The Treasury

Crown 2009-10 Annual Report

Incorporating the Annual Reports of:

Electricity Tariff Equalisation Ministerial Corporation
State Rail Authority Residual Holding Corporation
Liability Management Ministerial Corporation

Contents

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1 Only those controlled activities constituted as statutory bodies under the Public Finance and Audit Act 1983 (Schedule 2) are required to have Annual Reports.

Crown Charter

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

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

Annual Report

This is the third volume of NSW Treasury's Annual Report for 2009-10.

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

- **Consolidated financial statements for the Crown** which includes the Crown Finance Entity and the Consolidated Fund.

  From 1 July 2009 the previous Crown property agencies, Crown Lands Homesites Program, Land Development Working Account and Crown Leaseholds Entity were transferred to the Land Property Management Authority.

- **Annual Reports of the Crown's controlled activities**, comprising the accounts of:
  - Liability Management Ministerial Corporation
  - Electricity Tariff Equalisation Ministerial Corporation
  - State Rail Authority Residual Holding Corporation

The NSW Self Insurance Corporation (SiCorp) issues its own annual report, including financial statements, as required by its founding legislation. However it should be noted that SiCorp's results are also incorporated in the Consolidated Crown Entity statements.

The annual reports for the Office of Financial Management (OFM) and the Office of State Revenue (OSR) are Volumes 1 and 2 of the Treasury Annual Report.

Administration

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

Crown Undertakings from 1 July 2009

Consolidated Fund

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

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

Crown Finance Entity

As detailed in program objectives and descriptions (refer page 3).

NSW Self Insurance Corporation

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

The TMF is a self-insurance scheme owned and underwritten by the Government. It provides a full range of covers and services for its members.

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

Liability Management Ministerial Corporation

The Liability Management Ministerial Corporation was established to manage the General Government Liability Management Fund. There were no transactions or balances in the Fund for 2009-10.

State Rail Authority Residual Holding Corporation

The Corporation holds certain former State Rail Authority cross-border rolling stock leases. There were no transactions or balances in the Corporation for 2009-10.

Electricity Tariff Equalisation Ministerial Corporation

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

Crown Finance Service Groups

Debt Liability Management

Service Description: This service group covers the management of the Crown debt portfolio and the Treasury Banking System (TBS), which are managed in conjunction with NSW Treasury Corporation, to meet the objectives of minimising the market value of debt within specified risk constraints, minimising the cost of debt and maximising investment returns.

Linkage to Results: This service group contributes towards minimising the level and cost of the State's net debt liabilities by working towards a range of intermediate results that include the following:

- maintain underlying general government net debt as a proportion of gross state product
- ensure liabilities are managed to minimise associated costs
- maximise returns within risk constraints through appropriate investment of any surplus funds.

Superannuation Liability Management

Service Description: This service group covers the management of unfunded superannuation liabilities of New South Wales public sector defined benefit superannuation schemes in accordance with the Government's long-term funding plan.

Linkage to Results: This service group contributes towards elimination of Total State Sector net unfunded superannuation liabilities by 30 June 2030.

Central Financial Services

Service Description: This service group covers the periodic payments made to meet agency long service leave, the cost of redundancies, grants under the First Home Owners Grant Scheme and GST administration costs payable to the Australian Taxation Office. It also includes provision of funds to various departments and authorities responding to natural disasters.

Linkage to Results: This service group contributes to efficient operation of the State's finances by working towards a range of intermediate results that include the following:

- management of payment system to ensure agencies receive funding in timely manner
- efficient management of other financial assets and liabilities.

Balance Sheet

Table 1: Statement of Financial Position ($m)		
	30 June 2010	**30 June 2009**
Total Liabilities	60,031	54,582
Total Assets	11,674	16,056
Net Liabilities	48,357	38,526

The increase in net liabilities of about $10 billion between 30 June 2009 and 30 June 2010 is primarily explained by the following:

Property

Transfer of Crown reserves, valued at $6 billion, from 1 July 2009 to the Land Property Management Authority.

Superannuation

Unfunded superannuation liabilities increased by $3 billion, mainly due to:

- A reduction in the discount rate used to value liabilities, from 5.59 per cent in June 2009 to 5.17 per cent in June 2010. The reduction in the discount rate increased gross liabilities by $2.6 billion.
- Additional year of service provided by current Pooled Fund scheme contributors.

