominately a bond portfolio. However, it can invest in growth assets at not more than ten per cent of its total market value.

All bond investments with a term to maturity of up to 12 months must have at least an A1+ short-term issuer credit rating from Standard & Poor's or an equivalent recognised rating.

All long-term securities in the portfolio must have an AA- or better long-term issuer credit rating from Standard & Poor's or an equivalent recognised rating.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

Cash and Cash Equivalents

Cash and short-term deposits in the Balance Sheet comprise:

- cash at bank
- cash in hand
- restricted cash in the balances of special deposit accounts
- other short term deposits with an original maturity of three months or less.

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

Impairment of Assets

If an asset is impaired at each reporting date or when LMMC does its annual impairment testing, it estimates the recoverable amount.

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

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

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

At each reporting date, LMMC also assesses if a previously recognised impairment loss has disappeared or lessened. If so, it estimates the recoverable amount. It only reverses an impairment loss if it previously recognised an estimate to determine the recoverable asset. If this occurs, LMMC increases the carrying amount of the asset to its recoverable amount. This cannot exceed the carrying amount, net of depreciation, if no impairment loss had been previously recognised.

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

FINANCIAL INSTRUMENTS

Financial instruments produce positions that are financial assets of either LMMC or its counterparty and a financial liability of the other party. All these amounts are carried at fair value unless otherwise stated.

LMMC has applied the option available under AASB 1 and adopted AASB 132 and AASB 139 from 1 July 2005. Following are the relevant accounting policies.

Derivative Financial Instruments

Year ended 30 June 2006
LMMC uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value on the start date of a derivative contract then subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any change in fair value is taken directly to the Income Statement.

It sets the fair value of an interest rate swap contract by referring to the market value for a similar instrument.

Year ended 30 June 2005
LMMC makes interest rate swap agreements to reduce the risks of interest rate fluctuations in its investment portfolio. It does not recognise interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.

Other Financial Assets

Year ended 30 June 2006
AASB 139 *Financial Instruments: Recognition and Measurement* gives the scope for classifying financial assets at fair value through profit or loss. They are measured at fair value when recognised initially. LMMC classifies its financial assets after initial recognition and when allowed and appropriate, it re-evaluates this at each year-end.

Financial assets are designated at fair value through profit and loss as they are managed and their performance is evaluated on a fair value basis. Gains or losses on investments are recognised in the income statement.

Year ended 30 June 2005
Financial instruments are a financial asset of either LMMC or its counterparty and a financial liability of the other party. These include:

- cash at bank
- receivables
- investments
- creditors
- derivative financial instruments.

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

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

TRADE AND OTHER PAYABLES

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided but not paid for by the year's end. This occurs when LMMC must make future payments for the goods and services, even if it has not been billed for them.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

	2006 $000	2005 $000
3. EXPENSES		
Other		
Audit fees	8	6
	8	**6**
4. REVENUE		
a) Contributions from the Crown Finance Entity	2,420,430	1,000,000
	2,420,430	**1,000,000**
b) Investment Income		
Valuation gains (net)	-	2,800
Interest on TCorp investments	250,463	175,273
Interest on TCorp investments accrued	-	19,804
Income on Hour-Glass investments	8,479	-
	258,942	**197,877**
c) Other Receipts		
Other receipts from the Crown Finance Entity	7	2
	7	**2**
5. RECEIVABLES		
Interest	-	54,189
	-	**54,189**
6. CASH AND CASH EQUIVALENTS		
Short term money market investment at TCorp	5,736	1,426
	5,736	**1,426**

	2006 $000	2005 $000

7. FINANCIAL ASSETS AT FAIR VALUE

Financial assets designated at fair value

	2006 $000	2005 $000
Current		
Hour-Glass portfolio	458,479	-
Bond portfolio	1,041,521	-
	1,500,000	**-**
Non Current		
Bond portfolio	5,221,684	-
	5,221,684	**-**
Total financial assets designated at fair value	**6,721,684**	**-**

8. INVESTMENTS

	2006 $000	2005 $000
Portfolio at TCorp	-	3,999,535
	-	**3,999,535**

9. PAYABLES

	2006 $000	2005 $000
Audit fees	7	6
Management fees	442	347
	449	**353**

10. CHANGES IN EQUITY

	2006 $000	2005 $000
Balance at the beginning of the financial year	4,054,797	2,885,497
AASB 139 first-time adoption		
Other changes in accounting policy	(701)	-
Correction of errors	-	-
Restated opening balance	**4,054,096**	**2,885,497**
Changes in equity – transactions with owners as owners		
Increase/decrease in net assets from equity transfers	-	-
Total	-	-
Changes in equity – other than transactions with owners as owners		
Profit for the year	2,674,517	1,169,300
Balance at the end of the financial year	**6,728,613**	**4,054,797**

	2006 $000	2005 $000

11. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or contingent liabilities as at 30 June 2006

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

	2006 $000	2005 $000
Surplus for the year	2,674,517	1,169,300
Change in operating assets and liabilities		
Increase/(decrease) in payables	96	148
(Increase)/decrease in receivables	54,189	(19,804)
Cash flows from operating activities	**2,728,802**	**1,149,644**

13. INVESTMENT PERFORMANCE

The running yield of LMMC outperformed the benchmark by a good margin, with a return of 5.82% for the financial year compared to the benchmark return of 5.53%.

The benchmark portfolio is constructed on the assumption that all cash flows into the portfolio are invested 50% at the current yield of the commonwealth 10% 15 February 2005 bond (up to 15 February 2006) and 50 % at the yield of the 6.75% 15 November 2006 bond (100% from 15 February 2006).

14. FINANCIAL INSTRUMENTS

(a) Risk Management

Risk management has been outsourced to NSW Treasury Corporation, TCorp, the State's central financing authority who has recognised expertise in the management of Treasury related risks. A Memorandum of Understanding has been prepared between LMMC and TCorp detailing the major Treasury risk controls.

TCorp maintains comprehensive risk management policies which address the key treasury risks facing the LMMC. They maintain detailed descriptions of controls regarding security, integrity and accuracy of key systems for managing the LMMC's treasury risks.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 2 to the financial statements.

(b) Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates. LMMC's exposure to interest rate risks and the effective interest rates of financial assets and liabilities at the Balance Sheet date are:

Financial Instruments	Floating interest rate	Fixed interest rate maturing in: 1 year	Over 1 to 5 years	More than 5 Years	Non-interest bearing	Total carrying amount as per the Balance Sheet	Weighted average effective interest rate
	2006 $'000	2006 $'000	2006 $'000	2006 $'000	2006 $'000	2006 $'000	2006 %
(i) Financial assets							
Cash and cash equivalents	5,736	–	–	–	–	5,736	5.75
Investments							
Bond portfolio	–	1,041,521	5,221,684	–	–	6,263,205	5.99
Hour-Glass	458,479	–	–	–	–	458,479	1.88
Derivatives	–	100,094	–	–	–	100,094	6.10
Receivables	–	–	–	–	–	–	–
Total financial assets	**464,215**	**1,141,615**	**5,221,684**	**–**	**–**	**6,827,514**	
(ii) Financial liabilities							
Derivatives	–	98,452	–	–	–	98,452	3.10
Payables	–	–	–	–	449	449	–
Total financial liabilities	**–**	**98,452**	**–**	**–**	**449**	**98,901**	

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

(c) Credit Risk

Credit risk is the risk of financial loss because another party to a contract or a financial position does not meet a financial obligation. LMMC's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet.

(d) Fair Value

All financial instruments are measured at fair value unless otherwise stated.

The 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 fair value of the interest rate swaps contract and the interest rate futures contract, quoted by TCorp for realising or settling contracts, was determined at 30 June 2006.

(e) Derivative Financial Instruments

TCorp has been appointed to manage the LMMC's investments. It is authorised to invest assets of the portfolio in derivative instruments as long as the portfolio is not geared, and this does not create a net short position for the portfolio.

TCorp may use these derivatives:

- exchange traded interest rate futures contracts
- exchange traded interest rate options
- over the counter options on Commonwealth and TCorp bonds
- swaps.

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

LMMC has determined the key areas where changes in accounting policies impact the financial report. Some of these impacts arise because AEIFRS requirements are different from requirements under the Australian Generally Accepted Accounting Principles (AGAAP). Other impacts arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it has mandated for the NSW Public Sector. The impacts disclosed below reflect Treasury's mandates and policy decisions.

There are no differences between AGAAP and AEIFRS for the financial year ended 30 June 2005. Changes to financial instruments resulted in an opening equity adjustment on 1 July 2005.

Financial Instruments

For the 2004-05 comparative information, LMMC used the exemption in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards and did not to apply the requirements of AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and measurement.

Accordingly, the 1 July 2005 AEIFRS opening equity adjustment for the adoption of AASB 139 follows:

	Note	Accumulated Funds $'000	Other reserves $'000	Total $'000
Total opening equity 1 July 2005		4,054,797	-	4,054,797
Adjustment to fair value of investments	(i)	(701)		(701)
Restated opening equity 1 July 2005		**4,054,096**	-	**4,054,096**

i) Investments with TCorp apply the bid price, previously mid price, from 1 July 2005 to value investments to fair value.

16. POST BALANCE DATE EVENTS

The Commonwealth Treasury issued a consultation paper in July 2006 titled "Amendment of legislative provisions governing use of pre 1 July 1988 funding credits". The principles outlined in this paper may affect NSW's entitlement to funding tax credits.

End of Audited Financial Information

New South Wales
TREASURY

Electricity Tariff Equalisation Ministerial Corporation

Financial Report
for the year ended
30 June 2006

GPO Box 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

To Members of the New South Wales Parliament

Audit Opinion

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

- presents fairly the Corporation's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

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

Scope

The Financial Report and Fund Administrator's Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Corporation, for the year ended 30 June 2006.

The Fund Administrator is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

M T Spriggins
Director, Financial Audit Services

SYDNEY
4 October 2006

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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 2006 and the transactions for the year then ended; and

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

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

Mark Ronsisvalle
Fund Administrator
29 September 2006

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

INCOME STATEMENT
for the year ended 30 June 2006

	Note	2006 $000	2005 $000
Expenses			
Tariffs to Retailers		311,118	391,356
Other	3	218	190
Total Expenses		**311,336**	**391,546**
Operating Revenue			
Tariffs from Retailers		361,344	331,411
Investment Income		12,870	10,577
Total Revenue		**374,214**	**341,988**
PROFIT FOR THE YEAR		**62,878**	**(49,558)**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2006

	Note	2006 $000	2005 $000
Net increase / (decrease) in property, plant and equipment asset revaluation reserve		–	–
Net increase / (decrease) in available for sale financial asset revaluation reserve		–	–
Other net increases / (decreases) in equity			
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		–	–
Profit for the Year		62,878	(49,558)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	6	**62,878**	**(49,558)**
EFFECT OF CHANGES IN ACCOUNTING POLICY AND CORRECTION OF ERRORS			
Accumulated Funds		–	–
Reserves		–	–
		62,878	**(49,558)**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

BALANCE SHEET
as at 30 June 2006

	Notes	2006 $000	2005 $000
ASSETS			
Current Assets			
Cash & Cash Equivalents		247,728	176,517
Receivables	4	23,924	33,693
Total Current Assets		**271,652**	**210,210**
Total Non-Current Assets		**-**	**-**
Total Assets		**271,652**	**210,210**
LIABILITIES			
Current Liabilities			
Payables	5	341	1,777
Total Current Liabilities		**341**	**1,777**
Total Non-Current Liabilities		**-**	**-**
Total Liabilities		**341**	**1,777**
Net Assets/(Liabilities)		**271,311**	**208,433**
Equity			
Retained Surplus	6	271,311	208,433
Total Equity		**271,311**	**208,433**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

CASH FLOW STATEMENT
for the year ended 30 June 2006

	Note	2006 $000	2005 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Payments to Retailers		312,554	389,617
Management Fee		197	177
Consultant Costs		10	10
Other		34	26
Total Payments		**312,795**	**389,830**
Receipts			
Payments from Retailers		371,116	317,907
Interest Received		12,870	10,577
GST Refund		20	21
Total Receipts		**384,006**	**328,505**
NET CASH USED IN OPERATING ACTIVITIES	8	**71,211**	**(61,325)**
NET INCREASE/(DECREASE) IN CASH		**71,211**	**(61,325)**
Opening cash and cash equivalents		176,517	237,842
CLOSING CASH AND CASH EQUIVALENTS		**247,728**	**176,517**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

1. INFORMATION

The Electricity Tariff Equalisation Ministerial Corporation (ETEMC) was established under section 43 of the *Electricity Supply Act 1995* (the Act) and administers the Electricity Tariff Equalisation Fund (ETEF). The Fund manages the purchase-cost risks for electricity retail suppliers of small retail customers.

The Act sets outs rules for payment to and from the ETEF. The Fund pays and collects tariffs from retailers and/or generators based on usage figures from the retailers.

ETEF is statutory body under the *Public Finance and Audit Act 1983*. Its main business address is 1 Farrer Place, Sydney NSW 2000.

ETEF was to stop operating on 30 June 2004, but this was extended to 30 June 2007. The NSW Government will gradually phase out the Fund and wind it up in June 2010.

These financial statements have been authorised for issue by the Fund Administrator on 29 September 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following are the key accounting policies that inform these financial statements.

This financial report has been prepared on accruals basis based on returns from retailers and generators. It meets all accounting standards, including:

- Australian equivalents to International Financial Reporting Standards
- all requirements of the *Public Finance and Audit Act 1983*
- the Public Finance and Audit Regulation 2005
- Treasury Accounting Policy Statements.

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

Statement of Compliance

The financial statements and notes meet Australian Accounting Standards, including Australian equivalents to the International Financial Reporting Standards (AEIFRS).

This is ETEMC's first financial report using AEIFRS and it has restated comparatives for the year ended 30 June 2005. Using the exemption in AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standard*, it did not apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* to the comparative period.

The ETEMC has determined there are no areas where changes in accounting policies have impacted the financial report. (Note 10)

The following Accounting Standards are being early adopted. Any initial impacts on first time adoption are detailed in Note 16.

AASB Amendment	Affected Standards
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement*
2005-6	AASB 3*: Business Combinations*

In this reporting period, ETEMC did not use the following recent Australian Accounting Standards that are not yet effective:

AASB Amendment	Affected Standards
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-5	AASB 1 *First-time adoption of AEIFRS* AASB 139 *Financial Instruments: Recognition and Measurement*
2005-9	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-10	AASB 7 *Financial Instruments: Disclosures.*
2006-1	AASB 121 *The Effects of Changes in Foreign Exchange Rates*

EXPENSES

Employee Entitlements

Because ETEMC has no employees, there are no employee entitlements. NSW Treasury staff manages the workload and this work is not charged for, or measured.

Goods and Services Tax

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

- for when the GST cannot be recovered from the Australian Taxation Office, then it is either part of the cost of acquiring an asset, or part of an item expense
- for receivables and payables which are recognised as including GST.

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

The Commonwealth has determined that no GST is payable or receivable on tariffs between ETEF and electricity businesses (4th Division 81 Commonwealth GST Determination).

REVENUE

Revenue is recognised as probable economic benefits to ETEMC that can be reliably measured. The following criteria are used to identify revenue:

Investment Income

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

Interest revenue is recognised as interest accrues.

ASSETS

Cash and Cash Equivalents

Cash and short-term deposits in the Balance Sheet comprise:

- cash at bank
- cash in hand
- restricted cash in the balances of special deposit accounts
- other short term deposits with an original maturity of three months or less.

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

Impairment of assets

If an asset is impaired at each reporting date or when ETEMC does its annual impairment testing, it estimates the recoverable amount.

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

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

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

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

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

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

FINANCIAL INSTRUMENTS

Financial instruments produce positions that are financial assets of either ETEMC or its counterparty and a financial liability of the other party. All these amounts are carried at fair value unless otherwise stated.

ETEMC has applied the option available under AASB 1 and adopted AASB 132 and AASB 139 from 1 July 2005. Following are the relevant accounting policies.

There are no contract arrangements between the ETEF and both standard retail suppliers and electricity generators. The liabilities and assets arising from payments from and to ETEF are because of a statutory requirement under the Act.

ETEF's contract arrangements are not classed as financial instruments by AASB132 (clause AG12). Under this rule, liabilities and assets that are not contractual, and result from a statutory requirement are not liabilities or assets.

Other financial assets

Year ended 30 June 2006
AASB 139 *Financial Instruments: Recognition and Measurement* gives the scope for classifying financial assets at fair value through profit or loss.

They are measured at fair value when recognised initially. ETEMC classifies its financial assets after initial recognition and when allowed and appropriate, it re-evaluates this at each year-end.

Financial assets are designated at fair value through profit and loss as they are managed and their performance is evaluated on a fair value basis. Gains or losses on investments are recognised in the income statement.

Year ended 30 June 2005
Financial instruments are a financial asset of either ETEMC or its counterparty and a financial liability of the other party. These include:

- cash at bank
- receivables
- investments
- creditors
- derivative financial instruments.

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

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

TRADE AND OTHER PAYABLES

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided but not paid for by the year's end. This occurs when ETEMC must make future payments for the goods and services, even if it has not been billed for them.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

	2006 $000	2005 $000
3. EXPENSES		
Other		
Audit Fees	25	24
Consultants Costs	9	9
Management Fee	184	157
	218	**190**

4. RECEIVABLES

Payments from retailers/generators	23,918	33,689
GST Receivable	6	4
	23,924	**33,693**

5. PAYABLES

Payments to retailers/generators	304	1,739
Audit Fees	21	27
Management Fee	16	11
	341	**1,777**

6. CHANGES IN EQUITY

Balance at the beginning of the financial year	208,433	257,991
AASB 139 first-time adoption		
Other changes in accounting policy	-	-
Correction of errors	-	-
Restated opening balance	208,433	257,991
Changes in equity – transactions with owners as owners		
Increase/decrease in net assets from equity transfers	-	-
Total	-	-
Changes in equity – other than transactions with owners as owners		
Profit for the year	62,878	(49,558)
Balance at the end of the financial year	**271,311**	**208,433**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

7. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets.

8. RECONCILIATION OF OPERATING RESULT TO CASH FLOWS FROM OPERATING ACTIVITIES

	2006 $000	2005 $000
Profit For the Year	62,878	(49,558)
Change in Operating Assets and Liabilities		
Decrease/(Increase) in Receivables	9,771	(13,504)
Decrease/(Increase) in GST Receivable	(2)	3
(Decrease)/Increase in Payables	(1,436)	1,734
Cash (Outflow)/Inflow from Operating Activities	**71,211**	**(61,325)**

9. FINANCIAL INSTRUMENTS

(a) Risk Management

ETEMC has appointed NSW Treasury Corporation (TCorp) to advise on, and actively manage its asset portfolio. TCorp manages investment risk in line with the Risk and Compliance Framework.

(b) Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate because of changes in market interest rates. ETEMC's exposure to interest rate risks and the effective interest rates of financial assets and liabilities at the Balance Sheet date are:

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			
	2006 $000	2006 $000	2006 $000	2006 $000	2006 $000	2006 $000	2006 %
Financial Assets							
Cash and cash equivalents	247,728	-	-	-	-	247,728	5.85

Financial Instruments	**Floating interest rate**	**Fixed interest rate maturing in:**			**Non-interest bearing**	**Total carrying amount as per the balance sheet**	**Weighted average effective interest rate**
		1 year or less	**Over 1 to 5 years**	**More than 5 years**			
	2005 $000	**2005 $000**	**2005 $000**	**2005 $000**	**2005 $000**	**2005 $000**	**2005 %**
Financial Assets							
Cash and cash equivalents	176,517	-	-	-	-	176,517	5.58

(c) Credit Risk

Credit risk is the risk of financial loss because another party to a contract or a financial position does not meet a financial obligation. ETEMC's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet.

(d) Fair Value

All financial instruments are carried at fair value, unless otherwise stated. The fair value of ETEMC's non-interest bearing monetary financial assets and financial liabilities approximates their carrying value. See Note 2.

10. IMPACTS OF ADOPTION OF AEIFRS

The adoption of AEIFRS does not have any impacts on the reported equity, profit/loss or the cash flows of ETEMC.

11. POST BALANCE DATE EVENTS

There are no events subsequent to reporting date requiring disclosure.