In relation to the $2.6 billion gross liabilities increase, the international accounting standard AASB 119 requires the recalculation of superannuation liabilities each year using a discount rate equal to the yield on the long-term government bonds as at 30 June. Under the previous Australian Accounting Standard the valuation basis was the forecast long-term asset earning rate.

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

Long-term investment history shows that equity returns exceed the return on bonds due to the equity risk premium. In addition, the use of AABB 119 distorts underlying comparisons from year to year as bond rates fluctuate. (See Chart 1, p.7)

Borrowings

The increase in borrowings of $2.7 billion during 2009-10 has been raised to fund the record levels of general government sector capital expenditure.

Operating Statement

Key points:

- Operating deficit funded higher agency recurrent and capital appropriations.
- NSW Lotteries sale to Tattersalls improved the operating result by $638.7 million.
- Commonwealth contributions increased significantly due to National Partnership Payments.

Table 2: Statement of Comprehensive Income ($m)

	2009-10	2008-09
Total Revenues	51,379	44,801
Total Expenses	53,555	48,421
Gain/(Loss) on Disposal of Non-Current Assets	639	(32)
Gain from Financial Instruments	3	187
Other Comprehensive Income/(Loss)	(2,908)	(10,591)
Deficit	**(4,442)**	**(14,056)**

- Recurrent Appropriations increased by $2,929 million. The main increases were to Human Services $1,050 million, Department of Education and Training $709 million, Department of Health $506 million and Department of Transport and Infrastructure $615 million.
- Capital Appropriations increased by $1,972 million. The main increases were to Department of Education and Training $1,908 million and the Roads and Traffic Authority $71 million.
- Resulting from the sale of NSW Lotteries Corporation to Tattersalls Holdings Pty Ltd, the Crown Entity received $1 billion in cash and investments, plus $37 million in non-cash benefits. There was a $638.7 million impact on the operating result, with the remainder being taken up directly to the balance sheet.
- Revenue from taxes, fees and fines increased by $1,380 million. This was mainly due to increased revenue from stamp duties of $1,068 million, Motor Vehicle taxes $85 million and Land tax $41 million. This was offset by reduced payroll tax $164 million.
- Commonwealth contributions increased by $4,636 million. This was mainly due to increases in National Partnerships payments of $445 million for recurrent and $3,087 million for capital. There were also additional GST payments of $1,633 million. These were partiallly offset by decreases of $318 million and $143 million for Specific Purpose recurrent and capital payments respectively.
- Investment income improved by $764 million. This was mainly due to SiCorp investments at TCorp[2] turning around from a $253 million loss in 2009 to a $475 million profit in 2010. The 2009 losses were due to the global financial crisis and the turnaround in 2010 has been aided by a strategic reallocation of assets from bonds to equities.

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2 TCorp (the Treasury Corporation) is the central financing authority for the NSW public sector. It also manages asset and liability portfolios on behalf of clients, providing financial risk management and investment management services to the NSW Government and its constituent businesses.

Liability Management

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

Superannuation

Mercer 2009 Triennial Review

The assumptions underlying liability and asset estimates for State Super's defined benefit schemes are revised on an ongoing basis and are subject to detailed assessment every three years. This assessment, known as the triennial actuarial review, is conducted for State Super by its actuarial firm, currently Mercer (Australia) Pty Ltd.

The most recent triennial review was completed late in 2009 and was made publicly available in early 2010. The main objectives of the triennial review were to calculate the extent to which individual schemes and employer groups are funded, to review the suitability of actuarial and economic assumptions underlying asset and liability estimates and to provide information on employer contribution arrangements. The triennial review considered the position of all employers covered by State Super's schemes, including employers outside the NSW public sector such as universities and various private sector entities.

In respect of funding arrangements and employer contribution rates, the review confirmed that the Crown funding plan advised in the 2009-10 State Budget would fully fund State Super's General Government Sector liabilities by 2030.

The review also advised that under current funding arrangements, universities are expected to exhaust their employer reserves over the period from 2014-15 to 2021-22. Actuarial advice indicates that around 80 per cent of liabilities are the responsibility of the Commonwealth, which follow from the Commonwealth's assumption of responsibilities for universities in 1974. New South Wales Treasury has been liaising with the Commonwealth for a number of years to seek a resolution to this issue.