End of Audited Financial Information

New South Wales
TREASURY

Crown Property Portfolio

Financial Report
for the year ended
30 June 2006

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 of the matter referred to in the qualification paragraph below, the financial report of the Crown Property Portfolio (the Portfolio):

- presents fairly the Portfolio's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005.*

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

Qualification

Finance Lease

In 1993, a contractual arrangement for the use of a portion of the Colonial State Bank Centre was assigned to the Crown Property Portfolio. The Crown Property Portfolio recognises this arrangement as an operating lease. The payment for the right to use the floor space, together with the Portfolio's other contractual obligations, effectively transfers to it substantially the risks and benefits incidental to ownership of the entire property. In my opinion the substance of the contractual arrangement, consistent with the principles in AASB 117 "Leases", requires recognition of the present obligation and related asset. I estimate the value of this obligation to be $184 million ($184 million at 30 June 2005), but am unable to quantify the value of the unrecognised related asset and the effect that this may have on the profit or loss. Adoption of this accounting treatment would require reversal of the recognition of the Provision For Sub-lease Income Shortfall of $14.0 million ($9.5 million at 30 June 2005), being the difference in amount between the head lease and the sub lease for the Colonial State Bank Centre. The audit opinion for the year ended 30 June 2005 was similarly qualified.

Scope

The Financial Report and the Secretary's Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Portfolio, for the year ended 30 June 2006.

The Secretary of the New South Wales Treasury is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

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

A. T. Whitfield

A T Whitfield, FCA
Deputy Auditor-General

SYDNEY
25 October 2006

CROWN PROPERTY PORTFOLIO

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Pursuant to Section 41C of the *Public Finance and Audit Act* 1983 and clause 11 of *the Public Finance and Audit Regulation 2005,* I declare that in my opinion:

(a) The accompanying financial report exhibits a true and fair view of the financial position of the Crown Property Portfolio for the year ended 30 June 2006 and the financial performance for the year then ended; and

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

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

John Pierce
Secretary
19 October 2006

CROWN PROPERTY PORTFOLIO
Income Statement
for the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Expenses			
Depreciation	14	3,196	2,621
Amortisation	14	3,016	2,963
Head lease expenses	7	107,274	105,050
Property expenses	8	11,448	11,076
Grant payment to local government	3	-	1,200
Refurbishment expenses		5,261	3,814
Management Fee		7,681	6,794
Provision for doubtful debts	13	265	(209)
Other		1,012	1,026
Borrowing costs	1 (e)	19,928	16,710
Land Remediation	11 (b) (ii)	(12,065)	39,133
Investment property fair value decrement	14 (e)	32,318	-
Total expenses excluding losses		179,334	190,178
Less:			
Revenue			
Property rental income	2	155,778	156,344
Grant received for local government	3	-	1,200
Assets received free of charge	4	-	390
Interest income	5	6,551	5,912
Contribution from the Crown Entity	6	151,053	22,630
Total Retained Revenue		313,382	186,476
Gain on disposal		477	830
Profit / (Loss) for the year	12(b) & 18	134,525	(2,872)

The accompanying notes form part of these financial statements.

CROWN PROPERTY PORTFOLIO
Balance Sheet
as at 30 June 2006

	Notes	2006 $'000	2005 $'000
ASSETS			
Current Assets			
Cash and other cash equivalents	12 (a)	148,593	135,210
Receivables	13	12,657	12,453
Non-current assets held for sale	14	24,290	25,245
Total Current Assets		185,540	172,908
Non-Current Assets			
Property, plant and equipment	14	643,761	596,695
Investment properties	14	15,718	15,713
Intangible	14	4,024	2,090
Receivables	13	10,850	11,926
Total Non-Current Assets		674,353	626,424
Total Assets		859,893	799,332
LIABILITIES			
Current liabilities			
Payables	16	21,077	9,853
Interest bearing liabilities	19 (c)	506	85,957
Provisions			
-Sub-lease income shortfall	11 (a)	2,671	3,107
-Land remediation and other costs	11 (b)	27,863	14,397
Other			
-Rent received in advance		3,081	3,262
-Deferred income	17	3,673	4,975
Total Current Liabilities		58,871	121,551
Non-Current Liabilities			
Interest bearing liabilities	19 (c)	8,010	8,516
Provisions			
-Sub-lease income shortfall	11 (a)	11,784	8,690
-Land remediation and other costs	11 (b)	110,559	141,716
Other			
-Deferred income	17	166,920	110,536
Total Non-Current Liabilities		297,273	269,458
Total Liabilities		356,144	391,009
Net Assets		**503,749**	**408,323**
EQUITY			
Asset revaluation reserve	18	263,402	228,040
Accumulated funds	18	225,557	165,403
Amounts recognised in equity relating to assets held for sale	18	14,790	14,880
Total Equity		**503,749**	**408,323**

The accompanying notes form part of these financial statements.

CROWN PROPERTY PORTFOLIO
Cash Flow Statement
for the Year Ended 30 June 2006

	Notes	2006 $'000	2005 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Head lease expenses		(109,129)	(110,950)
Property and refurbishment expenses		(17,946)	(15,970)
Finance leases reduction		(16,657)	(17,869)
Goods and services tax paid		(38,039)	(15,339)
Management Fee		(7,611)	(6,794)
Grant payment to local government		-	(1,200)
Land Remediation		(1,428)	(694)
Total Payments		(190,810)	(168,816)
Receipts			
Property rental income		157,454	157,052
Goods and services tax received		36,860	15,827
Grant received for local government		-	1,200
Interest Income		6,636	12,471
Total Receipts		200,950	186,550
Cash Flows From Government			
Contribution from the Crown Entity		151,053	22,630
Asset sale proceeds transferred to the Crown Entity	18	(2,587)	(48)
Contribution to the Crown Entity	18	(70,039)	(9,550)
Net Cash Flows From Government		78,427	13,032
NET CASH FLOWS FROM OPERATING ACTIVITIES	12 (b)	88,567	30,766
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(136,212)	(16,574)
Proceeds from disposal of property		61,763	1,314
Property disposal costs		(735)	(96)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		(75,184)	(15,356)
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,383	15,410
Opening cash and cash equivalents		135,210	119,800
CLOSING CASH AND CASH EQUIVALENTS	12 (a)	**148,593**	**135,210**

The accompanying notes form part of these financial statements.

CROWN PROPERTY PORTFOLIO
Statement of Changes in Equity
for the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Gain on revaluation of properties	18	36,218	59,407
Total Income and Expense Recognised Directly in Equity		36,218	59,407
Surplus / (Deficit) for the year	18	134,525	(2,872)
Total Income and Expense Recognised for the Year	18	170,743	56,535
Effect of Changes in Accounting Policy and Correction of Errors		-	-

The accompanying notes form part of these financial statements.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2006

STATEMENT OF PRINCIPAL ACTIVITIES

The Crown Property Portfolio (CPP), a not for profit non-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, 2-24 Rawson Place, Mckell Building, Sydney manages 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.

These financial statements have been authorised for issue by the Secretary on 19 October 2006.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The Crown Property Portfolio's financial statements are a general-purpose financial report prepared in accordance with Australian Accounting Standards, relevant requirements of the 'Public Finance and Audit Act 1983' and Public Finance and Audit Regulations and Treasury Accounting Policy Statements. [The Crown Property Portfolio has been granted relief from the Financial Reporting Code.] Where there are inconsistencies between the above requirements the legislative provisions prevail.

The financial statements have been prepared on a historical cost basis, except for investment properties, property and plant and equipment, which have been measured at fair value and non-current assets held for sale which have been measured at the lower of the carrying amount and fair value less costs to sell.

The financial statements have been prepared on a "going concern" basis.

In the process of applying the entity's accounting policies, management have applied judgement and made key assumptions and estimations. Those judgements, assumptions and estimations, which have the most significant effect on the amounts recognised in the financial statements have been disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars ($'000) and are in Australian dollars.

(b) Statement of Compliance

The financial statements and accompanying notes comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AEIFRS').

This is the first financial statements prepared based on AEIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 ' Financial Instruments: Recognition and Measurement. The Crown Property Portfolio has adopted the exemption under AASB 1 'First time Adoption of Australian Equivalents to International Financial Reporting Standards' from having to apply AASB 132 and AASB 139 to the comparative period. The effect of adoption of these Standards on 1 July 2005 is detailed in Note 22.

Reconciliations of AEIFRS equity and operating results for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AEIFRS are detailed in Note 22.

Australian Accounting Standard that has recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2006. These are listed as follows:

- AASB 119 (Dec 2004).
- AASB 2004-3 regarding AASB 119.
- AASB 2005-1 regarding cash flow hedge accounting of forecast intra group transactions.
- AASB 2005-4 regarding AASB 139 fair value option.
- AASB 2005-5 regarding UIG 4/5 (see below).
- AASB 2005-6 regarding AASB 3.
- AASB 2005-9 regarding financial guarantees.
- AASB 7 regarding financial instrument disclosures.
- AASB 2005-10 regarding AASB 7.
- AASB 2006-1 regarding AASB 121.

The initial application of these standards will have no impact on the financial results of the Crown Property Portfolio. These standards are operative for annual reporting periods beginning on or after 1 January 2006.

(c) Employee Benefits

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

(d) Insurance

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

Management ensures that all insurance covers are current and adequate.

(e) Leased Assets

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all he 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 on inception at an amount equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments Lease payments are allocated between the principal component of the lease liability and the interest expense.

(ii) Operating Leases

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

Leases in which the Crown Property Portfolio retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

In accordance with AASB 140, where there is a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. (Note 11 (a)).

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

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

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

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

(f) Depreciation

Depreciation is provided on a straight-line basis for all depreciable non-current assets to allocate their depreciable amounts over their estimated remaining useful lives. These rates are reviewed on an annual basis.

In accordance with AASB 140, Investment Property is not depreciated and under AASB 5 Assets Held For Sale are not depreciated.

(g) Amortisation

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

(h) Non - current assets

Acquisition of property is recognised when legal title passes to the buyer, which is upon settlement of a 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.

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2006

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

Physical non-current assets are valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 05-03). This policy adopts fair value in accordance with AASB 116, 136 and 140.

In accordance with AASB 116, fair value is measured from market-based evidence. Where market-based evidence is not available, the asset's fair value is estimated using an income or a depreciated replacement cost approach. Fair value revaluations are to be made with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of an asset is also to be measured at its highest and best use in its existing condition.

In accordance with AASB 136, an entity must assess at reporting date whether there is any indication that an asset is impaired. If any such indication exists, the entity must estimate the recoverable amount of the asset.

The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell and depreciated replacement cost. Depreciated replacement cost is calculated as the current replacement cost of the most appropriate modern equivalent replacement asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

If, and only if, the recoverable amount of an asset is less than the carrying amount, the carrying amount must be reduced to its recoverable amount. That reduction is an impairment loss and is treated as a revaluation decrease in accordance with AASB 116.

(i) Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

The fair value of non-current assets is determined in accordance with AASB 116 and is measured based on market-based evidence. Where market-based evidence is not available, the asset's fair value is estimated using an income or depreciated replacement cost approach. Fair value revaluations are to be made with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of an asset is also to be measured at its highest and best use in its existing condition.

Leasehold land and buildings are revalued annually. Fair value is estimated using a discounted cash flow approach, appropriately taking into account the conditions attached to the leases.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet except to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in the Income Statement, in which case the revaluation increment is recognised in the Income Statement.

Any revaluation decrease is recognised in the Income Statement, except to the extent that it reverses a revaluation increase of the same class of assets previously recognised in the asset revaluation reserve.

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

Where assets are revalued, the accumulated depreciation at the revaluation date is credited to the assets to which it relates. The net assets are then increased or decreased by the revaluation increment or increment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

(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

(i) Sale of properties

Revenue is recognised when the significant risks and rewards of ownership of the properties have passed to the buyer and can be measured reliably. Specifically, with respect to property sales, the risks and rewards are considered passed to the buyer at the time of completion of the contract.

(ii) Rental income

Rental income arising on investment properties, and other property assets, is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned.

(iii) Interest Income

Revenue is recognised as the interest accrues.

(iv) Contributions from Treasury

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

(m) Financial Instruments

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

(i) Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand, restricted cash and other short-term deposits with an original maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(ii) Receivables

Receivables, which generally have 30-day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Crown Property Portfolio will not be able to collect the debts. Bad debts are written off when identified.

(iii) Payables

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Crown Property Portfolio prior to the end of the financial year that are unpaid and arise when the Crown Property Portfolio becomes obliged to make future payments in respect of the purchase of these goods and services, whether or not billed to the Crown Property.

(iv) Financial Lease Liability

Finance lease liabilities are initially recognised at the present value of future minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Income Statement.

(n) Capitalised Expenditure

Property expenditure that gives rise to an effective and material increase in the future economic benefits to the Portfolio is capitalised.

(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.

(iii) Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Australian Taxation Office, are classified as operating cash flows.

(iv) Commitments and contingencies and other amounts disclosed in the financial statements include the amount of GST recoverable from, or payable to, the Australian Taxation Office.

(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 Interpretation UIG 1038 “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 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.

(r) Investment Properties

Investment properties are measured initially at cost, including transaction costs. Where an investment property is acquired at no cost or for nominal cost, the investment property is measured initially at its fair value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognised in the Income Statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Income Statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use evidenced by the ending of owner-occupation, commencement of an operating lease to another party or the ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from owner-occupied property to investment property, the Crown Property Portfolio accounts for such property in accordance with the policy stated under Property, Plant and Equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Income Statement. When the Crown Property Portfolio completes construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Income Statement.

(s) Assets held for sale

Where non-current assets carrying value will be principally recovered through a sale transaction rather than through continuing use, are available for immediate sale, and their sale is highly probable, the assets are classified as Held for Sale on the balance sheet.

Assets held for sale are measured at the lower of their carrying amount at the time of such classification and their fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

(t) Intangible Assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life, is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the amortisation line of the Income Statement.

The Opera House carpark is an emerging intangible asset, which the CPP has a right to receive in 2043, resulting from a privately financed infrastructure arrangement. The useful life is currently estimated at 40 years and the straight-line amortisation method is used (Note 21).

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

2. PROPERTY RENTAL INCOME

(a) Total rental income

	2006 $'000	2005 $'000
Owned Property Plant & Equipment	40,079	37,655
Owned Investment Property	1,299	1,156
Leased property	114,400	117,533
	155,778	156,344

(b) Future minimum lease receipts under non-cancellable operating leases as lessor

	2006 $'000	2005 $'000
Future minimum lease receipts:		
Receivable within one year	44,658	45,085
Receivable later than one year but not later than five years	24,899	26,362
Receivable later than five years	21,311	21,408
Total including GST	90,868	92,855

Future minimum lease receipts as at 30 June 2006 are inclusive of GST, including GST payable of $8.261M. The GST payable is a contingent liability.

3. GRANT TO LOCAL GOVERNMENT

No grant was received during 2005/06. A $1.2M Crown Entity grant was received and provided to Palerang Council in 2004/05 to assist with the development of its new council offices at Bungendore.

4. ASSETS RECEIVED FREE OF CHARGE

No assets were received free of charge during 2005/06. Two vacant residential homesites adjoining the site of the former Birmingham Gardens Infants School were resumed from the Department of Education and Training and vested in the Minister for Public Works in 1970. These assets were valued in 2004/05 at $0.390M and transferred free of charge back to the Crown through the Crown Property Portfolio.

5. INTEREST INCOME

	2006 $'000	2005 $'000
Total interest earned	6,870	6,197
Less:		
Interest attributed to the $5M held in trust on behalf of the Newcastle University and Newcastle City Council (Notes 12 & 16)	319	285
	6,551	5,912

6. CONTRIBUTION FROM THE CROWN ENTITY

	2006 $'000	2005 $'000
Contributions for costs of capital works, asset acquisitions and property refurbishments	148,710	20,636
Management fee paid to NSW Department of Commerce re Accommodation Strategic Alliance	2,343	1,994
	151,053	22,630

A contribution of $148.710M was received in 2006 towards costs for the construction of new government office building in Queanbeyan $2.264M, development of the Parramatta Justice Precinct $38.997M, purchase of McKell Building $88.551M, purchase of Dubbo Premier Centre $3.901M, the construction of a new government office building at Penrith $5.0M, major works for the Chief Secretary Building $2.060M and major and refurbishments in various buildings $7.937M.

7. HEAD LEASE EXPENSE

Expenses as lessee

	2006 $'000	2005 $'000
Minimum lease payments	86,365	90,780
Contingent rentals	6,601	3,836
Rental expenses arising from sub-lease	18,127	14,253
	111,093	108,869
Less: Amortisation of a $68M lease incentive received in 1995 (Note 17 (a))	(3,819)	(3,819)
	107,274	105,050

The majority of head leased office accommodation properties are sub-leased to government agencies.

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

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

Minimum lease payments were reduced by the $3.819M amortisation of a $68M lease incentive received in 1995.

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.

9. AUDIT FEES

	2006 $'000	**2005 $'000**
Fee for the audit of current year's annual accounts	62	58
Special fee for additional audit resulting from the introduction of AEIFRS	5	5
	67	63

The NSW Audit Office did not receive nor is due to receive any other benefit.

10. CONSULTANTS

Expenditure on consultants during the year totalled $0.042M (2004/05 $0.070M).

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2006

11. PROVISIONS

(a) Onerous Contract - Provision for sub-lease income shortfall

	2006 $'000	2005 $'000
Carrying balance at the beginning of year	11,797	12,423
Increase in provisions from revised present value of liability	4,452	2,337
Reductions in provisions from payments and other sacrifices	(1,794)	(2,963)
Carrying balance at the end of year	14,455	11,797
Current liability	2,671	3,107
Non current liability	11,784	8,690
Total liability	14,455	11,797

The Provision for Sub-lease Income Shortfall is for the CPP head leases on Colonial State Bank Centre, Martin Place, Sydney and Pacific Power Building, Sydney. The provision is the net present value of the excess of the head lease commitments over the estimated sub-lease rentals over the expected period of the shortfall. A discount rate of 5.79% was used and the level of the provision is reviewed at the end of each year and an adjustment made to the Income Statement.

(b) (i) Provision for land remediation and other restoration costs

Land remediation and makegood restoration liability	2006 $'000	2005 $'000
Carrying balance at the beginning of year	156,113	117,675
Increase in provisions from revised present value of liability	-	39,133
Reduction in provisions from payments	(6,347)	(695)
Reduction in provisions from revised present value of liability	(11,344)	-
Carrying balance at the end of year	138,422	156,113
Current liability	27,863	14,397
Non current liability	110,559	141,716
Total liability	138,422	156,113

(b) (ii) Land Remediation

Land Remediation	June 2006 $'000	June 2005 $'000
Carrying balance of Environmental remediation of steel works main site and Kooragang Islands waste emplacement site, environmental monitoring of main site over 10 years, heritage interpretation funding proposal and relocation of the railway line to OneSteel (Moorandoo Crossing) at the beginning of year	147,267	108,829
Increase in provisions from revised present value of liability	-	39,133
Reduction in provisions from payments	(6,348)	(695)
Reduction in provisions from revised present value of liability	(12,065)	-
Carrying balance at the end of year	128,854	147,267
Less: Heritage interpretation funding proposal included in receivables balance	(5,000)	(5,000)
	123,854	142,267
Current liability	24,145	12,476
Non current liability	99,709	129,791
Total liability	123,854	142,267

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

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

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

The Government established a special subsidiary corporation, the Regional Management Land Corporation, which provided in June 2006, a revised present value estimate of the remaining remediation works.

(b) (iii) Makegood Restoration

Makegood Restoration	June 2006 $'000	June 2005 $'000
Carrying balance at the beginning of year	13,846	13,846
Increase in provisions from revised present value of liability	722	-
Carrying balance at the end of year	14,568	13,846
Current liability (Note 13)	3,718	1,921
Non current liability (Note 13)	10,850	11,925
Total liability	14,568	13,846

The makegood restoration liability is calculated on all leased properties, where CPP is the lessee and reflects an estimate of the cost to makegood the premises to their original conditional at the end of the lease term.

12. CASH FLOW STATEMENT

(a) Reconciliation of Cash and cash equivalents

	2006 $'000	2005 $'000
Cash at bank	142,517	129,453
Restricted cash, which remains part of cash and cash equivalents in the balance sheet.	6,076	5,757
	148,593	135,210

Included in the cash balance is $126.571M set aside for remediation on land acquired by the Crown from BHP Billiton in 2002. Out of this amount $6.076M including interest, is held 'on trust' on behalf of the Newcastle Council and the University of Newcastle in relation to the funding proposal for the implementation of the Revised Heritage Interpretation Strategy. The amount held 'on trust' will be distributed to Newcastle Council and the University of Newcastle during 2006/07, to perform heritage interpretation and display obligations in relation to the former BHP steel work site and for those parties to accept transfer of heritage properties being sub divided from the Crown land at Newcastle.

(b) Reconciliation of the Surplus/ (Deficit) for the year to the Net Cash Provided by Operating Activities:

	Notes	2006 $'000	2005 $'000
Surplus / (Deficit) for the year		134,525	(2,872)
Lease incentive		(3,819)	(3,819)
Loss / (Gain) from disposal of property		(477)	(830)
Assets received free of charge		-	(390)
Deferred income from prepaid rent of long term leases		(1,299)	(1,156)
Depreciation		3,196	2,621
Amortisation		3,016	2,963
Provision for doubtful debts		265	(209)
Increase / (Decrease) in Provisions for sub-lease income shortfall		2,659	(626)
Asset sales proceeds transferred to the Crown Entity		(2,587)	(48)
Contributions to the Crown Entity		(70,039)	(9,550)
(Decrease) / Increase in Interest bearing liabilities		3,272	(1,159)
(Decrease) / Increase in provision for land remediation and other restoration costs		(13,494)	38,439
Decrease in operating receivables		1,761	7,267
(Decrease) / Increase in payables		(830)	135
Decrease in other assets		32,418	-
Net cash provided by operating activities		**88,567**	**30,766**

13. RECEIVABLES

Current	**2006 $'000**	**2005 $'000**
Trade Receivables	3,457	4,136
Provision for doubtful debts	(338)	(96)
	3,119	4,040
Other Receivables		
GST receivable	1,585	405
Makegood cost recoverable (Note (11) (b) (iii))	3,718	1,921
Other	4,235	6,087
	9,538	8,413
Total current receivables	12,657	12,453

Non-Current	**2006 $'000**	**2005 $'000**
Makegood cost recoverable ((Note (11) (b) (iii))	10,850	11,926
Total non current receivables	10,850	11,926

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2006

Movement in the provision for doubtful debts

	2006 $'000	2005 $'000
Balance at the beginning of year	(96)	(305)
Amount written off to provision	23	-
(Increase) / decrease in provision	(265)	209
Balance at the end of year	(338)	(96)

NON CURRENT ASSETS & ASSETS HELD FOR SALE

(a) (i) Property Plant and Equipment

	2006 $'000	2005 $'000
Unimproved Land – at fair value	191,902	193,929
Land and buildings – at fair value	392,056	305,875
Less: Accumulated depreciation	(1,499)	(5,538)
	390,557	300,337
Works in Progess	53,006	6,744
Computer equipment – at fair value	68	38
Less: Accumulated depreciation	(38)	(37)
	30	1
Total Property, plant and equipment – Net book value	**635,495**	**501,011**

(a) (ii) Finance Lease

	2006 $'000	2005 $'000
Finance Lease – at fair value	8,516	101,500
Less: Accumulated amortisation	(250)	(5,816)
Total Intangible – Net book value	**8,266**	**95,684**
Total Propert Plant and Equipment	**643,761**	**596,695**

(b) Investment Property

	2006 $'000	2005 $'000
Investment land – at fair value	15,673	15,690
Investment building– at fair value	45	23
Total Investment Property – at fair value	**15,718**	**15,713**

(c) Intangible Emerging Asset – Right to receive resulting from a privately financed infrastructure arrangement

	2006 $'000	2005 $'000
Intangible	4,075	2,200
Less: Accumulated amortisation (Note 21)	(51)	110
Total Intangible – Net book value	**4,024**	**2,090**

(d) Assets Held For Sale

	2006 $'000	2005 $'000
Land – at fair value	24,290	25,245
Total Assets Held For Sale – at fair value	**24,290**	**25,245**

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2006

(e) Asset movement summary as at 30 June 2006

	Property Plant & Equipment	Property Plant & Equipment Finance Lease	Investment Property	Intangible	Assets Held For Sale	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying Amount						
Opening balance 1 July 2005	**506,586**	**101,500**	**15,713**	**2,200**	**25,245**	**651,244**
Add: Acquisitions	3,901	-	-	-	-	3,901
Add: Capitalised expenditure	50,551	-	-	-	-	50,551
Add: Asset revaluation increment / (decrement)	22,674	3,516	(598)	1,875	-	27,467
Add: Revaluation of asset transferred to other government agency	856	-	-	-	-	856
Initial cost of long term lease for investment property	-	-	603	-	-	603
Transfer to investment property for long term lease	(40,179)	-	40,179	-	-	-
Decrement due to reduction of investment property for long term lease	-	-	(31,720)	-	-	(31,720)
Less asset revaluation reserve of investment property for long term lease	-		(7,927)			(7,927)
Less accumulated depreciation of property for long term lease	-	-	(532)	-	-	(532)
Less: Disposals	-	-	-	-	(955)	(955)
Less: Assets transferred to other government agency	(3,856)	-	-	-	-	(3,856)
Transfer of finance lease to land & buildings	96,500	(96,500)	-	-	-	-
Closing Balance 30 June 2006	**637,033**	**8,516**	**15,718**	**4,075**	**24.290**	**689,632**
Accumulated Depreciation & Amortisation						
Opening balance 1 July 2005	**5,575**	**5,816**	**-**	**110**	**-**	**11,501**
Add: Charge for the year	3,196	2,938	-	78	-	6,212
Less: Reversal due to asset revaluation	(7,233)	(8,504)	-	(137)	-	(15,874)
Closing Balance 30 June 2006	**1,538**	**250**	**-**	**51**	**-**	**1,839**
Net Carrying Amount						
Balance 1 July 2005	**501,011**	**95,684**	**15,713**	**2,090**	**25,245**	**639,743**
Balance 30 June 2006	**635,495**	**8,266**	**15,718**	**4,024**	**24,290**	**687,793**

(f) Asset movement summary as at 30 June 2005

	Property Plant & Equipment $'000	Property Plant & Equipment Finance Lease $'000	Investment Property $'000	Intangible $'000	Assets Held For Sale $'000	Total $'000
Carrying Amount						
Opening balance 1 July 2004	**432,300**	**101,500**	**15,713**	**-**	**-**	**549,513**
Add: Acquisitions	2	-	-	-	-	2
Add: Capitalised expenditure	16,563	-	-	-	-	16,563
Add: Assets received free of charge	390	-	-	-	-	390
Add: Asset revaluation increment	85,267	-	-	-	-	85,267
PP&E transferred to Assets held for sale	(25,245)	-	-	-	25,245	-
PP&E transferred to Intangible	(2,200)	-	-	2,200	-	-
Less: Disposals	(391)	-	-	-	-	(391)
Less: Assets transferred to other government agency	(100)	-	-	-	-	(100)
Closing Balance 30 June 2005	**506,586**	**101,500**	**15,713**	**2,200**	**25,245**	**651,244**
Accumulated Depreciation& Amortisation						
Opening balance 1 July 2004	**3,011**	**2,908**	**-**	**-**	**-**	**5,919**
PP&E transferred to intangible	(55)	-	-	55	-	-
Add: Charge for the year	2,619	2,908	-	55	-	5,582
Closing Balance 30 June 2005	**5,575**	**5,816**	**-**	**110**	**-**	**11,501**
Net Carrying Amount						
Balance 1 July 2004	**429,289**	**98,592**	**15,713**	**-**	**-**	**543,594**
Balance 30 June 2005	**501,011**	**95,684**	**15,713**	**2,090**	**25,245**	**639,743**

Property Plant & Equipment

All land and buildings classified as property plant and equipment were independently revalued on 1 January 2006. The following independent qualified valuers, Savills and Landmark White, undertook valuations and provided the current fair value on a highest and best use basis. Where the property was occupied, the market valuation reflects the actual lease, licence or tenancy agreement in place.

All owned government office buildings under the highest and best use basis of valuation were valued using the income capitalisation valuation approach and discounted cash flow method. Both valuation firms were provided with market rentals for all government office buildings that were determined as at 1 January 2005 and were required to adopt these rentals as part of their valuation.

Under the income capitalisation approach, valuers were required to estimate market outgoings for the building to deduce a net market income for the property and then capitalise the net income using a yield that had been sourced from available market evidence. Below the line deductions were made for letting up periods and required capital works over the next 12 months. LandMark White adjusted the capitalisation rate to reflect the quality of the building.

With regards to the discounted cashflow method, valuers used the following:

- Rental growth rates used generally range between 2.00-5.00% per annum depending on the location of the property, supply coming on to the market and the likely future demand for accommodation.
- Outgoing growth rates used are generally in the range of 3.00-4.00% per annum.

- Discount Rates used were influenced by many factors including the returns available from alternative investments, long term bond rates, current property yields, expected CPI increases, rental growth and the perceived risk of illiquidity associated with the property. Discount rates ranging from 9.00-12.00% have typically been adopted for the majority of the Portfolio.
- Terminal yields ranging from 8.00-12.00%. These rates assume that prevailing market conditions are similar to those being experienced as at the date of valuation. The valuer has also had regard to the level of capital works to be undertaken over the holding term and the quality of the building at the end of ten years.

Recent market evidence was sourced from alternative regional locations for a number of properties as in some cases the Government Office Building is the only office building in town. This is standard valuation practice where limited sales or rental evidence exists in a small market place.

Investment Property

The investment property relates to seven properties leased out to non-government tenants on long term (over 50 years) operating leases.

All investment properties were independently revalued on 1 January 2006, except for a newly entered lease, which is recorded as Nil at inception. An independent qualified valuer, Landmark White, who has recent experience in comparable markets and category of the investment properties being valued, performed the valuation.

The methods of valuation differ slightly for each property but all rely on the valuer having regard to recent sales evidence to determine the property's market value. The present value of the annual net rental cashflow derived under the lease of the property is then added to the emerging value to arrive at the Entity's interest in the property. The discount rate used in the analysis to arrive at market value for the investments is 5%.

A change in the current property investment climate could materially affect the value of these properties for the next reporting period.

Intangible Asset

The intangible asset relates to the Sydney Opera House Carpark (Note 21).

The intangible asset was independently revalued on 1 January 2006. An independent qualified valuer, Landmark White, who has recent experience in comparable markets and category of the intangible asset being valued, performed the valuation.

The valuer has determined the current open market value of the freehold interest using the capitalisation of income approach and then deferred this value for the residual period of the head lease. The valuer has had regard to recent sales evidence in determining the current market value. The net present value of the annual net rental cash flow derived under the lease has then added to the reversionary value to assess the Lessor’s Interest in the property.

All valuation reports also include a statement that they have been completed in accordance with AASB 116, AASB 136 and AASB 140 and NSW Treasury’s policy on valuation of physical non-current assets at fair value.

Heritage Assets

The following properties had restrictions due to being heritage listed and the valuation takes into account the highest and best use of the property:

- GOB Bourke, 21 Mitchell Street, Bourke
- GOB Bourke, 51-53 Oxley Street, Bourke
- Chief Secretary’s Building, 121 Macquarie Street, Sydney
- Education Building, 35-39 Bridge Street, Sydney
- GOB Mudgee, 90 Market Street, Mudgee
- GOB Forbes, Camp Street, Forbes
- Heritage Office, 3 Marist Place, Parramatta
- Nundle Court House, Cnr Jenkins and Durban Streets, Nundle
- Strickland House, 52 Vaucluse Road, Vaucluse
- Agar Steps Terraces, 5-9 Agar Steps, Millers Point
- Glover Cottage, 124 Kent Street, Millers Point
- Richmond Villa, 120 Kent Street, Millers Point
- National Trust Centre, Bradfield Highway, Millers Point

Other

Expenditure capitalised during the year as property, plant and equipment relates to construction of the Queanbeyan government office building $2.264M, the development of the Parramatta Justice Precinct $38.997M, the construction of a new government office building at Penrith $5.0M, major works for the Chief Secretary Building $2.060M and refurbishment works in other various buildings $2.415M.

The following properties classified, as assets held for sale, were disposed during 2005-06, 34 Burrows Rd, St Peters, and Fauna Sanctuary, Cooranbong. The remaining three properties, Birmingham Gardens, Lot 380, John Street, Newcastle, 6A Huntley Street, Alexandria and 14-16 Rivers Street, Macksville were not disposed during 2005-06, but are expected to be disposed of during 2006-07 and therefore remain classified as assets held for sale.

Land at Belmont Sands, classified as property plant and equipment was transfered to Department of Lands for nil value during the year. The property was revalued from $3.0M to $3.856M as per Department of Lands valuation before being transferred out as an equity adjustment.

The finance lease balance as at 30 June 2006, relates to Noel Park House, Marius Street, Tamworth. Noel Park is being amortised over the life of the lease. An option to purchase McKell Building was settled in June 2006 resulting in the movement from finance lease to property plant and equipment.

15. 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). No other assets or liabilities have been transferred to (RLMC).

CROWN PROPERTY PORTFOLIO

Notes to and Forming Part of the Financial Statements For the year ended 30 June 2006

16. PAYABLES

	2006 $'000	2005 $'000
Land remediation (RLMC) expense	4,920	-
Property sales proceeds payable to Treasury	15	1,178
Refund due to Treasury	2,563	-
Monies held 'on trust	6,076	5,757
Property expenses	7,467	2,880
Audit fees	36	38
	21,077	9,853

Monies held 'on trust' comprised $5M original amount received on behalf of Newcastle University and Newcastle City Council plus the interest earned, $1.076M, from 31 July 2002 to 30 June 2006.

17. DEFERRED INCOME

(a) Incentive from lessor

A lease incentive payment of $68M was received from the former SAS Trustee Corporation in January 1995 and relates to a twelve-year lease on the Governor Macquarie Tower. The lease incentive is recognised as a reduction of Head Lease Expenses over the term of the lease.

Incentive from lessor	2006 $'000	2005 $'000
Lease incentive payment received upfront	68,000	68,000
Less: Previous years amortisation	(62,272)	(58,453)
Less: Current year amortisation	(3,819)	(3,819)
	1,909	5,728
Current liability	1,909	3,819
Non current liability	-	1,909
Total liability	1,909	5,728

(b) Prepaid long-term leases

The CPP as lessor has leased the following properties on long term operating leases of over 50 years and received prepaid rentals, which it is recognising as income on a straight line basis over the lease terms: Goodsell Building, Colonial State Bank Centre, Aurora Place, Sir Stamford Hotel, Wentworth Chambers and Agar Steps Terraces.

Prepaid long-term leases	2006 $'000	2005 $'000
Prepaid rental payment received upfront	185,791	125,591
Less: Previous years amortisation	(15,808)	(14,652)
Less: Current year amortisation	(1,299)	(1,156)
	168,684	109,783
Current liability	1,764	1,156
Non current liability	166,920	108,627
Total liability	168,684	109,783

Total Deferred Income	2006 $'000	2005 $'000
Current liability	3,673	4,975
Non current liability	166,920	110,536
Total liability	170,593	115,511

18. TOTAL EQUITY

	Accumulated Funds		Asset Revaluation Reserve		Total Equity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balance at the beginning of financial year	180,283	166,732	228,040	195,932	408,323	362,664
Changes in equity – transactions with owners as owners						
(Decrease) in net assets						
– Asset sale proceeds transferred to the Crown Entity	(1,422)	(1,226)			(1,422)	(1,226)
– Contributions to the Crown Entity	(70,039)	(9,550)			(70,039)	(9,550)
– Transfer of assets to other government departments	(3,856)	(100)			(3,856)	(100)
Total	(75,317)	(10,876)	-	-	(75,317)	(10,876)
Changes in equity – other than transactions with owners as owners						
Surplus/ (Deficit) for the year	134,525	(2,872)	-	-	134,525	(2,872)
Asset revaluation increment			36,218	59,407	36,218	59,407
Transfer of revaluation reserve to accumulated funds for assets transferred to other government agency	856	100	(856)	(100)	-	-
Transfer of revaluation reserve to accumulated funds on disposal of asset	-	122	-	(122)	-	-
Transfer of revaluation reserve to accumulated funds for unallocated amounts	-	12,197	-	(12,197)	-	-
Transfer of asset revaluation reserve for assets held for sale		14,880		(14,880)		
Total	135,381	24,427	35,362	32,108	170,743	56,535
Balance at the end of financial year	240,347	180,283	263,402	228,040	503,749	408,323

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

	2006 $'000	2005 $'000
Land and buildings	148,130	73,814
Vacant land	107,366	106,293
Intangible	2,572	559
Finance Lease	5,334	47,374
	263,402	228,040

The asset revaluation reserve is used to record any increase or decrease in the fair value of assets resulting from revaluing non-current property plant and equipment, finance leases and intangible assets. Any movement is not recorded in the Income Statement but recorded in the balance sheet and no dividends can be distributed from the asset revaluation reserve. An asset revaluation reserve amount of $44.158M included under finance lease as at 30-6-05 was transferred to land and buildings asset revaluation reserve when an option to purchase McKell Building was settled in June 2006.

Transfers to the Crown Entity included:

	2006 $'000	2005 $'000
Surplus from rental operations (including prepaid long term lease rental receipts)	70,039	9,550
Proceeds from sale of property	1,422	1,226
	71,461	10,776

An amount of $59.681M was received for prepaid rental during 2005/06 in respect of a 99-year operating lease entered into during 2005/06.

The strategic alliance agreement (1 July 2002 to 30 June 2006) between NSW Treasury and NSW Department of Commerce has the following included as a portfolio objective " Provide an appropriate and agreed financial return to Treasury". The agreed financial return is the surplus from rental operations and the net proceeds from sale of property shown above.

19. EXPENDITURE COMMITMENTS

(a) Capital Expenditure Commitments

	2006 $'000	2005 $'000
Capital expenditure contracted at balance date but not provided for:		
Payable within one year	105,124	44,510
Payable later than one year but not later than five years	90,530	116,277
Payable later than five years	-	-
	195,654	160,787

Capital expenditure commitments as at 30 June 2006 are inclusive of GST, including GST recoverable input tax credits of $17.787M. The GST recoverable is a contingent asset. Total commitments are in relation to the construction of a new government office building in Queanbeyan $44.5M, development of the Parramatta Justice Precinct $99.9M, construction of a new government office building at Penrith $50.6M and refurbishment works in various other buildings $0.6M.

(b) Future minimum lease payments under non-cancellable operating leases as lessee. These future minimum lease payments will be recouped under sub leases.

	2006 $'000	2005 $'000
Head Leases future minimum lease payments contracted at balance date but not provided for:		
Payable and receivable within one year	65,702	81,866
Payable and receivable later than one year but not later than five years	99,791	123,308
Payable and receivable later than five years	33,618	37,388
Total including GST	199,111	242,562

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Future minimum lease payments and receipts as at 30 June 2006 are inclusive of GST, including GST recoverable input tax credits of $18.101M and GST payable of $18.101M. The GST payable is a contingent liability and the GST recoverable is a contingent asset.

(c) Finance Leases as lessee

	2006 $'000 Minimum Lease Payments	2006 $'000 Finance Costs	2006 $'000 Lease Liability	2005 $'000 Minimum Lease Payments	2005 $'000 Finance Costs	2005 $'000 Lease Liability
Lease liability as at 30 June:						
Current	1,195	689	506	101,091	15,134	85,957
Non Current	11,751	3,741	8,010	12,946	4,430	8,516
Total	12,946	4,430	8,516	114,037	19,564	94,473
Payable within one year	1,195	689	506	101,091	15,134	85,957
Payable later than one year but not later than five years	4,780	2,279	2,501	4,780	2,478	2,302
Payable later than five years	6.971	1,462	5,509	8,166	1,952	6,214
Total	**12,946**	**4,430**	**8,516**	**114,037**	**19,564**	**94,473**

Finance lease refers to lease on Noel Park House. The Noel Park House lease has a lease term of 25 years with no option to purchase the asset at the completion of the lease term in 2017. The discount rate implicit in the lease is 8.31% pa. The decrease in Finance Lease liability is due to an option to purchase McKell Building being exercised during 2005/06, resulting in the movement from Finance Lease to Owned Property.

20. CONTINGENT ASSETS AND LIABILITIES

A contingent asset and liability not yet recognised in the financial statements of the CPP, exists with respect to GST recoverable from and payable to the Australian Taxation Authority on capital and lease commitments. The contingent asset is $35.888M and the contingent liability is $26.362M.

A contingent asset of $0.624M being recovery of legal costs of the NSW Crown is recognised in relation to the current break benefits litigation proceedings. The proceedings arise from certain changes to the structured finance arrangements that were put in place in 1991 when Rawson Place Pty Ltd acquired the McKell Building from the NSW Crown.

In the event that the NSW Crown is not successful in the break benefits litigation, it will be liable to pay the cost of the defendants and therefore a contingent liability of $1M is also recognised.

A contingent liability of $0.2M, being the future legal costs of the NSW Crown is also recognised in relation to the break benefits litigation proceedings. The proceedings arise from Emerald Holding Company, the purchaser of the State Bank of NSW in 1994, claiming indemnity involving the State Bank of NSW in respect of matters arising prior to its sale.

In the event that the NSW Crown is not successful in the break benefits litigation, it will be liable to pay the cost of the defendants plus any judgement against the State Bank of NSW plus the costs in these proceedings.