Crown Revised Funding Plan General Government Sector

The Fiscal Responsibility Act 2005 requires defined benefit schemes to be fully funded by 2030. The objective of the Government's Crown funding plan is for sufficient but not excessive employer contributions to be made over time to meet this target.

This funding approach ensures that State Super liabilities are met without unnecessarily diverting financial resources away from core government services such as health, education and transport. Providing funding for superannuation also helps reduce the potential longer term cost of superannuation to taxpayers, as investment returns exceed the cost of debt.

The transfer of ownership of New South Wales Lotteries Corporation has provided an opportunity to significantly improve the balance sheet and superannuation funding outcomes.

Consequently, $510 million from the Lotteries proceeds (representing the retention value) was contributed to State Super in June 2010 in addition to normal budgeted Crown contributions. The level of ongoing annual contributions for the general government sector will also rise, with Crown financed contributions for 2010-11 to increase from $1.14 billion to $1.33 billion - an additional $187 million.

In subsequent years, and following a lift in contributions in 2010-11, the rate of growth in Crown financed employer contributions has been reduced, from 7.7 per cent to 5 per cent per annum from 2010-11 onwards. This rate of growth over time is more closely aligned to long-term revenue and expenditure growth rates in the general government sector.

These initiatives will substantially enhance the balance sheet. As well as meeting the 2030 target, higher funding levels will effectively limit the level of unfunded liabilities to around current levels in nominal terms for the next 10 years, leading to a sustained and ongoing fall in the level of unfunded liabilities as a percentage of gross state product.

Crown Unfunded Liability Estimate and Accounting Standards

Liabilities for the triennial review were estimated in accordance with AAS 25 (Australian Accounting Standard 25 Financial Reporting by Superannuation Plans). The AAS 25 methodology uses the long-term fund earning rate to value liabilities and is generally known as the actuarial funding basis.

Before 2005-06 superannuation liabilities in the State Budget were estimated under AAS 25. Since June 2006, however, liabilities for statutory accounting reporting have been estimated under the international accounting standard AASB 119 Employee Benefits, also known as the reporting standard or reporting basis.

Under the reporting basis, a floating discount rate is used to estimate the present value of liabilities. This discount rate is based on long-term government bond yields as at 30 June each financial year. As the yield on bonds is generally lower than fund earning rates, the reported value of liabilities under AAS 119 is much higher than the AAS 25 estimate. Ongoing changes to discount rates also lead to substantial variability in reported liability estimates.

Chart 1: State Super general government sector unfunded superannuation liabilities – AASB 119 and actuarial funding basis

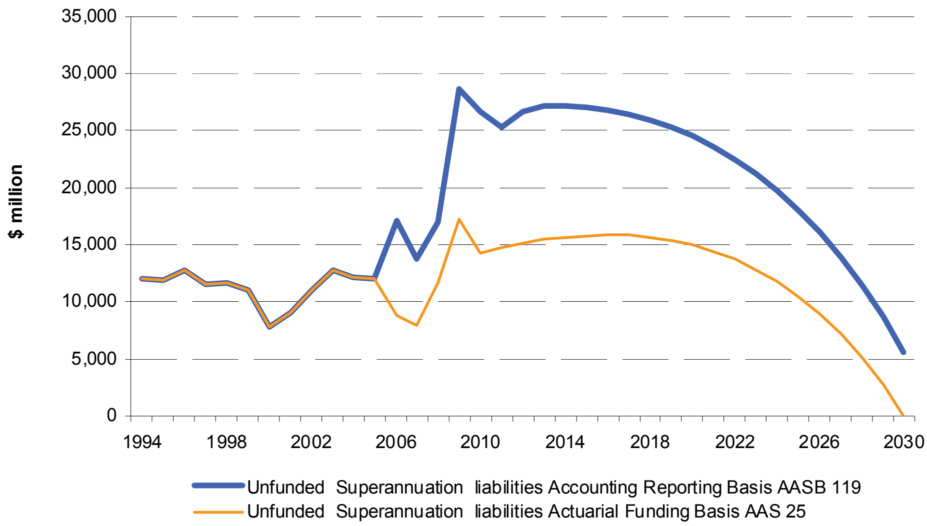

Chart 1 highlights the difficulties with using AAS 119 as a liability measure[3]. Compared with the actuarial funding basis forecast, liability forecasts under AASB 119 are effectively overstated, as the forecasts do not recognise the potential capacity for growth-based asset portfolios to fund entitlements over time.