21. 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 $1.009M is reflected in the Income Statement. The value of the Car Park land $12.225M is recognised as Investment Property and the emerging value of the structures $4.075M is recognised as an Intangible Asset and will be revalued at its fair value as part of the annual valuation process undertaken and any increase recognized in the asset revaluation reserve.

22. THE FINANCIAL IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

The Crown Property Portfolio has applied the AEIFRS for the first time in the 2005/06 financial report. The key areas where changes in accounting policies have impacted the financial report are disclosed below. Some of these impacts arise because AEIFRS requirements are different from previous AASB requirements (AGAAP). Other impacts arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has mandated options that must be applied by NSW public sector agencies. The impacts below reflect Treasury's mandates and policy decisions.

The impacts of adopting AEIFRS on total equity and surplus / (deficit) as reported under previous AGAAP are shown below. There are no material impacts on the Crown Property Portfolio's cash flows.

(a) Reconciliation of key aggregates.

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

	30 June 2005 $'000	1 July 2004 $'000
Total equity under AGAAP	**441,719**	**447,743**
Adjustments to accumulated funds		
Write back asset revaluation reserve for investment properties	11,979	11,979
Write back asset revaluation reserve for assets held for sale	14,880	-
Recognition of deferred income on long term leases in 2004/05	1,156	-
Reduction in depreciation expense for investment properties	1	-
Adjustment of asset revaluation of ex BHP properties	25,860	25,860
Recognition of deferred liability on long-term leases	(110,940)	(110,940)
Reversal of accumulated funds for McKell not purchased in 2004/05	(40,582)	-
Adjustments to asset revaluation reserve		
Write back asset revaluation reserve for investment properties	(11,979)	(11,979)
Write back asset revaluation reserve for assets held for sale	(14,880)	-
Write back asset revaluation reserve for McKell Building not purchased in 2004/05.	44,158	-
Adjustment of asset revaluation reserve for ex BHP properties	59,407	-
Reversal of asset revaluation reserve for McKell not purchased in 2004/05	(12,456)	
Total equity under AEIFRS	408,323	362,663

Reconciliation of 2005 surplus under AGAAP to surplus under AEIFRS:

Year ended 30 June 2005	**Notes**	**$000**
Deficit under AGAAP		**(4,029)**
Reduction in depreciation expense for investment properties	1	1
Recognition of deferred income on long term leases	2	1,156
Deficit under AEIFRS		**(2,872)**

Notes to tables above

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

2. Under AASB 117 Leases, long –term leases of land are to be classified as operating leases rather than sales or finance leases and, consequently, prepaid rental now have to be amortised over the lease term rather than being recognised as sales income in one lump sum.

23. EVENTS AFTER THE BALANCE SHEET DATE

The State Property Authority Act 2006 No 40 was proclaimed by the Government on 30 August 2006. The Act commences on 1 September 2006. As stated in the Budget Estimates 2006-07, negotiations are underway to transfer the Crown Property Portfolio to the State Property Authority.

End of Audited Financial Statements

New South Wales
TREASURY

Crown Lands Homesites Program

Financial Report
for the year ended
30 June 2006

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 (the Program):

- presents fairly the Program's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

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

Scope

The Financial Report** and **Secretary of the Treasury's Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Program, for the year ended 30 June 2006.

The Secretary of the Treasury is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Secretary of the Treasury in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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 not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

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

Audit Independence

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

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

P J Boulous CA
Director, Financial Audit Services

SYDNEY
20 October 2006

CROWN LANDS HOMESITES PROGRAM

STATEMENT BY THE SECRETARY OF THE NEW SOUTH WALES TREASURY ON ADOPTION OF

FINANCIAL REPORTING FOR THE YEAR ENDED

30 JUNE 2006

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

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

(a) The accompanying financial report exhibits a true and fair view of the financial position of the Crown Lands Homesites program as at 30 June 2006 and transactions for the year then ended; and

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

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

J. PIERCE
Secretary of the
New South Wales Treasury

CROWN LANDS HOMESITES PROGRAM

ADOPTION OF FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2006

The attached financial report of Crown Lands Homesites Program has been prepared in accordance with the statutory provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2005, and the Treasurer's Directions.

Pursuant to the Public Finance and Audit Act, 1983, it is recommended that:

> The financial report for the year ended 30 June 2006 be adopted and the Secretary of the Treasury provide a statement to the effect that in his opinion the accompanying financial report exhibits a true and fair view of the financial position and transactions of Crown Lands Homesites Program and that the report has been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2005, and the Treasurer's Directions, and further, that he is not aware of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.
>
> We declare that to the best of our knowledge and belief, the Crown Lands Homesites Program is able to pay its debts as and when they become due and payable.

S O'Toole

Sean O'Toole
Managing Director
LANDCOM

CROWN LANDS HOMESITES PROGRAM

INCOME STATEMENT
For the Year Ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Continuing Operations			
Sales revenue		20,752	22,007
Cost of sales		(8,210)	(6,271)
Gross Profit		**12,542**	**15,736**
Other income	2	440	686
Marketing expenses	3	(1,341)	(1,658)
Other operating expenses	4	(7,703)	(1,102)
Expenses from Continuing Operations		**(9,044)**	**(2,760)**
Net Profit for the year	10	**3,938**	**13,662**

The above Income Statement is to be read in conjunction with the attached notes.

CROWN LANDS HOMESITES PROGRAM

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Total equity at the beginning of the year		**25,363**	**31,312**
Adjustment on adoption of AASB 132 and AASB 139 to retained earnings	10	1,766	-
Net income recognised directly in equity		1,766	-
Net profit for the year		3,938	13,662
Total recognised income and expenses for the year		5,704	13,662
Transactions with equity holders in their capacity as equity holders:			
Dividends provided for or paid	10	(12,414)	(19,611)
		(12,414)	(19,611)
Total equity at the end of the year		18,653	25,363

The above Statement in Changes in Equity is to be read in conjunction with the attached notes.

CROWN LANDS HOMESITES PROGRAM

BALANCE SHEET
as at 30 June 2006

	Notes	2006 $'000	2005 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	11,12	8,378	6,136
Trade and other receivables	5	88	922
Inventories	6	14,153	15,540
Other	7	2	0
Total Current Assets		**22,621**	**22,598**
Non-Current Assets			
Inventories	6	13,953	22,781
Total Non-Current Assets		**13,953**	**22,781**
TOTAL ASSETS		**36,574**	**45,379**
LIABILITIES			
Current Liabilities			
Trade and other payables	8	7,807	5,168
Provisions	9	2,322	1,374
Total Current Liabilities		**10,129**	**6,542**
Non-Current Liabilities			
Trade and other payables	8	7,579	12,402
Provisions	9	213	1,072
Total Non-Current Liabilities		**7,792**	**13,474**
TOTAL LIABILITIES		**17,921**	**20,016**
NET ASSETS		**18,653**	**25,363**
EQUITY			
Retained earnings	10	18,653	25,363
TOTAL EQUITY		**18,653**	**25,363**

The above Balance Sheet is to be read in conjunction with the attached notes.

CROWN LANDS HOMESITES PROGRAM

CASH FLOW STATEMENT
For the Year Ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Cash flows from operating activities			
Receipts from Customers		23,135	24,517
Interest Received		424	663
Payments to suppliers and employees		(7,916)	(10,015)
Other Payments		(987)	(1,967)
Net cash flows from / (used in) operating activities	11(b)	**14,656**	**13,198**
Cash flows from financing activities			
Distribution to NSW Treasury		(12,414)	(19,611)
Net cash flows from / (used in) financing activities		**(12,414)**	**(19,611)**
Net increase / (decrease) in cash and cash equivalents		**2,242**	**(6,413)**
Cash and cash equivalents at beginning of period		**6,136**	**12,549**
Cash and cash equivalents at end of period	11(a)	**8,378**	**6,136**

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

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

This financial report for the year ended 30 June 2006 has been authorised for issue by The Secretary of NSW Treasury on 20 October 2006.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of Australian Accounting Standards (which include Australian equivalents to International Financial Reporting Standards (AEIFRS)), and the requirements of the "Public Finance and Audit Act, 1983 " and regulations. The financial report has also been prepared on a historical cost basis.

The financial report has been prepared in accordance with the requirements of Part 3 of the Public Finance and Audit Act,1983 and the Public Finance and Audit Regulation 2005.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial report.

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

(b) Statement of Compliance

The principal accounting policies adopted in the preparation of the financial report have been consistently applied to the periods presented.

The financial report complies with the Australian Accounting Standards, which include AEIFRS. A Statement of compliance with International Financial Reporting Standards cannot be made due to the Program applying the not-for-profit sector requirements contained in A-IFRS.

This is the first financial report prepared based on AEIFRS and comparatives for the year ended 30 June 2005 have been been restated accordingly. In accordance with AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards and Treasury Mandates, the date of transitition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement has been deferred to 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005. Reconciliations of AEIFRS total equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in note 1(m) below:

(c) Income Recognition

Income is measured at the fair value of the consideration or contribution received or receivable.

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

(d) Cost of Sales

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

(e) Expenditure Recognition

Marketing and other operating expenses are reimbursed to Landcom under a management agreement with the New South Wales Treasury. Administration charge assessment is based on apportionment of total operating expenditure incurred by Landcom during the year on the ratio of number of lots developed and released for sale by both Landcom and Crown Lands Homesites Program.

Marketing charges are based on direct expenses except for shared advertising and promotion, which are based on the sales ratio apportionment between Crown Lands Homesites Program and Landcom.

(f) Employee Benefits

The Crown Lands Homesites Program has no employees and therefore no provision is required nor reported for employee benefits.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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.

(h) 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. Undeveloped land is classified as a non-current asset.

Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of land and related development expenses. All direct and indirect expenditure on development are included in the relevant precincts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Financial Instruments

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

In accordance with AASB 132 "Financial Instruments: Disclosure and Presentation" 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 accounting policy for each class of financial instrument is stated hereunder.

Cash and Cash Equivalents

Cash comprises cash on hand and at the bank. Interest is earned on daily bank balances. Interest earned is credited directly to NSW Treasury's consolidated account.

Trade and Other Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the Income Statement when impaired, derecognised or through the amortisation process.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

Interest is charged on overdue settlement monies where agreed settlement dates are not met. The rate of interest applied during the year was 11.10%. Sales are made on varying terms, but generally on a 30-day exchange and 30-day settlement basis.

Trade and Other payables

These amounts represent liabilities for goods and services provided to Crown Lands Homesites Program. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequently measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of disounting is immaterial.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Distribution to NSW Treasury

Crown Lands Homesites Program is required to return funds that are in excess of working capital to the Consolidated fund of NSW Treasury. During the year ended 30 June 2006 Crown Lands Homesites returned $12.41 million to Consolidated Fund (2005 $19.61million).

(k) Comparative Information
Comparative figures have been restated based on AEIFRS with the exception of financial instruments information, which has been prepared under the previous AGAAP Standard (AAS 33) as permitted by AASB 1.36A. The transition to AEIFRS for financial instruments was 1 July 2005.

(l) Provisions

The provision to complete projects captures all unpaid development costs, which were included in the original land development schedule. It is raised as an estimate based on known costs at the time when the land is ready for sales release, however, due to the nature of the expenditure the timing is not known.

A provision for rebates is recognised when a lot is sold. As part of the condition of sale, the Crown Lands Homesites Program is committed to make a payment to the purchaser provided certain design criteria are met and applied for within specified period by the purchaser, usually between 18-24 months. This payment represents reimbursement for additional costs incurred by the purchasers in complying with the design criteria set by the Crown Lands Homesites Program.

If the time value of money is material, provisions are disounted at the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

(m) The Financial Impact of Adopting Australian Equivalents to AEIFRS

Crown Lands Homesites Program had determined the key areas where changes in accounting policies impact the financial report. Some of these impacts arise because AEIFRS requirements are different from previous AASB requirements (AGAAP). Other impacts are likely to arise from options in AEIFRS.

To ensure consistency at the whole of Government level, NSW Treasury has advised agencies of options it has mandated for the NSW Public Sector. The impacts disclosed below reflect Treasury's mandates and policy decisions.

The impacts of adopting AEIFRS on the total equity and profit before tax reported under previous Australian Generally Accepted Accounting Principles ("AGAAP') are shown below: There are no material differences between the cash flow statement presented under AEIFRS and the cash flow statement under previous AGAAP.

(a) Reconciliation - 1 July 2004 and 30 June 2005

Reconciliation of total equity as presented under previous AGAAP to total equity under AEIFRS:		
	30/06/2005 $000**	1/07/2004 $000*
Total equity under previous AGAAP	25,363	31,312
Adjustments to accumulated funds	-	-
Adjustments to other reserves	-	-
Total equity under AEIFRS	25,363	31,312

Reconciliation of net profit under previous AGAAP to net profit under AEIFRS:	
Year ended 30 June 2005	$000
Net Profit as previously recorded under AGAAP	13,662
Net Profit under AEIFRS	13,662

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Financial Instruments - 1 July 2005 first time adoption impacts

Crown Lands Homesites Program has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement', as permitted on the first-time adoption of A-IFRS.

AASB 132 and AASB 139 have been applied from 1 July 2005. Accordingly, 1 July 2005 AEIFRS opening equity adjustments for the adoption of AASB 132 / AASB 139 follow:

	Total opening 1 July 2005	Effect of adoption of AASB 139 ***	Restated opening 1 July 2005 AEIFRS Equity (After applying AASB 139)
Trade Creditors - Crown Core	16,584	(1,766)	14,818
Retained earnings	25,363	1,766	27,129

*** Under AASB 139 long term payable must initially be recognised at fair value, and thereafter at amortised cost. The fair value of a long-term payable that carries no interest or below market interest is estimated as the present value of all future cash outflow, discounted using the prevailing market rates of interest for a similar instrument with a similar credit rating (based on the NSW TCorp government bond rate). Amortisation of the payable is recognised as interest expense. Previously, such payable were measured at nominal amount or face value. This change has reduced the amount of the payable.

(c) Grant recognition for *not-for profit* entities

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

	2006 $'000	2005 $'000
2 OTHER INCOME		
Forfeited sales deposits	15	13
Interest	424	663
Other	1	10
	440	686
3 MARKETING EXPENSES		
Agents' commission	592	650
Advertising and promotion	749	1,008
	1,341	**1,658**
4 OTHER OPERATING EXPENSES		
Estate maintenance	141	102
Management/support fee	1,187	947
Project costs written off	5,818	-
Interest expense	429	-
Auditor's remuneration-audit financial statements	18	17
Other contractors	48	12
Rates	11	8
Miscellaneous	51	16
	7,703	**1,102**

Management fees represent charges by Landcom for the cost of professional and corporate support services.

Project cost adjustments represent items of expense where expenditure incurred on projects was written off as land did not proceed to appropriation.

	2006 $'000	2005 $'000
5 TRADE AND OTHER RECEIVABLES		
Current		
Development bonds	86	204
Debtors	2	718
	88	**922**
6 INVENTORIES		
Current		
Works in progress (at cost)	9,865	6,638
Developed land (at cost)	4,288	8,902
	14,153	**15,540**
Non-Current		
Developed land (at cost)	209	324
Undeveloped land (at cost)	13,744	22,457
	13,953	**22,781**
Total Land Held for Resale	**28,106**	**38,321**
Details are:		
Cost of acquisition	10,169	16,838
Development expenses capitalised	17,937	21,483
Carrying amount of the land	**28,106**	**38,321**
7 OTHER		
Prepayments	2	0
	2	**0**
8 TRADE AND OTHER PAYABLES		
Current		
Trade payables - Treasury: Crown Core	6,242	4,198
Trade payables	788	326
GST payable	208	173
Retentions	26	19
Deposits held	440	191
Accrued expenses and development costs	103	261
	7,807	**5,168**
Non Current		
Trade payables - Treasury: Crown Core	7,579	12,402
	7,579	**12,402**

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

	2006 $'000	2005 $'000
9 PROVISIONS		
Current		
Provision to complete projects	1,957	739
Provision for rebates	345	617
Provisions other	20	18
	2,322	**1,374**
Non-Current		
Provision to complete projects	-	970
Provision for rebates	213	102
	213	**1,072**
Total Provisions	**2,535**	**2,446**

9 PROVISIONS (continued)

Reconciliations of the carrying amount of each class of provision are set out below:

	Provision to complete projects $'000	Provision for rebates $'000
2006		
Carrying amount at the beginning of the year	1,709	719
Additional provisions recognised	595	290
Reductions in provisions from payments	(392)	(138)
Increase/(reductions) in provisions from remeasurement	45	(313)
Carrying amount at end of year	1,957	558

10 RETAINED EARNINGS

	2006 $'000	2005 $'000
Balance at the beginning of financial year	25,363	31,312
Adjustment on adoption of accounting policies specified by AASB 132 and AASB 139	1,766	-
Restated balance at beginning of financial year	27,129	31,312
Changes in equity - other than transactions with equity holders as equity holders		
Net profit for the year	3,938	13,662
Distribution paid to NSW Treasury	(12,414)	(19,611)
Balance at the end of financial year	**18,653**	**25,363**

11 CASH FLOW STATEMENT

(a) For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and at bank. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006 $'000	2005 $'000
Cash and cash equivalent assets	8,378	6,136
Total cash and cash equivalent assets	**8,378**	**6,136**

(b) Reconciliation from the net profit for the year to the net cash flows from operations

	2006 $'000	2005 $'000
Net profit for the year	3,938	13,662
Change in Assets and Liabilities		
(Increase) / decrease in receivables	830	(345)
(Increase) / decrease in inventory	10,217	2,836
Increase / (decrease) in provisions	89	102
Increase / (decrease) in payables	(418)	(3,057)
Net cash flows from / (used in) operating activities	**14,656**	**13,198**

12 FINANCIAL INSTRUMENTS
(This note is to be read in conjunction with Note 1(i))

(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.

2006			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 Balance Sheet
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets								
Cash and cash equivalent assets	11	8,378						8,378
Trade and other receivables	5	-					88	88
Total Financial Assets		**8,378**					**88**	**8,466**
Weighted average Interest rate		3.54%						
Financial Liabilities								
Trade and other payables	8	7,579					7,807	15,386
Total Financial Liabilities		**7,579**					**7,807**	**15,386**
Weighted average Interest rate		6.05%						
Net Financial Assets/(Liabilities)		**799**					**(7,719)**	**(6,920)**

2005		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 Balance Sheet
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets								
Cash and cash equivalent assets	11	6,136					-	6,136
Trade and other receivables	5	-					922	922
Total Financial Assets		**6,136**					**922**	**7,058**
Weighted average Interest rate		3.31%						
Financial Liabilities								
Trade and other payables	8						17,570	17,570
Total Financial Liabilities		**-**					**17,570**	**17,570**
Net Financial Assets/(Liabilities)		**6,136**					**(16,648)**	**(10,512)**

b) Credit Risk

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

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

The Crown Lands Homesites Program does not have any capital or operating lease commitments (2004/05 - $nil). The only commitments at year end are for land development contracted for at balance date but not provided.

15 CONTINGENT LIABILITIES

There may be potential unquantifiable liabilities under Native Title and Aboriginal Land Rights legislation, which result from actions taken in the development and sale of Crown land.

16 RELATED PARTY TRANSACTIONS

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

New South Wales
TREASURY

Land Development Working Account

Financial Report
for the year ended
30 June 2006

AUDITOR-GENERAL NEW SOUTH WALES

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):

- presents fairly the Entity's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

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

Scope

The Financial Report and Responsibility of the Secretary, NSW Treasury

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Entity for the year ended 30 June 2006.

The Secretary, NSW Treasury is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Secretary, NSW Treasury in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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, NSW Treasury had not fulfilled his reporting obligations.

My opinion does not provide assurance:

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

Audit Independence

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

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

S R Stanton CPA
Director, Financial Audit Services

SYDNEY
23 October 2006

THE LAND DEVELOPMENT WORKING ACCOUNT
ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS

Pursuant to Section 41C of the *Public Finance and Audit Act* 1983 and clause 11 of *the Public Finance and Audit Regulation 2005*, I declare that in my opinion:

(a) The accompanying financial report exhibits a true and fair view of the financial position of the Land Development Working Account at 30 June 2006 and the financial performance for the year then ended; and

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

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

Kevin Cosgriff
A/Secretary
12 October 2006

THE LAND DEVELOPMENT WORKING ACCOUNT
ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS

Certificate under Section 41C (1B) & (1C) of the *Public Finance and Audit Act*, *1983* and Clause 11 of the *Public Finance and Audit Regulation 2005.*

The accompanying financial report has been prepared in accordance with the *Public Finance and Audit Act*, *1983*, the *Public Finance and Audit Regulation 2005*, and the Treasurer's Directions as they relate to the preparation of the report and with the requirements of applicable Australian Accounting Standards and the Urgent Issues Group Interpretations.

In our opinion, the report exhibits a true and fair view of the financial position and financial performance of the Land Development Working Account. Further, we are not aware of any circumstances, as at the date of this certificate, which would render any particulars included in the financial report misleading or inaccurate.

H Tan
Financial Accountant
Department of Lands
September 2006

B Costello
Director Finance and Corporate Support
Department of Lands
September 2006

THE LAND DEVELOPMENT WORKING ACCOUNT
ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS

Income Statement
For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Revenue	2	21,060	45,558
Cost of sales	3(a)	(9,503)	(15,164)
Gross Profit		**11,557**	**30,394**
Administration Expenses		884	812
Marketing Expenses		45	44
Other Expenses		949	704
	3(b)	**1,878**	**1,560**
Profit for the year		**9,679**	**28,834**

The accompanying notes form part of these financial statements.

THE LAND DEVELOPMENT WORKING ACCOUNT
ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS

Balance Sheet
As at 30 June 2006

	Notes	2006 $'000	2005 $'000
Current Assets			
Cash and cash equivalent	4	18,107	40,644
Trade and other receivables		67	687
Inventories	5	3,105	8,482
Total Current Assets		**21,279**	**49,813**
Non-current Assets			
Inventories	5	3,542	3,542
Total Non-current Assets		**3,542**	**3,542**
Total Assets		**24,821**	**53,355**
Current Liabilities			
Trade and other payables	6	2,570	5,212
Contribution payable	7	6,500	28,000
Other	8	6,313	14,157
Total Current Liabilities		**15,383**	**47,369**
Net Assets		**9,438**	**5,986**
Equity			
Retained earnings	10	9,438	5,986
Total Equity		**9,438**	**5,986**

The accompanying notes form part of these financial statements.

THE LAND DEVELOPMENT WORKING ACCOUNT
ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS

Statement of Changes in Equity
For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Adjustment on adoption of AASB 139	10	273	-
Net income recognised directly in Equity		273	-
Profit for the year	10	9,679	28,834
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		**9,952**	**28,834**

The accompanying notes form part of these financial statements.

THE LAND DEVELOPMENT WORKING ACCOUNT ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS

Cash Flow Statement
For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Cash flows from operating activities			
Receipts from customers		29,913	52,106
Payments to suppliers		(21,450)	(21,578)
Net cash provided by operating activities	9(b)	**8,463**	**30,528**
Cash flows from financing activities			
Distribution to NSW Treasury		(28,000)	(6,500)
Repayment of Working Capital	1(o)	(3,000)	-
Net cash used in financing activities		**(31,000)**	**(6,500)**
Net (Decrease)/Increase cash and cash equivalent		(22,537)	24,028
Cash at the beginning of the financial year		40,644	16,616
Cash and cash equivalent at the end of the financial year	9 (a)	**18,107**	**40,644**

The accompanying notes form part of these financial statements.

THE LAND DEVELOPMENT WORKING ACCOUNT ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS

Notes to the Financial Statements For the year ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Land Development Working Account (LDWA) comprises the Crown commercial activities, mainly the development and sale of land for commercial and residential purposes in country New South Wales. All Crown land sold by the LDWA either as vacant or developed lots is deemed to have been acquired initially by the LDWA from the Crown Leaseholds. The entity operates in New South Wales, Australia. The office is located at Level 4, 1 Prince Albert Road, Queens Square, Sydney, NSW 2000. Activities administered 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.

LDWA is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The LDWA's account is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

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

(b) Basis of preparation

LDWA's financial report is a general purpose financial report which has been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian equivalents to International Financial Reporting Standards (AEIFRS));
- Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board;
- the *Public Finance and Audit Act 1983 and Regulation*.

The financial statements have been prepared on an accrual basis and are based on historical cost, unless stated otherwise.

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

(c) Significant accounting judgements, estimates and assumptions

In the application of AEIFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods in the revision effects both current and future period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued)*

(d) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include AEIFRS. This is the first financial report prepared based on AEIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly, unless otherwise permitted.

LDWA has adopted the exemption under AASB *1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards,* the date of transition to AASB *132 Financial Instruments*: *Disclosure and Presentation* and ASB 139 *Financial Instruments: Recognition and Measurement* has been deferred to 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005.
The impacts of the adoption of AEIFRS are detailed in Note 14.

The following new Accounting Standards that have been issued but are not yet effective, have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standards
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-5	AASB 1 *First-time adoption of AIFRS* AASB 139 *Financial Instruments: Recognition and Measurement*
2005-10	AASB 132 *Financial Instruments: Disclosures and Presentations;* AASB 101 *Presentation of Financial Statements;* AASB 114 *Segment Reporting;* AASB 117 *Leases;* AASB 133 *Earnings Per Share;* AASB 139 *Financial Instruments: Recognition and Measurement;* AASB 1 *First-time adoption of AIFRS* AASB 4 *Insurance Contracts*; AASB 1023 *General Insurance Contracts*; AASB 1038 *Life Insurance Contracts*
New Standard	AASB 7 *Financial Instruments: Disclosures*
AASB 119	AASB 119 *Employee Benefits* (Version issued April 2006)

The application of the new Australian Accounting Standards will not have a material impact on the Entity's financial report.

(e) Revenue from sale of land

Revenue from the sale of land is recognised on settlement when LDWA transfers the significant risks and rewards of ownership of the assets. A 10% deposit of the sale price is normally paid on the date of exchange of contract and is recognised as a liability until the settlement of the sale.

Notes to the Financial Statements
For the year ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(f) Sale of surplus land controlled by other government agencies

LDWA acts as an agent for other government agencies in regard to the sale of surplus Crown land. After deducting LDWA's selling expenses the proceeds from the sale are remitted to the selling government agency which is responsible for transferring any Crown share of proceeds to the Consolidated Fund. These proceeds are therefore not recognised as revenue in these financial statements.

(g) Cost of sales

The cost of sales includes the cost of land and direct development expenses.

(h) Employee related expenses

LDWA has no employees. All LDWA's human resources are provided by the Department of Lands on a fee for services rendered basis. This fee includes employee related costs (salaries, superannuation, leave entitlement, payroll tax, and workers' compensation insurance) and an administration oncost.

(i) Inventories - property held for resale

Inventories are stated at the lower of cost and 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 and some parcels of unallocated Crown land awaiting settlement.

Crown land transferred to LDWA is currently accounted for as follows:

- **Land acquired by LDWA 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 Leaseholds Entity. Payment of the liability owing to the Crown Leaseholds Entity occurs at time of settlement.

- **Land acquired by LDWA 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(j) Cash and cash equivalents

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 the NSW Treasury. Interest is not reported in the financial statements as it is paid direct to the NSW Treasury.

(k) Receivables

All trade receivables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less any impairment of receivables. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due. Bad debts are written off as incurred.

(l) Payables

These amounts represent liabilities for goods and services provided to LDWA and other amounts, including interest.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(m) 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 LDWA 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.

- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued)*

(n) Contributions to Treasury NSW

LDWA is required to return funds in excess of working capital to the Consolidated Fund of NSW Treasury. Excess funds for the current period are transferred to contribution payable and paid in the following financial year.

(o) Treasury Advance

An interest-free working capital advance of $3 million was received from NSW Treasury on the establishment of LDWA. A decision has been taken to enable the future working capital requirements of the LDWA to be sourced from earnings retained by the LDWA. As a consequence, the interest-free advance of $3 million was repaid to NSW Treasury during the 2005/06 financial year.

(p) Comparative figures

Comparative figures have been restated based on AEIFRS with the exception of financial instruments information, which has been prepared under the previous AGAAP Standards (AAS 33) as permitted by AASB 1.36A. The transition to AEIFRS for financial instruments information was 1 July 2005. LDWA does not believe there will be any material variances in the comparative figures in complying with AASB 132/139.

2. REVENUE

	2006 $'000	**2005 $'000**
Revenue from sale of land (Note 1(e))	28,154	48,510
Less:		
Land sold on behalf of other government agencies (Note 1(f))	(7,094)	(2,952)
Net revenue received	**21,060**	**45,558**
Analysed as follows:		
Developed land	3,894	3,071
Vacant land	14,580	36,911
Land sold to NSW government agencies	2,023	5,104
Other revenue	563	472
	21,060	**45,558**

THE LAND DEVELOPMENT WORKING ACCOUNT
ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS

Notes to the Financial Statements
For the year ended 30 June 2006

3. COST OF SALES

3(a) Cost of Sales (Note 1 (g))

	2006 $'000	2005 $'000
Cost of land	6,906	13,301
Development costs	2,597	1,863
	9,503	**15,164**

3(b) Operating Expenses

	2006 $'000	2005 $'000
Administration Expenses		
Auditor's remuneration – audit of the financial report	15	14
Fees for services rendered (including departmental management fee (Note 1(h))	869	798
	884	**812**
Marketing Expenses		
Stores	6	2
Travelling and motor running expenses	8	15
Advertising	31	27
	45	**44**
Other Expenses		
Consultancy	18	24
Commissions to real estate agents	97	256
Contractors	290	337
Interest expense - amortisation	273	-
Other	271	87
	949	**704**
	1,878	**1,560**

4. CASH AND CASH EQUIVALENTS

	2006 $'000	2005 $'000
Cash at bank	18,107	40,644
	18,107	**40,644**

5. INVENTORIES

	2006 $'000	2005 $'000
Land held for resale – At Cost		
Current	3,105	8,482
Non-current	3,542	3,542
	6,647	**12,024**
Land held for resale – At Cost		
Acquisition Cost - Land	5,256	8,921
Direct Development expenses capitalised (Work-in-Progress)	1,391	3,103
Carrying amount	**6,647**	**12,024**

The basis of inventory valuation is set out in note 1(i).

6. TRADE AND OTHER PAYABLES

Due to other government agencies (Note 1(f))	1,305	2,484
Creditors	319	1,302
Prepaid Income	946	1,426
	2,570	**5,212**

7. CONTRIBUTIONS PAYABLE

Contributions to the NSW Treasury (Note 1(n))		
Balance at 1 July	28,000	6,500
Payments made during the year	(28,000)	(6,500)
Provided during the year	6,500	28,000
Balance at 30 June	**6,500**	**28,000**

The balance in this account is the excess of working capital that will be remitted to Consolidated Fund of the NSW Treasury during the next financial year.

8. OTHER – CURRENT LIABILITIES

Amount due to the Crown Leaseholds Entity

Balance at 1 July	11,157	9,591
Value of land transferred in	3,240	14,432
Payments made during the year	(8,084)	(12,866)
	6,313	11,157
Interest-free working capital advance (Note 1 (o))	-	3,000
	6,313	**14,157**

9. NOTES TO CASH FLOW STATEMENT

9 (a). Reconciliation of Cash and cash equivalents

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

	2006 $'000	2005 $'000
Cash at bank	**18,107**	**40,644**

9 (b). Reconciliation of profit for the year to net cash flows from operating activities

Profit for the year	9,679	28,834
Adjustment for non-cash item		
Interest expense amortisation	273	-
Movement in assets and liabilities		
Decrease/(Increase) in Receivables	634	(21)
Decrease/(Increase) Inventories	5,378	(2,468)
(Decrease)/Increase in Payables	(2,657)	2,617
(Decrease)/Increase in Other Liabilities	(4,844)	1,566
Net cash flows from operating activities	**8,463**	**30,528**

10. EQUITY

Balance at the beginning of the year	**5,986**	**5,152**
AASB 139 first-time adoption	273	-
Restated opening balance	**6,259**	**5,152**
Changes in Equity- transactions with owners as owners		
Distribution to the NSW Treasury	(6,500)	(28,000)
Total	(6,500)	(28,000)
Changes in Equity- other than transactions with owners as owners		
Profit for the year	9,679	28,834
Total	9,679	28,834
Balance at the end of the year	**9,438**	**5,986**

11. CONTINGENT LIABILITIES AND COMMITMENTS

In March 2004 the Land and Environment Court directed the Minister Assisting the Minister for Natural Resources (Lands) to acquire a parcel of land owned by Nedoni Pty Ltd. The land is located at Byron Bay. It is intended that the Minister for Lands will acquire the parcel of land on behalf of the Crown. The potential liability to LDWA could be up to $3 million, being the land value and other cost of acquisition. Due to unresolved issues concerning the amount of land to be acquired, a reliable land valuation estimate could not be determined at this stage and a liability has therefore not been recognised.

12. NATIVE TITLE

Under the provisions of the Commonwealth's *Native Title Act 1993* claims may be lodged in respect of land currently held as inventories. However, inventories are not offered for sale until such time as Native Title interests are extinguished through compulsory acquisitions or the granting of a non-claimant application by the Native Title Tribunal. The nature and value of possible claims under the provisions of the Native Title legislation are complex and are not directly related to the inventory value disclosed in the financial statements. Any future compensation claim which might arise under the Native Title legislation in regard to land disposals is accepted by the Crown rather than LDWA. Therefore, there is no impact on the value of inventories disclosed in the financial statements.

13. FINANCIAL INSTRUMENTS

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

(a) Interest rate risk

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

Cash and cash equivalents

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 (TCorp) 11am unofficial cash rate, adjusted for a management fee to 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 uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment). No interest is earned on trade debtors. The carrying amount approximates fair value.

13. FINANCIAL INSTRUMENTS *(continued)*

Trade Creditors and Accruals

The Liabilities are recognized 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.

	Weighted average effective interest rate %	Floating Interest rate $000	Non-interest Bearing $000	Total carrying Amount $000
30 June 2006				
Financial Assets				
Cash and cash equivalent	5.04	18,107	-	18,107
Trade and other receivables		-	67	67
Total		**18,107**	**67**	**18,174**
Financial Liabilities				
Trade payables		-	2,570	2,570
Other – Amount due to Crown Entity			6,313	6,313
Total			**8,883**	**8,883**
30 June 2005				
Financial Assets				
Cash and cash equivalent	4.33	40,644	-	40,644
Trade and other receivables		-	687	687
Total		**40,644**	**687**	**41,331**
Financial Liabilities				
Trade payables		-	5,212	5,212
Other - Amount due to Crown Entity		-	11,157	11,157
Other - Treasury advance		-	3,000	3,000
Total		**-**	**19,369**	**19,369**

(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. LDWA's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in Balance Sheet.

Notes to the Financial Statements
For the year ended 30 June 2006

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

LDWA applies the AEIFRS from 2005-06.

As discussed in note 1(d), the comparative information for 2004/05 for financial instruments has not been restated and is presented in accordance with previous AGAAP. AASB 132 and AASB 139 have been applied from 1 July 2005. Accordingly, the 1 July 2005 AEIFRS opening equity adjustments for the adoption of AASB 132/AASB139 follow:

	Note	Accumulated Funds $'000	Other reserves $'000	Total $'000
Total opening equity 1 July 2005		**5,986**	**-**	**5,986**
Interest-free loan measured at fair value on initial recognition	i	273	-	273
Restated opening equity 1 July 2005 (after applying AASB 139)		**6,259**	**-**	**6,259**

Note to the table above:

i. *Interest-free loans*. Under AASB 139, these types of loans must initially be recognised at fair value, and thereafter at amortised cost. The fair value of a long-term loan that carries no interest or below market interest is estimated as the present value of all future cash receipts, discounted using the prevailing market rates of interest for a similar instrument with a similar credit rating. Any additional amount lent is an expense or grant unless it qualifies for recognition as some other type of asset. Amortisation of the loan is recognised as investment revenue. Previously, such loans were measured at nominal amount or face value, with no grant or expense recognised. This change has reduced the amount of the loan receivable.

End of Audited Financial Statements

New South Wales
TREASURY

Crown Leaseholds Entity

Financial Report
for the year ended
30 June 2006

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

CROWN LEASEHOLDS ENTITY

To Members of the New South Wales Parliament

Audit Opinion

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

- presents fairly the Crown Leaseholds Entity's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005.*

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

Scope

The Financial Report and Responsibility of the Secretary, NSW Treasury

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Crown Leaseholds Entity for the year ended 30 June 2006.

The Secretary, NSW Treasury is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Secretary, NSW Treasury in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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, NSW Treasury had not fulfilled his reporting obligations.

My opinion does not provide assurance:

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

Audit Independence

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

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

S R Stanton CPA
Director, Financial Audit Services

SYDNEY
23 October 2006

THE CROWN LEASEHOLDS ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS AND DEPARTMENT OF NATURAL RESOURCES

Pursuant to Section 41C of the *Public Finance and Audit Act 1983* and clause 11 of the *Public Finance and Audit Regulation 2005*, I declare that in my opinion:

(a) The accompanying financial report exhibits a true and fair view of the financial position of the Crown Leaseholds Entity for the year ended 30 June 2006 and the financial performance for the year then ended; and

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

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

Kevin Cosgriff
A/Secretary
October 2006

THE CROWN LEASEHOLDS ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS AND DEPARTMENT OF NATURAL RESOURCES

Certificate under Section 41C (1B) & (1C) of *the Public Finance and Audit Act, 1983* and clause 11 of the *Public Finance and Audit Regulation 2005.*

The accompanying financial report has been prepared in accordance with the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation, 2005* and Treasurer's Directions as they relate to the preparation of the financial report and with the requirements of applicable Australian Accounting Standards and the Urgent Issues Group Interpretations.

In our opinion, the report exhibits a true and fair view of the financial position and financial performance of the Crown Leaseholds Entity. Further, we are not aware of any circumstances, as at the date of this certificate, which would render any particulars included in the financial report misleading or inaccurate.

H Tan
Financial Accountant
Department of Lands
September 2006

B Costello
Director Finance and Corporate Support
Department of Lands
September 2006

THE CROWN LEASEHOLDS ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS AND DEPARTMENT OF NATURAL RESOURCES

INCOME STATEMENT
For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Revenue	2(a)	38,255	34,937
Other revenue	2(b)	5,829	14,503
Expenses	4	(2,249)	(196)
Gain/(loss) on disposal	3(a)	(37,212)	(19,126)
Other gains/(losses)	3(b)	(28,501)	(11,750)
(Loss)/profit for the year	12	**(23,878)**	**18,368**

The accompanying notes form part of these financial statements.

THE CROWN LEASEHOLDS ENTITY - ACTIVITIES CONDUCTED BY
THE DEPARTMENT OF LANDS AND DEPARTMENT OF NATURAL RESOURCES

BALANCE SHEET
As at 30 June 2006

	Notes	2006 $'000	2005 $'000
Current Assets			
Cash and cash equivalents	5	12,500	8,664
Trade and other receivables	6	17,518	25,414
Total Current Assets		**30,018**	**34,078**
Non-Current Assets			
Trade and other receivables	7	23,402	24,782
Property Plant and Equipment	8	5,773,265	5,704,580
Total Non-current Assets		**5,796,667**	**5,729,362**
TOTAL ASSETS		**5,826,685**	**5,763,440**
Current Liabilities			
Trade and other payables	9	6,192	5,389
Other	10	24,054	25,727
Total Current Liabilities		**30,246**	**31,116**
TOTAL LIABILITIES		**30,246**	**31,116**
NET ASSETS		**5,796,439**	**5,732,324**
Equity			
Retained earnings	12	3,700,278	3,779,319
Reserves	12	2,095,711	1,953,005
TOTAL EQUITY		**5,796,439**	**5,732,324**

The accompanying notes form part of these financial statements.

THE CROWN LEASEHOLDS ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS AND DEPARTMENT OF NATURAL RESOURCES

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Revaluation of vacant Crown land	1(j)	-	1,137,235
Gain on revaluation of properties, plant and equipment	12	152,787	172,730
Adjustment arising from introduction of AASB 139	12	(10)	-
NET INCOME RECOGNISED DIRECTLY IN EQUITY		**152,777**	**1,309,965**
(Loss)/profit for the year		(23,878)	18,368
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	**12**	**128,899**	**1,328,333**

The accompanying notes form part of these financial statements.

THE CROWN LEASEHOLDS ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS AND DEPARTMENT OF NATURAL RESOURCES

CASH FLOW STATEMENT
For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Cash flows from operating activities			
Receipts from customers		34,384	32,282
Interest received		2,576	2,607
Other receipts		3,876	3,948
Net Cash flows from operating activities	14	**40,836**	**38,837**
Cash flows from investing activities			
Proceeds from sale of Crown land reserve No R1011448		24,152	25,249
Net Cash from investing activities		**24,152**	**25,249**
Cash flows from financing activities			
Distribution to NSW Treasury	11	(61,152)	(65,494)
Net Cash from financing activities		**(61,152)**	**(65,494)**
Net increase/(decrease) in cash and cash equivalents		3,836	(1,408)
Cash and cash equivalents at the beginning of the year		8,664	10,072
Cash and cash equivalents at the end of the year	5	**12,500**	**8,664**

The accompanying notes form part of these financial statements.