[3] See also p.4

AASB 119 may be appropriate if liabilities were totally unfunded, or funded only by bonds or other interest-based investments. Earnings would then be limited to interest-based returns and relatively high employer contribution rates would be needed to pay member benefits over time.

State Super schemes, however, are funded by diversified growth portfolios, where long-term investment history shows that the average earnings on assets are significantly higher than interest-based portfolios.

Over time, with higher earnings, asset levels will be higher and lower cash employer contributions will be needed to pay member benefits.

Under these circumstances, using AASB 119 as a guide to funding is inappropriate and gives an inaccurate and misleading measure of State Super's underlying funding status and potential funding requirements. The actuarial funding basis provides a more appropriate basis for funding as it provides a better indication of the level of employer contributions required over time to meet future entitlements.

Care is also needed to ensure that financing arrangements do not effectively overfund the State's superannuation liabilities. As shown in Chart 1, AASB 119 would still be reporting a $5 billion unfunded liability in 2030 at a time when the State Super scheme's are, in reality, fully funded.

Borrowings

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

Management of Crown borrowings has two long-term objectives:

- to minimise the market value of debt within specified risk constraints and
- to minimise the cost of debt.

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

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

Commonwealth Guarantee of Borrowings

In March 2009, the Australian Government announced an offer to guarantee new and existing state and territory borrowings. This announcement followed from the global financial crisis and was intended to ensure that the states and territories could continue to obtain funds from financial markets at a reasonable cost.

Based on an analysis of the likely benefits of the guarantee, the offer was taken up by New South Wales.

As shown in Chart 2 following, the announcement and NSW's subsequent acceptance led to a large fall in borrowing costs, expressed as a premium over equivalent Commonwealth borrowings. Borrowing premiums fell from just under 1.5 per cent before the guarantee to 0.6 per cent after implementation.

Chart 2: NSW-Commonwealth Bond Spread

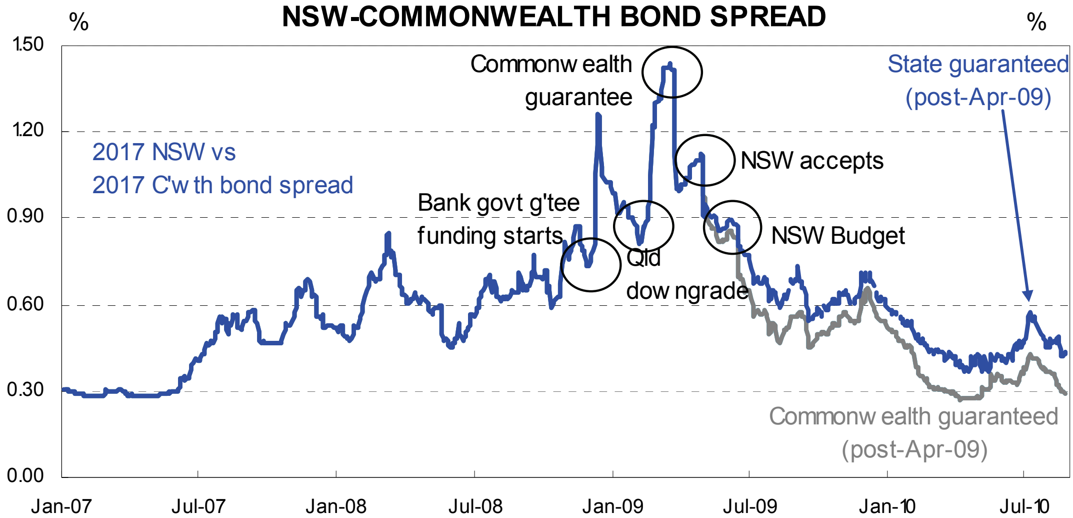

Chart 2 provided by TCorp.

The spread indicated in Chart 2 is based on the difference between NSW and Commonwealth bonds with a maturity date of 2017 ('2017 bonds').