THE CROWN LEASEHOLDS ENTITY - ACTIVITIES CONDUCTED BY THE DEPARTMENT OF LANDS AND DEPARTMENT OF NATURAL RESOURCES

Notes to the Financial Statements
For the year ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Crown Leaseholds Entity is the entity that reports the value of unallocated Crown land. It collects installments relating to the purchase of unallocated Crown land and generates revenue from leases, licences and permissive occupancies of Crown land. The Entity's activities are administered by the Department of Lands and the Department of Natural Resources (DNR). The leases and rentals in the Western Division under *Western Lands Act 1901 No 70* and *Western Lands Amend Act 2002 No 68* are administered by DNR.

The Crown Leaseholds Entity's account is reported separately from those Departments' operational activities in accordance with NSW Treasury policy to reflect that:

- the ownership of the Crown Estate rests with the Crown, and
- revenue generated from the ownership of the Crown Estate is of a regulatory nature under the control of the Crown.

The Crown Leaseholds Entity's financial report is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

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

(b) Basis of Preparation

The Entity's financial report is a general purpose financial report which has been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian equivalents to International Financial Reporting Standards (AEIFRS));
- Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board;
- the *Public Finance and Audit Act 1983* and Regulation.

The financial report has been prepared on an accrual basis and are based on historical costs with the exception of property, plant and equipment, which have been measured at fair value and certain financial assets and liabilities, which are measured at either fair value or amortised cost.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(c) Significant accounting judgements, estimates and assumptions

In the application of AEIFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods in the revision effects both current and future period.

The Entity has entered into land leases on its leasehold land. The Entity has determined that it retains all the significant risks and rewards of ownership of these leasehold lands and has thus classified the leases as operating leases.

(d) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AEIFRS).

This is the first financial report prepared based on AEIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly, unless otherwise permitted.

The Entity has adopted the exemption under AASB *1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(d) Statement of compliance *(continued)*

The following new Australian Accounting Standards that have been issued but are not yet effective, have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standards
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-5	AASB 1 *First-time adoption of AIFRS* AASB 139 *Financial Instruments: Recognition and Measurement*
2005-10	AASB 132 *Financial Instruments: Disclosures and Presentations;* AASB 101 *Presentation of Financial Statements;* AASB 114 *Segment Reporting;* AASB 117 *Leases;* AASB 133 *Earnings Per Share* AASB 139 *Financial Instruments: Recognition and Measurement;* AASB 1 *First-time adoption of AIFRS* AASB 4 *Insurance Contracts*; AASB 1023 *General Insurance Contracts*; AASB 1038 *Life Insurance Contracts*
New Standard	AASB *7 Financial Instruments: Disclosures*
AASB 119	AASB 119 *Employee Benefits* (Version issued April 2006)

The application of the new Australian Accounting Standards will not have a material impact on the Entity's financial report.

(e) Revenue Recognition

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

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

- **Rental revenue**
  Rental is recognised in accordance with AASB 117 *Leases* on a straight-line basis over the lease term.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(e) Revenue Recognition *(continued)*

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

(f) Administration Costs

The cost of administering the Crown Estate is borne by the Department of Lands and the Department of Natural Resources (DNR) and is, therefore, not reflected in the financial report.

The amount paid or payable to the auditor for audit of the financial report for the year ended 30 June 2006 was $47,000. The audit fee will be paid by the Crown Entity. Audit costs for the prior year were included in the audit fee for the Crown Entity.

(g) 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 as part of an item of expense.
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(h) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Entity. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Where payment for an item is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted at an asset-specific rate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(i) Reservation of Crown Land

Pursuant to section 87 of the *Crown Lands Act 1989*, all the Crown land in the Eastern and Central Divisions of the State (including New South Wales land on the continental shelf within the 3 Nautical Mile Zone) that is not within a reserve or part of any holding, is reserved under reserve No. R1011448 for the public purpose of future public arrangements as gazetted on 31 March 2006. It will thereafter be referred to as Crown land reserve No. R1011448.

(j) Revaluation of Property, Plant and Equipment

Crown land reserve No R1011448 is valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 05-03). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment.*

Leasehold Land

Leasehold land, which is revalued annually and includes perpetual leases, term leases, permissive occupancies and enclosure permits, was independently revalued in June 2002 by the State Valuation Office at fair value in accordance with the requirements of AASB 1041. The valuation, performed in accordance with AASB 1041, meets the current requirements in AASB 116. The basis of valuation is the capitalisation of the income stream, appropriately taking into account the conditions attached to the leases. The method of valuation utilised mass valuation techniques.

As at 30 June 2006, the land has been revalued at the capitalised rental revenue in perpetuity using an interest rate of 4.97% which is the same rate used in the June 2002 valuation as there have been no significant changes to conditions which would result in that rate requiring alteration. The increment/decrement on the annual revaluation of the future rental revenue is credited/debited to the asset revaluation reserve.

The balance in this reserve represents an accumulation of various effects, which cannot be individually measured:

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(j) Revaluation of Property, Plant and Equipment (*continued*)

Crown land reserve No. R1011448

Crown land reserve No. R1011448 is all the unallocated Crown land not included in the leasehold estate. This land, which includes New South Wales land on the continental shelf within the 3 Nautical Mile Zone was independently valued in June 2002 by the State Valuation Office at fair value in accordance with the requirements of AASB 116 *Property, Plant and Equipment*.

Crown land reserve No. R1011448 is revalued, at least, every five years and with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at the reporting date. The last revaluation was completed on 30 June 2002 and was based on an independent assessment.

The Chief Valuer at Valuation Services within Land and Property Information NSW has advised that on a reasonable basis the value of vacant Crown land has increased by 30% ($1.137 billion) since 2002. Given this advice, management has decided to adjust the value of vacant Crown land upwards by $1.137 billion against the asset revaluation reserve effective 1 July 2004. The adjustment has been made on this date on the basis that the major movement in land values ocurred prior to this date. The revalued amount for vacant Crown land has been used in calculating the gain or loss on disposal of vacant Crown land on or after 1 July 2004.

Underlying the definition of ‘fair value’ is a presumption that the Entity is a going concern without any intention or need to liquidate or otherwise wind up its operations or undertake a transaction on adverse terms. Similarly, it is assumed that the asset is exchanged after an adequate period of marketing to obtain its best price. It is measured having regard to the highest and best use of the asset for which market participants would be prepared to pay.

In regard to Crown land reserve No. R1011448 the nature of the holdings and the statutory restrictions on their disposition and use are such that one can conclude that the only appropriate basis of valuation would be value in use which represents the highest and best use of Crown lands taking into account zoning. Evidence of value can be determined from assets that are similar in use, type and condition, ie. National parks, State Forests, etc.

Crown land reserve No. R1011448 revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised in the income statement, in which case the increase is recognised in the income statement.

Crown land reserve R1011448 revaluation decrements are recognised immediately in the profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect to that class of assets, they are debited directly to the asset revaluation reserve.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(j) Revaluation of Property, Plant and Equipment (*continued)*

Crown land reserve No. R1011448 ***(continued)***

Some minor infrastructures such as minor dams sitting on the Crown land reserve No. R1011448 , which do not generate any future economic benefits to the entity are included in the Crown land reserve No. R1011448 valuation and therefore are not recognised as separate assets.

As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

(k) Impairment of Property, Plant and Equipment

As a not-for-profit entity with no cash generating units, the Entity is effectively exempt from AASB 136 *Impairment of Assets* and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

(l) Loans and Receivables

Loans and Receivables are recognised initially at fair value, usually based on transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. An allowance for impairment of receivables is established when there is objective evidence that the Entity will not be able to collect all amounts due. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Bad debts are written off as incurred.

(m) Equity Transfers

The accounting treatment for transfers of lands between Crown Leaseholds Entity and other State government agencies which are not due to an administrative restructure or transfers of programs/functions and parts thereof between NSW public sector entities is in accordance with NSW Treasury's policy, TPP 06-7.

The approach under this policy results in gains or losses for the Crown Leaseholds Entity due to differences in value between the carrying amounts recognised by the transferor and the transferee.

Lands transferred as a result of equity adjustment constitute a separate 'class' of assets in terms of AASB 116 *Property, Plant and Equipment*. Only these transferred lands as a separate class of land are revalued to the same value recognised by the transferee and the asset class where they originally belonged is not revalued.

Notes to the Financial Statements
For the year ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(n) Payables

These amounts represent liabilities for goods and services provided to the Entity and other amounts, including interest.

Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(o) Comparative Information

Comparative figures have been restated based on AEIFRS with the exception of financial instruments information, which has been prepared under previous AGAAP Standard (AAS 33) as permitted by AASB 1.36A. The transition to AEIFRS for financial instruments information was 1 July 2005. The impact of adopting AASB 132/AASB 139 is further discussed in Note 16.

2 (a) REVENUE

	2006 $'000	2005 $'000
Leases and permissive occupancies	43,970	36,883
Royalties	3,609	3,275
Other land receipts	2,267	3,552
Water licenses	1,063	1,524
Interest on land sales and leases	2,583	2,607
Less:		
Rebates	(4,071)	(4,924)
Waivers	(11,166)	(7,980)
	38,255	**34,937**

Of the total revenue of $38.255 million (2005 - $34.937 million) an amount of $2.548 million (2005 - $2.408 million) relates to DNR's Western Division activities.
Water licenses income was collected by DNR on behalf of the Crown.

2 (b) OTHER REVENUE

	2006	2005
Reserve trust land	4,971	14,503
Declared to be Crown land	858	-
	5,829	**14,503**

Other revenue above is the fair value of land acquired by the Entity for no financial consideration, being land transferred from reserve trusts or land declared to be Crown land.

3 (a) GAIN/ (LOSS) ON DISPOSAL

	2006 $'000	2005 $'000
Proceeds from disposal	20,586	25,916
Carrying value of assets disposed	(57,798)	(45,042)
Net (loss) on disposal of land	**(37,212)**	**(19,126)**

Proceeds from Disposal

Miscellaneous Land Sales	(1,629)	(880)
Land acquired by government agencies	(2,309)	(1,789)
Conversion of Leases previously accounted as revenue	(13,412)	(6,372)
Sale of Crown land reserve R1011448 to Land Development Working Account Entity	(3,236)	(16,875)
	(20,586)	**(25,916)**

Land transferred for no financial consideration to local and other government entities in accordance with the provisions of *Crown Lands Act 1989:*

Reserve trust	31,036	15,948
Crown roads transferred to Councils	2,496	1,457
Landcom	-	45
	33,532	**17,450**

Land transferred for no financial consideration to Aboriginal Land Councils in accordance with the provisions of *Aboriginal Land Rights Act 1983:*

Aboriginal Land Councils	629	2,998
	629	**2,998**

3 (b) OTHER GAINS/(LOSSES)

Decrement on revaluation on land (Note 8)	(28,501)	(11,750)
	(28,501)	**(11,750)**

4. EXPENSES

Bad debts	55	85
Grant expense (issuance of interest free loans)	2,145	-
Other	49	111
	2,249	**196**

5. CASH AND CASH EQUIVALENTS

	2006 $'000	2005 $'000
Cash and cash equivalents	**12,500**	**8,664**

Cash and cash equivalents comprises cash at bank, security deposits and receipts from leases, rentals etc collected by the Departments. An amount of $11.262 million (2005 - $7.678 million) is held in a bank remitting account pending transfer to the Consolidated Fund.

6. TRADE AND OTHER RECEIVABLES

	2006 $'000	2005 $'000
Trade debtors	20,153	28,091
Amounts due on conversions	1,322	1,280
Allowance for impairment	(3,957)	(3,957)
	17,518	**25,414**

7. NON-CURRENT TRADE AND OTHER RECEIVABLES

	2006 $'000	2005 $'000
Amounts due on conversions etc	**23,402**	**24,782**

8. PROPERTY, PLANT AND EQUIPMENT

	Crown Land Reserve No. R1011448	Leasehold Land	Land to Dept of Environment & Conservation and Forests NSW	2006
Year ended 30 June 2006	**$'000**	**$'000**	**$'000**	**$'000**
Balance at the beginning of the year	**4,938,858**	**765,722**	**-**	**5,704,580**
Additions	5,829	-	-	**5,829**
Disposals	(43,686)	(14,112)	-	**(57,798)**
Transfers between classes	(39,393)	(9,818)	49,211	-
Revaluation increment	24,737	139,406	-	**164,143**
Revaluation decrement	-	-	(39,857)	**(39,857)**
Transfer from/(to) other government agencies	5,722	-	(9,354)	**(3,632)**
Balance at the end of the year	**4,892,067**	**881,198**	**-**	**5,773,265**

8. PROPERTY, PLANT AND EQUIPMENT (*continued*)

	Vacant Land	Leasehold Land	Land to Dept of Environment & Conservation and Forests NSW	2005
Year ended 30 June 2005	**$'000**	**$'000**	**$'000**	**$'000**
Balance at the beginning of the year	**3,825,873**	**616,231**	**-**	**4,442,104**
Revaluation of vacant Crown land	1,137,235	-		**1,137,235**
Additions	14,504	-	-	**14,504**
Disposals	(40,855)	(4,188)	-	**(45,043)**
Transfers between classes	(35,386)	13,351	22,035	**-**
Revaluation Increment	37,487	140,328		**177,815**
Revaluation Decrement	-	-	(16,835)	**(16,835)**
Transfer to other government agencies	-	-	(5,200)	**(5,200)**
Balance at the end of the year	**4,938,858**	**765,722**	**-**	**5,704,580**

The increment in Crown land reserve No. R1011448 of $24.737 million (2005 - $37.487 million) is the revaluation increment of the land transferred from Leasehold land and Crown reserve trust land.
This land transferred into the Crown land reserve No.R1011448 was revalued using the Local Government Area (LGA) per hectare value.

9. TRADE AND OTHER PAYABLES

	2006 $'000	2005 $'000
Security deposits	1,466	1,395
Payments received in advance	2,428	1,719
Others	2,298	2,275
	6,192	**5,389**

In addition to the cash security deposits of $1.466 million (2005 - $1.395 million), the entity is holding non cash guarantees of $4.724 million (2005 - $3.506 million) in the form of bank guarantees.
These bank guarantees are required in connection of a lease or licence of land for the provision of restoration costs that Crown Leaseholds Entity may incur, if after the expiry of the lease or licence, work has to be done to restore the land to its original state or to demolish any structures that the customer may have left. These bank guarantees can also be used to cover unpaid rent although this is not the main reason for holding the guarantees. When the lease or licence expires or is terminated, if the land is in satisfactory condition and no money needs to be spent, the bank guarantee is returned to the customer.

Notes to the Financial Statements
For the year ended 30 June 2006

10. OTHER CURRENT LIABILITIES

	2006 $'000	2005 $'000
Amount due to Treasury:		
- Leases and court fees	-	406
	-	406
Unearned revenue	24,054	25,321
	24,054	**25,727**

Unearned revenue represents invoices raised in the current financial period in respect of future financial period.

11. CONSOLIDATED FUND TRANSFERS

The amount of $61.152 million (2005 - $65.494 million) represents funds transferred to the Consolidated Fund in the twelve months to 30 June 2006. This comprises $60.089 million (2005 - $63.970 million) transferred by the Department of Lands (including DNR's Western Division's lease fees and court fees of $1.004 million) plus water licence fees of $1.063 million (2005 - $1.524 million) separately collected and transferred to the Consolidated Fund by DNR.

12. EQUITY

	Retained Earnings		Asset Revaluation Reserve		Total Equity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balance at the beginning of the year	**3,779,319**	**3,822,217**	**1,953,005**	**652,468**	**5,732,324**	**4,474,685**
Increment on revaluation of land	-	-		1,137,235		**1,137,235**
AASB 139 first-time adoption	(10)	-	-	-	**(10)**	**-**
Restated opening balance	**3,779,309**	**3,822,217**	**1,953,005**	**1,789,703**	**5,732,314**	**5,611,920**
Changes in Equity- transactions with owners as owners						
Land transferred to other government agencies	(9,354)	(5,200)	-	-	**(9,354)**	**(5,200)**
Land transferred from other government agencies	5,722	-	-	-	**5,722**	**-**
Distribution to Treasury (Con Fund transfers)	(61,152)	(65,494)	-	-	**(61,152)**	**(65,494)**
Total	**(64,784)**	**(70,694)**	**-**	**-**	**(64,784)**	**(70,694)**
Changes in Equity- other than transactions with owners as owners						
(Loss)/profit for the year	(23,878)	18,368	-	-	**(23,878)**	**18,368**
Increment on revaluation of land	-	-	152,787	172,730	**152,787**	**172,730**
Transfer on disposal of land	10,081	9,428	(10,081)	(9,428)	**-**	**-**
Total	**(13,797)**	**27,796**	**142,706**	**163,302**	**128,909**	**191,098**
Balance at the end of the year	**3,700,728**	**3,779,319**	**2,095,711**	**1,953,005**	**5,796,439**	**5,732,324**

13. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Crown Leaseholds Entity as lessor

The Crown Leaseholds Entity has entered into operating leases on its leasehold land (Note 1(j)). All the non-cancellable leases rental charges are increased annually on the *Consumer Price Index* basis.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	2006 $'000	2005 $'000
Not later than one year	19,529	19,022
Later than one and not later than five years	87,659	84,654
Later than five years	125,374	121,785
	232,562	**225,461**

Contingent liabilities

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

14. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

(Loss)/profit for the year	(23,878)	18,368
Adjustment for non-cash items		
Loss of land disposed	37,212	19,126
Amortisation	2,139	-
(Gain) on non cash acquisition of land	(5,829)	(14,503)
Asset revaluation decrement	28,501	11,750
Change in assets and liabilities		
Decrease/(Increase) in receivables	3,561	(7,223)
(Decrease)/Increase in liabilities	(870)	11,319
Net cash flows from operating activities	**40,836**	**38,837**

15. FINANCIAL INSTRUMENTS

The Entity's principal financial instruments include cash and cash equivalent, trade receivables, trade payables and other liabilities. These financial instruments arise directly from the Entity's operations or are required to finance the Entity's operations. The Entity does not enter into or trade financial instruments for speculative purposes. The Entity does not use financial derivatives.

(a) Interest rate risk

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

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 (TCorp) 11am unofficial cash rate, adjusted for a management fee to 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 uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment). No interest is earned on trade debtors. The carrying amount approximates fair value.

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.

15. FINANCIAL INSTRUMENTS *(continued)*

			Fixed Interest Rate Maturities				
	Weighted average effective interest rate %	**Floating Interest Rate $000**	**1 year or less $000**	**1 – 2 years $000**	**> 2 years $000**	**Non Interest Bearing $000**	**Total Carrying amount As per the Balance Sheet $000**
30 June 2006							
Financial Assets							
Cash						12,500	12,500
Trade and other receivables	8	24,724	-	-	-	16,196	40,920
Total Financial Assets		**24,724**	**-**	**-**	**-**	**28,696**	**53,420**
Financial Liabilities							
Trade and other payables						6,192	6,192
Unearned Revenue						24,054	24,054
Total Financial Liabilities						**30,246**	**30,246**
30 June 2005							
Financial Assets							
Cash						8,664	8,664
Trade and other receivables	8	26,062				24,134	50,196
Total Financial Assets		**26,062**				**32,798**	**58,860**
Financial Liabilities							
Trade and other payables						5,389	5,389
Amount due to Treasury						406	406
Unearned Revenue						25,321	25,321
Total Financial Liabilities						**31,116**	**31,116**

(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 Balance Sheet.

16. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

The Entity has applied the AEIFRS for the first time in the 2005/06 financial report.
There are no material impacts on the Entity's cash flows, or on the reported operating profit for the prior year.

Financial Instruments – 1 July 2005 first time adoption impacts

As discussed in note 1(o), the comparative information for 2004/05 for financial instruments has not been restated and is presented in accordance with previous AGAAP. AASB 132 and AASB 139 have been applied from 1 July 2005. Accordingly, the 1 July 2005 AEIFRS opening equity adjustments for the adoption of AASB 132/AASB139 follow:

	Note	Retained Earnings $'000	Other reserves $'000	Total $'000
Total opening equity 1 July 2005		**3,779,319**	**1,953,005**	**5,732,324**
Interest-free loan measured at fair value on initial recognition	i	(10)	-	(10)
Restated opening equity 1 July 2005 (after applying AASB 139)		**3,779,309**	**1,953,005**	**5,732,314**

i. *Interest-free loans*. Under AASB 139, these types of loans must initially be recognised at fair value, and thereafter at amortised cost. The fair value of a long-term loan that carries no interest or below market interest is estimated as the present value of all future cash receipts, discounted using the prevailing market rates of interest for a similar instrument with a similar credit rating. Any additional amount lent is an expense or grant unless it qualifies for recognition as some other type of asset. Amortisation of the loan is recognised as investment revenue. Previously, such loans were measured at nominal amount or face value, with no grant or expense recognised. This change has reduced the amount of the loan receivable.

END OF AUDITED FINANCIAL STATEMENTS

New South Wales
TREASURY

NSW Self Insurance Corporation

Financial Report
for the year ended
30 June 2006

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

NSW SELF INSURANCE CORPORATION

To Members of the New South Wales Parliament

Qualified Audit Opinion

In my opinion, except for the effect of the matter referred to in the qualification paragraph below, the financial report of the NSW Self Insurance Corporation (the Corporation):

- presents fairly the Corporation's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005.*

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

Qualification

As disclosed in Note 2 "Changes in Accounting Policy - 2006", the Corporation has applied Accounting Standard AASB 137 "Provisions, Contingent Liabilities and Contingent Assets" to its general insurance contracts because at the whole of government level the Treasury Managed Fund is a self insurance scheme. In my opinion, the Corporation should have applied Accounting Standard AASB 1023 "General Insurance Contracts" to its general insurance contracts as the Corporation meets the definition of a general insurer. While I could not carry out audit procedures to determine the actual effect of this departure, I believe that had the Corporation applied AASB 1023, liabilities would have increased by a material amount and net assets decreased by the same amount. The Corporation would have also made additional disclosures about its general insurance contracts.

Scope

The Financial Report and the Secretary of the Treasury's Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Corporation, for the year ended 30 June 2006.

The Secretary of the Treasury is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Secretary in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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 not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

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

Audit Independence

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

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

A T Whitfield, FCA
Deputy Auditor-General

SYDNEY
17 October 2006

NEW SOUTH WALES SELF INSURANCE COPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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 report, exhibit a true and fair view of the financial position of the NSW Self Insurance Corporation as at 30 June 2006 and the transactions for the year then ended.

2. The financial report has been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005, the Treasurer's Directions and relevant Australian Accounting Standards except for AASB 1023 General Insurance Contracts.

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

Kevin Cosgriff
Acting Secretary, NSW Treasury and
Manager, NSW Self Insurance Corporation
6 October 2006

NEW SOUTH WALES SELF INSURANCE COPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NEW SOUTH WALES SELF INSURANCE CORPORATION
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 $'000	2005 $'000
Revenue			
Premiums	3,24	956,318	915,111
Reinsurance & other recoveries	4,24	35,472	60,369
Investment income	5,24	604,173	483,806
Grants from the NSW Government	6,24	-	10,493
Other	7,24	2,105	1,706
Total revenue		**1,598,068**	**1,471,485**
Expenses			
Claims	8,24	397,159	783,929
Outward reinsurance	24	26,549	22,926
Depreciation and amortisation	15,16,24	625	-
Finance costs	24	268,030	242,062
Payments to the NSW Government	9,24	1,019,311	-
Other	10,24	54,517	119,293
Total expenses		**1,766,191**	**1,168,210**
Profit / (loss) for the year		**(168,123)**	**303,275**

The accompanying notes form part of these financial statements.

NEW SOUTH WALES SELF INSURANCE CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 $'000	2005 $'000
Profit for the year		(168,123)	303,275
Total recognised income and expense for the year		(168,123)	303,275
Effect of changes in accounting policy		(1,225)	285,918
		(169,348)	**589,193**

The accompanying notes form part of these financial statements.

NEW SOUTH WALES SELF INSURANCE CORPORATION
BALANCE SHEET
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 $'000	2005 $'000
CURRENT ASSETS			
Cash and cash equivalents	25,26	304,796	91,126
Receivables	11,25,26	89,442	39,342
Reinsurance & other recoveries receivable	12,25,26	29,384	28,104
Derivative financial instruments	25	201,787	-
Other	13,25	-	1,670
Total current assets		**625,409**	**160,242**
NON-CURRENT ASSETS			
Receivables	11,25,26	-	222,898
Reinsurance & other recoveries receivables	12,25,26	144,286	144,256
Financial assets at fair value	14,25,26	4,949,820	-
Investments	14,25,26	-	5,102,915
Property, plant & equipment	15,25	491	-
Intangibles	16,25	2,536	-
Other	13,25	119	2,674
Total non-current assets		**5,097,252**	**5,472,743**
TOTAL ASSETS		**5,722,661**	**5,632,985**
CURRENT LIABILITIES			
Payables	17,25	115,298	15,295
Interest-bearing liabilities	18,25,26	-	15,801
Unearned premiums	19,25	-	232
Derivative financial instruments	25,26	203,657	-
Provision for outstanding claims	20,25	654,522	662,187
Other	21,25	2,366	-
Total current liabilities		**975,843**	**693,515**
NON-CURRENT LIABILITIES			
Provision for outstanding claims	20,25	3,821,540	3,844,963
Provision for restoration	25	119	-
Total non-current liabilities		**3,821,659**	**3,844,963**
TOTAL LIABILITIES		**4,797,502**	**4,538,478**
NET ASSETS		**925,159**	**1,094,507**
EQUITY			
Contributed capital	22, 25	94,000	94,000
Retained earnings	22, 25	831,159	1,000,507
		925,159	**1,094,507**

The accompanying notes form part of these financial statements.

NEW SOUTH WALES SELF INSURANCE CORPORATION
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 Inflow/ (Outflow) $'000	2005 Inflow/ (Outflow) $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
RECEIPTS			
Premiums		1,046,617	1,060,888
Premiums - hindsight adjustment received	3	66,649	32,562
Interest income		547,965	406,210
Reinsurance & other recoveries		35,236	45,598
GST refunds		21,119	18,426
Funds received from the NSW Government		-	18,810
Other		2,105	1,730
Total receipts		**1,719,691**	**1,584,224**
PAYMENTS			
Claims and expenses paid		(668,777)	(676,597)
Premiums - hindsight adjustment payments	3	(57,970)	(91,014)
Management fees		(89,012)	(45,061)
GST paid		(98,405)	(97,662)
Outward reinsurance expense		(26,101)	(22,900)
Payments made to the NSW Government		(759,844)	-
Total payments		**(1,700,109)**	**(933,234)**
NET CASH PROVIDED BY OPERATING ACTIVITIES	23	**19,581**	**650,990**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments		209,890	-
Purchases of investments		-	(649,652)
NET CASH PROVIDED INVESTING ACTIVITIES		**209,890**	**(649,652)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**229,471**	**1,338**
Cash and cash equivalents at the beginning of year		75,325	73,987
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**304,796**	**75,325**

The accompanying notes form part of these financial statements.

1. NSW SELF INSURANCE CORPORATION INFORMATION

The NSW Self Insurance Corporation (SICorp) is a statutory body that largely provides self-insurance coverage for general government budget-dependent agencies. Its main business address is Level 17, 201 Elizabeth Street Sydney NSW 2000.

SICorp is a not-for-profit entity which includes all the assets, liabilities, rights and obligations of the:

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

SICorp operates under the *NSW Self Insurance Corporation Act 2004*, the Reserve Funding Policy established in March 2006 (see Note 9) and the *Public Finance and Audit Act 1983*. SICorp was previously the Insurance Ministerial Corporation, under section 24 of the *Government Insurance Office (Privatisation) Act 1991*.

On 1 July 2005, new SICorp claims management arrangements commenced which introduced five claims management roles. These roles are now shared between:

- GIO General Limited (GIO)
- Allianz Insurance Australia (Allianz)
- Employers Mutual Limited (EML).

Previously, GIO, a subsidiary of Suncorp Metway Insurance Limited, managed SICorp.

The claim managers receive a management fee to administer the following funds.

NSW Treasury Managed Fund

The NSW Treasury Managed Fund (TMF) is SICorp's main insurance scheme. It is a self-insurance scheme that protects the insurable assets and exposures of:

- all public sector agencies financially dependent on the Consolidated Fund
- all public hospitals
- various statutory authorities.

Pre-Managed Fund Reserve

The Pre-Managed Fund Reserve holds the reserves previously held in the Fire Risks Account, the Fidelity Fund, and the Public Liability Fund. It has been used to fund claims the NSW Government incurred before 1 July 1989 which the government previously met.

Before 1 November 1991, the most significant item affecting the Reserve was funding GWC claims that occurred before 30 June 1989. These claims are now funded directly from the Consolidated Fund.

Pre-Managed Fund Reserve annual reporting accounts have been consolidated with the TMF from 2000-01.

Governmental Workers Compensation Account

The Governmental Workers Compensation Account (GWC) pays the outstanding workers compensation claims liabilities as at 30 June 1989 of the:

- Consolidated Revenue Fund
- Public Hospitals
- RTA Managed Fund.

From 1 July 1989, the TMF has handled workers compensation insurance for these agencies.

As part of the new claims management arrangements, the GWC was transferred to be part of the Allianz's portfolio from 1 January 2006.

Transport Accidents Compensation Fund

The Transport Accidents Compensation Fund (TAC) pays for motor transport accident claims under the common law system which applied until 30 June 1987 and TransCover system claims costs from then until 30 June 1989. The Intermediate Claims provisions of the Motor Accidents Scheme retrospectively replaced TransCover.

Allianz also started managing the TAC from 1 January 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following are the key accounting policies that inform the financial report.

The accounts are consolidated into SICorp's parent, the Crown Entity.

The financial report has been authorised for issue by the Acting Secretary on 6 October 2006.

Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with the requirements of:

- Public Finance and Audit Act 1983
- Public Finance & Audit Regulation 2005
- Treasury Accounting Policy Statements.

The report also complies with relevant Australian Accounting Standards which include Australian Equivalents to International Financial Reporting Standards (AEIFRS) except for where otherwise stated in section 'Change in Accounting Policy – 2006'.

The financial statements have been prepared on an historical cost basis, except for derivative financial instruments and investments designated as fair value which have been measured at fair value.

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

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

Statement of Compliance

The financial statements and accompanying notes meet Australian Accounting Standards, including Australian equivalents to International Financial Reporting Standards (AEIFRS) except for where otherwise stated in section 'Change in Accounting Policy – 2006'.

This is SICorp's first financial report using AEIFRS and it has restated comparatives for the year ended 30 June 2005. Using the exemption in AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standard, SICorp did not apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement to the comparative period.

Note 29 discuss the impact of adopting these standards. It also covers reconciliation of AEIFRS equity and operating results for 30 June 2005 to the 2004-05 financial report balances, and at the AEIFRS transition point.

The following Accounting Standards are being early adopted. Any initial impacts on first time adoption are detailed in Note 22 and Note 29.

AASB Amendment	**Affected Standards**
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement*
2005-6	AASB 3*: Business Combinations*

SICorp did not use the following recent Australian Accounting Standards that are not yet effective:

AASB Amendment	**Affected Standards**
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-5	AASB 1 *First-time adoption of AIFRS* AASB 139 *Financial Instruments: Recognition and Measurement*
2005-9	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-10	AASB 7 *Financial Instruments: Disclosures.*
2006-1	AASB 121 *The Effects of Changes in Foreign Exchange Rates*

CHANGE IN ACCOUNTING POLICY - 2006

Providing for outstanding claims liabilities

Effective 1 July 2005, SICorp adopted AASB 137 Provisions, Contingent Liabilities and Contingent Assets for the accounting of the fund's provision for outstanding claims liabilities.

Under AEIFRS the Pre-Managed Fund Reserve, the GWC and the TAC are required to adopt AASB 137 "Provisions, Contingent Liabilities and Contingent Assets". SICorp's main insurance scheme, the TMF, is required to comply with AASB 1023 "General Insurance Contracts".

However, at the General Government and Total State Sector reporting levels SICorp is considered a public sector self insurance scheme resulting in AASB 137 needing to be followed for all of the Corporation's activities. To provide enhanced consistency, reliability, relevance and comparability of the financial information for users of the financial statements, AASB 137 is now applied across all SICorp's activities including the TMF.

The adjustment resulting from this change in policy is disclosed in note (refer to AEIFRS note 29).

Due to the introduction of AEIFRS it was not practical to show separate adjustment amounts under AGAAP and AEIFRS.

REVENUE

Revenue is recognised as probable economic benefits to SICorp that can be reliably measured. The following criteria are used to identify revenue:

Premium Revenue

Premium revenue is the cost to member agencies of insurance cover from 1 July each year.

Premiums are recognised to income over the period of the insured risk.

Reinsurance and Other Recoveries Revenue

Reinsurance recoveries are recognised as revenue for claims incurred. Other recoveries include recoveries of claims paid under:

- sharing agreements
- third party recoveries
- salvage and subrogation.

Grants from the NSW Government

SICorp applies the requirements of AASB 1004 *Contributions* regarding contributions of assets (including grants) and forgiveness of liabilities, whereby revenue is recognised when control or right to receive the contribution is obtained and that the amount of which can be measured reliably. Government grants are recognised as revenues when cash is received.

Investment Revenue

Investment revenue includes interest income and net gains or losses from changes in the fair value of investments. Interest revenue is recognised as interest accrues.

EXPENSES

Outwards Reinsurance Expense

Premiums ceded to re-insurers are recognised as an expense in line with the indemnity period of the corresponding reinsurance contract.

Claims Expenses

Claims expenses include:

- cash settlement of claims
- movements in outstanding provisions
- management fees paid to claims providers.

Finance Costs

Finance costs include the unwinding of discount for provision for outstanding claims and provision for restoration costs. These are recognised as an expense when incurred.

Depreciation of Property, Plant and Equipment

Depreciation is on a straight-line basis for all depreciable assets. The depreciable amount of each asset is written-off over its estimated useful life. The useful lives of depreciable asset categories are:

- office equipment: seven years
- furniture and fittings: five to 10 years
- computer equipment: four years.

Amortisation of Intangible Assets

Computer software costs are amortised over five years.

Payments to the NSW Government

Pursuant to SICorp's Reserve Funding Policy, the Corporation will make payments to the NSW Government when it is in surplus over and above the required level. Refer to Note 9 for more details.

Payments to the NSW Government are recognised as expenses when the payments are made.

Income Tax

Income from the funds of SICorp are exempt from income tax under S23(d) of the Income Tax Assessment Act 1936.

ASSETS

Cash and Cash Equivalents

Cash assets in the Balance Sheet comprise:

- cash on hand
- deposit held at call with banks
- investments in money market instruments.

The Cash Flow Statement shows these cash and cash equivalents net of outstanding bank overdraft(s).

Investments

Investments comprise of Hour-Glass investment facilities and bond portfolio managed by Treasury Corporation (TCorp).

Year ended 30 June 2006

Financial assets at fair value are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date.

These financial assets are designated at fair value through profit and loss as they are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Changes in the fair value from the previous reporting date are recognised as income or expenses in the Income Statement.

Derivative financial instruments were first recognised when SICorp adopted AASB 132 and AASB 139 from 1 July 2005.

Derivatives such as interest rate swaps are used by SICorp to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to the Income Statement

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments

Year ended 30 June 2005

All classes of financial assets are carried at cost or market value. Derivatives were not recognised separately on the Balance Sheet.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets, for example taxes and premiums, are short-term to be carried at original invoice amount as the effect of discounting is immaterial.

Amounts for receivables from reinsurance and other recoveries are actuarially assessed. Details of any judgements and assumptions are included in Note 12. When it becomes apparent that a recovery may not be received with virtual certainty, these recoveries are deducted from the recoveries receivable estimate.

Property, Plant and Equipment

Office furniture, equipment and computer hardware are recorded at cost plus any incidental acquisition costs. All items are carried at cost, as surrogate for fair value, less accumulated depreciation and impairment losses.

The depreciation expense on property, plant and equipment are recognised in profit or loss in the depreciation and amortisation line of the Income Statement.

Intangible assets

Intangible assets of SICorp include capitalised expenditures for the Data Warehouse and computer softwares.

Intangibles are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The amortisation expense on intangible assets is recognised in profit or loss in the depreciation and amortisation line of the Income Statement.

Impairment of Assets

SICorp assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, SICorp makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of its fair value, less selling costs and the depreciated replacement cost. Depreciated replacement cost is calculated as the current replacement cost of the most appropriate modern equivalent replacement asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

Impairment losses are recognised in the Income Statement.

LIABILITIES

Provisions

Provisions are recognised when SICorp has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The liability for claims includes:

- claims incurred but not yet paid
- incurred but not yet reported
- anticipated fund management fees.

When it is virtually certain that some or all of a provision will be reimbursed, as in an insurance contract, the reimbursement is recognised as a separate asset.

Where there is a material effect due to the time value of money, a provision is discounted. The increase in the provision is then recognised as a finance cost over time.

Trade and other payables

Trade and other payables are carried at costs and are liabilities for goods and services provided, but not paid for by the year's end. This occurs when SICorp must make future payments for the goods and services, even if it has not been billed for them. Like receivables, these are short-term to be carried at original invoice amount as the effect of discounting is immaterial.

Goods and Service Taxes

Amounts included in the Income Statement are recorded net of goods and services tax. Amounts in the Balance Sheet and Cash Flow Statement are recorded gross of any good and services tax.

3. PREMIUM REVENUE

	2006 $'000	2005 $'000
Tariff premium	891,952	906,765
Hindsight Adjustments	8,679	(58,452)
Visiting Medical Officers (VMO)	55,214	66,337
Medically Supervised Injecting Centre (MSIC)	241	473
	956,086	915,123
Movement in MSIC Unearned Premiums	232	(12)
	956,318	**915,111**

Workers compensation final hindsight adjustments for 1999/2000 and interim for 2001/02 were paid in 2005/06.

Payments of the final hindsight adjustments for 2000/01 and 2001/02, interim hindsight adjustments for 2002/03 and 2003/04 will be paid in 2006/07.

The basis for calculating the hindsight premium is undergoing review.

4. REINSURANCE & OTHER RECOVERIES REVENUE

	2006 $'000	2005 $'000
Recoveries revenue	32,817	46,608
Movement in outstanding recoveries	2,655	13,761
	35,472	**60,369**

5. INVESTMENT REVENUE

	2006 $'000	2005 $'000
Income		
Bond portfolio	173,451	153,679
Interest from Treasury	-	2,868
Bank Interest	3,684	(432)
Hour-Glass facility	229,828	212,728
Gains/(losses) realised during the year		
Bond portfolio	(5,675)	1,382
Hour-Glass facility	146,736	34,086
Net market value change in investments, held at balance date		
Unrealised gains/(losses)		
Bond portfolio	(71,853)	57,509
Hour-Glass facility	128,002	21,986
	604,173	**483,806**

6. GRANTS FROM THE NSW GOVERNMENT

	2006 $'000	2005 $'000
Grants received from the Crown Finance Entity	-	18,810
Movement in Outstanding Contributions	-	(8,317)
	-	**10,493**

7. OTHER REVENUE

Commission returned from Aon Re	2,086	1,645
Other revenue	19	61
	2,105	**1,706**

An arrangement was in place with Aon Re for the commission to be agreed each year with any commission in excess of the agreed amount returned to TMF. Also, Aon Re was entitled to receive performance and administration fees from the TMF for arranging reinsurance cover. Performance and administration fees paid to Aon Re are shown under Other Expenses. The TMF contract with Aon Re ended in December 2005.

8. CLAIMS EXPENSES

Claims Paid	616,754	630,919
Movement in Outstanding Claims[1]	(299,119)	109,361
Management Fees	79,523	43,649
Legal Expenses	1	-
	397,159	**783,929**

[1.] Movement in outstanding claims represent the increase / (decrease) in provision for outstanding claims liabilities excluding the increase in provisions due to the unwinding of discounts during the year. The increase in the carrying amount of a provision due to the passage of time is recognised as a finance cost.

The movement in outstanding claims for 2006 is calculated by provision in outstanding claims liabilities at 30 June 2006 ($4,476.1m) less closing balance at 30 June 2005 ($4,507.2m) less finance cost for the year ($268.0m). Refer to Note 20 for further details.

9. PAYMENTS TO THE NSW GOVERNMENT

Repayment of contributions	1,000,000	-
Movement in Outstanding Contributions	19,311	-
	1,019,311	**-**

The Reserve Funding Policy of SICorp, established in March 2006, takes into consideration the following:

- the probability of a poor investment returns for the year(s), and/or
- the likelihood of a deterioration in claims experience, and/or
- the impact of a major claim, either not covered by reinsurance protection or exhausting the reinsured retention level

The Policy dictates that the target surplus held for SICorp to be the sum of 10 per cent of outstanding claims liabilities plus the amount absorbed by the fund of any one claim exceeding the reinsurance retention level. The adequacy of the fund's reserves will be reviewed annually based on the financial results as at 31 December.

As at 31 December 2005, SICorp was in an over-funded position. Consequently, $1 billion was transferred out to the Crown Finance Entity. This transfer represented a part repayment of previous NSW Government contributions made to SICorp.