The Commonwealth guarantee assisted NSW's financial position and helped maintain NSW's capital works program during the global financial crisis. The announcement, in March 2009, allowed the NSW borrowing program to continue in the months before the guarantee came into effect in September 2009, enabling infrastructure investment to continue without disruption.

With the stabilisation of market conditions after the global financial crisis, borrowing premiums fell towards more normal levels, and in February 2010 the Australian Government announced that the guarantee would cease in December 2010. Following this announcement, TCorp publicly advised that new borrowings will be made without the Commonwealth guarantee. Existing borrowings with the guarantee will be subject to a transition arrangement, based on consolidation and repurchase of guaranteed lines of debt.

Insurance Management

The management of insurance is based on a number of dedicated schemes, mostly overseen by the NSW Self Insurance Corporation (SiCorp - see separate Annual Report for more detail). Liabilities are met by assets, provisioned in prior years, ongoing investment earnings and insurance premiums.

SiCorp's main functions are:

- Administration of the Treasury Managed Fund (TMF), which provides cover for all insurance exposures faced by general government sector budget dependent agencies in New South Wales (other than compulsory third party insurance). TMF membership is also available to all other public sector agencies on a voluntary basis.

- Management of liabilities from a number of closed insurance schemes. The closed schemes are the Governmental Workers Compensation Account, the Transport Accident Compensation Fund, the Pre-managed Fund Reserve and the residual workers compensation liabilities of the former State Rail Authority.

- Collection and analysis of data provided by TMF claims managers; system management of the TMF data warehouse; provision of reporting functions to member agencies; and monitoring of claims providers.

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

The views of agency members of the TMF are presented to the board through the TMF Agency Council. The Council is representative of the broad spectrum of agencies in the TMF and includes representatives from seven agencies[4] as well as representatives of the Public Sector Risk Management Association and NSW Treasury. Members are generally from the finance area or occupational health and safety area of their agencies.

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

James Hardie Funding Arrangements

The Asbestos Injuries Compensation Fund Limited (AICF) administers a fund which pays compensation to Australian asbestos victims exposed to products manufactured by former James Hardie companies in Australia.

The AICF receives contributions from James Hardie Industries NV (James Hardie). Under the 2006 Amended and Restated Funding Agreement, James Hardie must contribute to the AICF up to 35 per cent of its free cash flow each year.

The AICF has indicated concern that as a result of the global financial crisis its available financial resources are likely to be insufficient to continue to fund compensation payments as and when they fall due. In particular, the downturn in the US housing sector has significantly impacted on James Hardie's ability to contribute to the Fund.

As a result of AICF concerns, the NSW and Australian Governments announced on 7 November 2009 an agreement in principle to provide a $320 million loan facility to help the AICF continue to make full compensation payments to asbestos victims.

The loan assistance will only be called on if and when required for short-term funding and will be secured against reinsurance recoveries. James Hardie will continue to be obligated to contribute to the Fund to fully meet its AICF asbestos liabilities.

Home Warranty Insurance Scheme

Home warranty insurance is a safety net to consumers where builders are unable to honour the obligations to their clients through insolvency, disappearance or death.

In New South Wales, home warranty insurance is mandatory on residential building work for homes and for units up to three storeys. The period of cover is for six years in the case of structural defects and for two years in the case of non-structural defects.

Home warranty insurance has generally provided low profit margins to insurers because of the relatively small Australian market and the long tail nature of the cover.

On 8 November 2009, the Premier announced a new Government underwritten Home Warranty Insurance Scheme. This follows the departure of major insurers from the market without any prospects for other insurers to be able to fill the gap.

The Scheme commenced on 1 July 2010 and is managed by SiCorp.

The private sector will collect premiums and manage claims. SiCorp will be the scheme underwriter and its responsibilities will include the setting and monitoring of premiums and adherence to service standards. From a government perspective, the new home warranty insurance arrangements will operate on a cost recovery basis.

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[4] NSW Department of Education and Training (Chair), NSW Department of Health, NSW Police Force, NSW Fire Brigades, Sydney Water, Department of Corrective Services, IPART. WorkCover is an observer.

Financial Asset Management

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

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

Outside the TBS there are two major types of asset portfolios, based on investments to meet superannuation liabilities and investments to meet insurance obligations.

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

Most superannuation investments are held by State Super, with the balance mainly held by the Electricity Industry Superannuation Scheme (EISS). Other investments, including financial assets associated with insurance liabilities, are largely managed by TCorp on behalf of client agencies.