10. OTHER EXPENSES

	2006 $'000	2005 $'000
Levies paid to:		
Dust Diseases	-	1,781
WorkCover Authority of NSW	21,453	22,253
Investment management fees	3,040	2,602
Actuarial expenses		
Pricewaterhouse Coopers	4,155	1,750
Robert Buchanan	-	55
Taylor Fry	217	15
Finity	198	-
Storage costs	211	147
Maintenance	861	
Bank charges	80	92
Audit fees – Financial report	153	131
Consultancy – Legal	-	11
Consultancy – NSW Treasury	-	136
Performance and administration fees to Aon Re	904	820
Personnel services fees	1,975	-
Rent	303	-
Crown debt written-off	-	89,500
Transition fees[1]	19,982	-
Others	985	-
	54,517	**119,293**

[1.] Payments to GIO Limited as part of the 'Transition-Out Services' in moving to the new claims management arrangement.

11. RECEIVABLES

	2006 $'000	2005 $'000
Current:		
Crown Finance Entity	-	36,569
GST Receivable	4,058	-
Other	85,384	2,773
	89,442	**39,342**
Non-Current:		
Crown Finance Entity	**-**	**222,898**

There are no amounts owed by the Crown Finance Entity as at 30 June 2006 (2005: $20.3 million for liabilities of the PMF which is part of TMF, $166.9 million for TAC and $72.3 million for GWC)

Reconciliation - Receivables from Crown Finance Entity

Opening balance @ 1 July 2005	**259,467**
Less: funds received from Crown Finance Entity	(240,156)
Less: movement in outstanding contributions	(19,311)
Closing balance	-

Movements in outstanding contributions represent the net result of transfers made during the year between SICorp and Crown for the settlement of TAC, GWC and PMF (profit) / loss for the year. Settlements that result in funds being paid to the NSW Government are recognised as expenses (Note 9), while funds received are recognised as revenues (Note 6).

12. REINSURANCE & OTHER RECOVERIES RECEIVABLE

	2006	2005
Expected future recoveries (undiscounted)	273,435	259,263
Discount to present value	(99,845)	(88,443)
	173,590	170,820
Outstanding reinsurance and other recoveries on paid claims	80	1,553
Reinsurance and other recoveries receivable	173,670	172,373
Deduct: Provision for doubtful debts	-	(13)
	173,670	**172,360**
Current	29,384	28,117
Deduct: Provision for doubtful debts	-	(13)
	29,384	**28,104**
Non-Current	**144,286**	**144,256**

The reinsurance and other recoveries receivables are equal to gross case estimated costs plus gross payments to date less the retention limit less reinsurance recoveries received to date. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 20).

An explicit allowance has been made in respect of Liability claims arising in respect of Hepatitis C. As recoveries from Hepatitis C claims are funded by the Commonwealth, default risk is considered negligible. In relation to other recoveries, around half of these are recoverable from the Motor Accidents Authority, for which default risk is also negligible.

There has not been any key assumption made around the amounts recoverable that would have a significant risk of causing a material adjustment to the carrying amount of these assets within the next annual reporting period.

13. OTHER ASSETS

	2006 $'000	2005 $'000
Current:		
Prepayments	-	**1,670**
Non-Current:		
Prepayments		2,674
Deferred restoration costs	119	
	119	**2,674**

14. INVESTMENT SECURITIES

	2006 $'000	2005 $'000
Non-Current:		
Hour-Glass facility		
Australian Shares	782,679	695,957
Indexed Australian Shares	267,399	246,196
International Shares	754,772	849,732
Indexed International Shares	250,617	249,449
Listed Property	197,078	200,041
Bond portfolio	2,697,275	2,861,540
	4,949,820	**5,102,915**

At 30 June 2006, total investments of SICorp are financial assets designated at fair value.

15. PROPERTY, PLANT & EQUIPMENT

	2006 $'000	2005 $'000
Computer hardware		
Cost	494	-
Accumulated depreciation	(123)	-
Net computer hardware	**371**	-
Office equipment		
Cost	27	-
Accumulated depreciation	(4)	-
Net office equipment	**23**	-
Furniture & fittings		
Cost	107	-
Accumulated depreciation	(10)	-
Net furniture & fittings	**97**	-
Total property, plant & equipment		
Cost	628	-
Accumulated depreciation	(137)	-
Net property, plant & equipment	**491**	-

Reconciliations

Reconciliations of carrying amount for each class of property, plant & equipment

	2006 $'000	2005 $'000
Computer hardware		
Net carrying amount at beginning of year	-	-
Additions	494	-
Depreciation expense	(123)	-
Balance as at year end	**371**	-
Office equipment		
Net carrying amount at beginning of year	-	-
Additions	27	-
Depreciation expense	(4)	-
Balance as at year end	**23**	-
Furniture & fittings		
Net carrying amount at beginning of year	-	-
Additions	107	-
Depreciation expense	(10)	-
Balance as at year end	**97**	-
Total property, plant & equipment - balance at year end	**491**	-

16. INTANGIBLES

	2006 $'000	2005 $'000
Computer software		
Cost	3,024	-
Accumulated amortisation & impairment	(488)	-
Net computer software	**2,536**	**-**

Reconciliations
Reconciliations of carrying amount

	2006 $'000	2005 $'000
Computer software		
Net carrying amount at beginning of year	-	-
Additions	3,024	-
Amortisation	(488)	-
Balance as at year end	**2,536**	**-**

17. PAYABLES

	2006 $'000	2005 $'000
GST Payable	85,114	7
Others	30,184	15,288
	115,298	**15,295**

18. INTEREST-BEARING LIABILITIES

	2006 $'000	2005 $'000
Bank Overdraft	**-**	**15,801**

19. UNEARNED PREMIUMS

	2006 $'000	2005 $'000
Current:		
Medically Supervised Injecting Centre	**-**	**232**

All policies are for a 12 months period commencing on 1 July each year. In prior years, policy for the Medically Supervised Injecting Centre commenced from 31 October.

20. OUSTANDING CLAIMS

The liability for outstanding claims is determined by the Manager in consultation with independent actuary, PricewaterhouseCoopers, for NSW Treasury Managed Fund, Transport Accident Compensation Fund and Governmental Workers Compensation Account. It is measured as the best estimate of the expected future payments required to settle the present obligation at the reporting date.

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

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

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

	TMF $'000	GWC $'000	TAC $'000	2006 Total $'000
Balance at the beginning of the year	4,240,894	81,757	184,499	4,507,150
Additions	773,829	-	-	773,829
Payments	(590,508)	(4,725)	(21,521)	(616,754)
Reversal of unused provisions	(437,817)	(12,716)	(5,660)	(456,193)
Increase in discounts	254,845	4,137	9,048	268,030
Balance at the end of the year	**4,241,243**	**68,453**	**166,366**	**4,476,062**
Current – 2006	634,713	4,120	15,689	654,522
Non-Current – 2006	3,606,530	64,333	150,677	3,821,540
	4,241,243	**68,453**	**166,366**	**4,476,062**
Current – 2005	626,107	7,825	28,255	662,187
Non-Current – 2005	3,614,787	73,932	156,244	3,844,963
	4,240,894	**81,757**	**184,499**	**4,507,150**

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.86 years (2005: 6.33 years) for TMF, 10.26 years (2005: 9.25 years) for GWC and 16.15 years (2005: 13.83 years) for TAC Fund.

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

Claims expected to be paid

	TMF		GWC		TAC	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Not later than one year						
Inflation rate	3.00%-4.50%	3.25%	4.50%	4.00%	4.50%	4.00%
Discount rate	6.60%	6.50%	6.60%	5.30%	6.60%	5.30%
Superimposed inflation*	0%-10.00%	0%-7.00%	0%-3.00%	0%-3.00%	0%-2.00%	0%-2.00%
Later than one year						
Inflation rate	2.50%-4.50%	3.25%	4.50%	4.00%	4.50%	4.00%
Discount rate	6.60%	6.4%-6.5%	6.60%	5.1%-5.2%	6.60%	5.1%-5.2%
Superimposed inflation*	0%-10.00%	0%-7.00%	0%-3.00%	0%-3.00%	0%-2.00%	0%-2.00%

* Dependent on payment type.

21. OTHER LIABILITIES

	2006 $'000	2005 $'000
Premium paid in advance	**2,366**	-

22. EQUITY

Contributed Capital

	2006	2005
Balance carried forward	**94,000**	**94,000**

Retained Profit

	2006	2005
Balance at the beginning of the financial year	1,000,507	411,314
AEIFRS transition adjustments		
Other changes in accounting policy	13	285,918
AASB 139 first-time adoption	(1,238)	-
Restated opening balance	999,282	697,232
Current year profit / (loss)	(168,123)	303,275
Balance at the end of the financial year	**831,159**	**1,000,507**

23. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of Cash and Cash Equivalents

Cash and Cash Equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

	2006 $'000	2005 $'000
Cash and Cash Equivalents	304,796	91,126
Bank Overdraft	-	(15,801)
	304,796	**75,325**

	2006 $'000	2005 $'000
Reconciliation of Net Cash Provided by Operating Activities to Net Profit/(Loss)		
Net Profit/(Loss) from Ordinary Activities	**(168,123)**	**303,275**
Increase / (Decrease) in Outstanding Claims	(31,089)	351,423
Increase/ (Decrease) in Unearned Premiums	(232)	12
Increase/ (Decrease) in Payables	100,003	(96,833)
Increase/ (Decrease) in Other Liabilities	2,366	(4,568)
Increase in Restoration	119	-
Decrease in Receivables	172,798	195,412
Increase in Reinsurance and Other Recoveries Receivable	(1,310)	(14,880)
(Increase)/ Decrease in Other Assets	4,225	(3,356)
Increase in Property, Plant & Equipment	(491)	-
Increase in Intangibles	(2,536)	-
Unrealised Gains on Investments	(56,149)	(79,495)
Net Cash Provided by Operating Activities	**19,581**	**650,990**

24. INCOME STATEMENT OF FUNDS

	TMF	GWC	TAC	2006 Total	2005 Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Premiums	956,318	-	-	956,318	915,111
Reinsurance & other recoveries	33,376	1,617	479	35,472	60,369
Investment income	601,654	426	2,093	604,173	483,806
Grants from the NSW Government	-	-	-	-	10,493
Other	2,105	-	-	2,105	1,706
Total revenue	**1,593,453**	**2,043**	**2,572**	**1,598,068**	**1,471,485**
Expenses					
Claims	415,535	(12,716)	(5,660)	397,159	783,929
Outwards reinsurance	26,549	-	-	26,549	22,926
Depreciation and amortisation	625	-	-	625	-
Finance costs	254,845	4,137	9,048	268,030	242,062
Payments to the NSW Government	992,080	4,777	22,454	1,019,311	-
Other	54,243	73	201	54,517	119,293
Total expenses	**1,743,877**	**(3,729)**	**26,043**	**1,766,191**	**1,168,210**
PROFIT / (LOSS) FOR THE YEAR	**(150,424)**	**5,772**	**(23,471)**	**(168,123)**	**303,275**
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY	**(150,424)**	**5,772**	**(23,471)**	**(168,123)**	**303,275**

NEW SOUTH WALES SELF INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

25. BALANCE SHEET FOR FUNDS

	TMF $'000	GWC $'000	TAC $'000	2006 Total $'000	2005 Total $'000
CURRENT ASSETS					
Cash and cash equivalents	80,065	69,196	155,535	304,796	91,126
Receivables	89,437	3	2	89,442	39,342
Reinsurance & other recoveries receivable	28,450	698	236	29,384	28,104
Derivative financial instruments	201,787	-	-	201,787	-
Other	-	-	-	-	1,670
Total Current Assets	**399,739**	**69,897**	**155,773**	**625,409**	**160,242**
NON-CURRENT ASSETS					
Receivables	-	-	-	-	222,898
Reinsurance & other recoveries receivables	135,318	8,022	946	144,286	144,256
Financial assets at fair value	4,949,820	-	-	4,949,820	-
Investments	-	-	-	-	5,102,915
Property, plant & equipment	491	-	-	491	-
Intangibles	2,536	-	-	2,536	-
Other	119	-	-	119	2,674
Total Non-Current Assets	**5,088,284**	**8,022**	**946**	**5,097,252**	**5,472,743**
TOTAL ASSETS	**5,488,023**	**77,919**	**156,719**	**5,722,661**	**5,632,985**
CURRENT LIABILITIES					
Payables	115,197	40	61	115,298	15,295
Interest-bearing liabilities	-	-	-	-	15,801
Unearned premiums	-	-	-	-	232
Derivative financial instruments	203,657	-	-	203,657	-
Provision for outstanding insurance claims	634,713	4,120	15,689	654,522	662,187
Other	2,366	-	-	2,366	-
Total Current Liabilities	**955,933**	**4,160**	**15,750**	**975,843**	**693,515**
NON-CURRENT LIABILITIES					
Provision for outstanding insurance claims	3,606,530	64,333	150,677	3,821,540	3,844,963
Provision for make good	119	-	-	119	-
Total Non-Current Liabilities	**3,606,649**	**64,333**	**150,677**	**3,821,659**	**3,844,963**
TOTAL LIABILITIES	**4,562,582**	**68,493**	**166,427**	**4,797,502**	**4,538,478**
NET ASSETS	**925,441**	**9,426**	**(9,708)**	**925,159**	**1,094,507**
EQUITY					
Contributed Capital	94,000	-	-	94,000	94,000
Accumulated Surplus	831,441	9,426	(9,708)	831,159	1,000,507
	925,441	**9,426**	**(9,708)**	**925,159**	**1,094,507**

26. FINANCIAL INSTRUMENTS

The information pertaining to financial instruments set out below is made in accordance with the provisions of AASB 132 Financial Instruments: Disclosure & Presentation.

For the purpose of the financial report, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The principal financial assets of SICorp are held in the NSW Treasury Corporation (TCorp) Hour-Glass facilities and its bond investment portfolio. SICorp also enters into derivative transactions and has various other financial assets such as trade receivables and trade payables, which arise directly from operations.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 2 to the financial statements.

Financial assets

SICorp has appointed TCorp to actively manage its asset portfolio and to provide professional treasury management advice. SICorp’s investments detailed in Note 14 are held with TCorp in the form of either investments in TCorp Hour-Glass facilities, or direct investment in individual TCorp specialised asset sector facilities.

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

Cash and Cash Equivalents

Cash and cash equivalents 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 11am unofficial cash rate adjusted for a management fee.

Receivables

All trade debtors are recognised as amounts receivable at balance date. The collection of trade debtors is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectible. Bad debts are written off as incurred. The credit risk is the carrying amount, net of any allowance for impairment. No interest is earned on trade debtors. The carrying amount approximates fair value.

Bank Overdraft

The Bank overdraft in Note 18: Interest-bearing Liabilities, represents unpresented cheques at balance date.

Trade Creditors and Accruals

The liabilities are recognised for contracted amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to unsecured suppliers 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.

Derivative Instruments

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.

Risk Management

The main risks arising from SICorp's financial instruments are interest rate risk, credit risk, currency risk, credit risk, and price risk.

Risk management has been outsourced to TCorp, the State's central financing authority, who has recognised expertise in the management of NSW Treasury related risks. The Memorandum of Understanding prepared between SICorp and TCorp detail the major Treasury risk controls.

- **Interest Rate Risk**

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

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

Maturity									2006 $'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								263,112	263,112
Cash & cash equivalents							304,796		304,796
Interest rate									5.70%
Hour-Glass facility							2,252,545		2,252,545
Interest rate									21.53%
Bond portfolio - derivative assets	1,047	102,043			98,697				201,787
Bond portfolio - derivative liabilities		(102,217)			(101,440)				(203,657)
Bond portfolio - physicals	63,082	38,651	206,747	189,279	1,241,099	958,417			2,697,275
Interest rate									5.62%
Payables								115,298	115,298

Maturity									2005 $'000
Financial Instrument	**Within one month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Floating rate**	**Non interest**	**TOTAL**
Receivables								406,496	406,496
Cash & cash equivalents							91,126		91,126
Interest rate									4.68%
Hour-Glass facility							2,241,375		2,241,375
Interest rate									10.60%
Bond portfolio	201,276	52,769	108,405	535,212	890,788	1,073,090			2,861,540
Interest rate									5.63%
Payables								15,295	15,295
Interest bearing liabilities							15,801		15,801
Interest rate									11.13%

- **Credit Risk**

The maximum credit risk exposure is best represented by the 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:

	2006 $'000	2005 $'000
Bond portfolio	2,700,855	2,861,540
Hour-Glass facility: Investments	2,252,545	2,241,375
Hour-Glass facility: Cash	232,601	90,596
Total	**5,186,001**	**5,193,511**

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

	2006 $'000	2005 $'000
International, Federal and State Governments	1,663,013	1,926,315
Banks	603,101	473,303
Corporates and Others	434,741	461,922
Total	**2,700,855**	**2,861,540**

- **Currency Risk**

Investments in the TCorp Bond Portfolio facility may be denominated in currencies other than Australian Dollars. The agreement between SICorp 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.

- **Price Risk**

SICorp's exposure to price risk is through its investments in the TCorp Hour-Glass facilities. The value of the units in this facility fluctuates as a result of changes in the Australian and international equities markets, and the Australian listed property market. SICorp engages external asset consultants to review and advises on the appropriate level of price risk exposure given the nature of the insurance liabilities that these investments cover.

SICorp has no exposure to commodity price risk.

27. COMMITMENTS FOR EXPENDITURE

	2006 $'000	2005 $'000
Operating lease commitments - lessee		
- not later than one year	329	-
- later than one year and not later than five years	1,540	-
- later than five years	714	-
	2,583	-

The operating lease relate to the rental of office space, the principle business address of SICorp. It is a non-cancellable lease with a term of six years and an option to extend for a further four years. Rental review is taken biannually to effective market.

On expiration of the lease, the rental premise is to be returned to its original condition. A restoration provision has been taken up.

Operating lease commitments are inclusive of GST. The recoverable input tax credits constitute a contingent asset of $234.8k.

28. CONTINGENT LIABILITIES

There are no known contingent liabilities at balance date.

29. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ('AEIFRS')

SICorp has determined the key areas where changes in accounting policies impact the financial report. Some of these impacts arise because AEIFRS requirements are different from requirements under the Australian Generally Accepted Accounting Principles (AGAAP). Other impacts arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it has mandated for the NSW Public Sector. The impacts disclosed below reflect Treasury's mandates and policy decisions.

There are no material difference between the cash flow statement presented under AEIFRS and the cash flow statement presented under AGAAP.

The impacts of adopting AEIFRS on total equity and profit as reported under AGAAP are shown below:

(a) Reconciliation of key aggregates

Reconciliation of equity under AGAAP to opening equity at 1 July 2005 under AEIFRS:

	Notes	**30 June 2005** $000**	**1 July 2004* $000**
Total equity under AGAAP		780,081	505,314
De-recognition of margins on outstanding claims provisions	1	314,426	285,918
Total equity under AEIFRS		1,094,507	791,232

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

Reconciliation of surplus under AGAAP to surplus under AEIFRS:

Year ended 30 June 2005	**Notes**	**$000**
Profit under AGAAP		274,767
Outstanding claims provisions	1	28,508
Profit under AEIFRS		**303,275**

<u>Notes to tables above</u>

1. Outstanding claims were previously accounted for under AASB 1023 "General Insurance Contracts". Following the introduction of AEIFRS all claims are now accounted for under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets". Under AASB 137 risk margins are not required
   The 2005 comparative figures shown in this financial report also adopt the AASB 137 basis.

(b) Financial Instruments

For 2004–05 comparative information, SICorp used the exemption in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards and did not apply the requirements of AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement. This brings the comparative information for financial instruments in line with previous AGAAP, and it applies from 1 July 2005.

Accordingly, the 1 July 2005 AEIFRS opening equity adjustment for the adoption of AASB 139 follows:

	Note	Accumulated Funds $'000	Other reserves $'000	Total $'000
Total opening equity 1 July 2005		1,094,507	-	1,094,507
	(i)	(1,238)		(1,238)
	(ii)	13		13
Restated opening equity 1 July 2005		**1,093,282**	**-**	**1,093,282**

Notes to tables above

i. *Medium and long-term TCorp Hour-Glass growth facilities – change to bid price*. Under AASB 139, these facilities are measured using the 'bid' price, rather than 'mid-point' market prices. This results in the opening balance on 1 July 2005 being slightly lower than the closing balances on 30 June 2005 under previous GAAP.

ii. *Impairment testing*. Under AASB 139, all financial assets except those measured at fair value through profit or loss are subject to review for impairment. The Standard requires a specific impairment test which needs to be supported by objective evidence that the group of assets is impaired or uncollectible. This means that general provision for doubtful debts can no longer be raised. As a result, the allowance for impairment recognised under previous AGAAP has been reduced.

End of Audited Financial Report