As shown in Table 3, State Super and TMF investment returns reflect the impact of the global financial crisis and the recovery in asset values since 2009.

Table 3: State Super and TMF investment returns

Financial year to 30 June	State Super %	TMF %
2009 - 10	9.2	8.4
2008 – 09	-10.3	-2.8
2007 – 08	-7.2	-7.4
Average 5 Years	3.9	3.7

TMF returns for 2010 partly reflect the timing of a major repositioning of the TMF asset portfolio, based on reweighting of funds from fixed interest to equity investment in the third quarter of calendar year 2009.

The repositioning towards a higher proportion of growth-based assets followed a review of the TMF's investment portfolio by asset consultants Jana Investments early in 2009. This repositioning is expected to raise long-term average returns to 8.2 per cent.

Table 4: Asset Allocation as at 30 June

	State Super 2010 %	State Super 2009 %	TMF 2010 %	TMF 2009 %
Australian Shares	31.0	32.3	56.3	26.6
International Shares	26.9	26.1	22.1	25.9
Property	9.5	9.7	5.6	5.5
Alternative Assets	12.7	12.8	0	0
Australian Fixed Interest	6.1	6.3	11.7	27.1
International Fixed Interest	4.3	4.7	0	9.2
Cash	9.5	8.1	4.3	5.7
	100.0	100.0	100.0	100.0

Account Payable Performance

The Crown Asset and Liability Management branch of the NSW Treasury provides accounts payable services for the Crown Entity and its controlled entities.

The service covers the following entities:

- Crown Finance Entity
- Consolidation Fund
- NSW Self Insurance Corporation
- Electricity Tariff Equalisation Ministerial Corporation
- Liability Management Ministerial Corporation
- State Rail Authority Residual Holding Corporation

In accordance with the requirements of the Public Finance and Audit Regulation 2010, the Annual Reports legislation and the Treasurer's Direction, all agencies are required to ensure that all accounts are paid promptly.

The following tables report the time taken to administer payments for the Crown Entity during 2009-10.

Reporting on Payment of Accounts

Outstanding invoices by age at the end of each quarter	Current (within due date) $	Less than 30 days overdue $	Between 30 and 60 days overdue $	Between 60 and 90 days overdue $	More than 90 days overdue $
September 2009	337,390	1,250,738	950,362	6,691,802	1,772,488
December 2009	6,621,202	339,035	1,917,108	890,499	2,558,901
March 2010	81,425,547	1,556,023	1,489,015	4,889,844	1,313,886
June 2010	1,638,856	704,917	2,682,664	447,436	11,152

Accounts paid on time during each quarter	Total Accounts Paid on Time				**Total Amount Paid $**
	Target by number %	Actual %		$	
		By Number	By Value		
September 2008	87	80	100	23,202,741,658	23,250,942,592
December 2008	87	87	100	21,798,649,516	21,817,384,217
March 2009	87	91	100	22,717,222,129	22,723,240,815
June 2009	87	89	99	23,153,256,676	23,493,035,710

During the year, there were some delays in the processing of the Crown Finance Entity's payments, which are subject to a rigorous review and approval process before payment can be made. However, there were no instances where penalty interest was paid in accordance with clause 15 of the Public Finance and Audit Regulation 2010.

Expenditure on consultants

Consultants costing $50,000 or more		
	Project	**Amount (ex. GST)**
Finance and Accounting/Tax		
Ernst & Young	Accounting and tax advice for the Energy Reform Project	$8,874,105
Credit Suisse	Financial advice for the Energy Reform Project	$5,475,290
Lazard Carnegie Wylie	Financial advice for the Energy Reform Project	$3,811,566
Ernst & Young	Accounting and tax advice for the sale of NSW Lotteries Project	$1,216,147
Ernst & Young	Accounting and tax advice for the Waste Service NSW (WSN) Project	$823,573
UBS Investment Bank	Advisory services for the sale of WSN Environmental Solutions Project	$568,199
Goldman Sachs JBWere Pty Ltd	Financial advice for the sale of NSW Lotteries Project	$374,918
Deloitte Touche Tohmatsu	Financial reviews including reviews of agency's compliance with the *Public Authorities (Financial Arrangements) Act 1987*	$174,878
PricewaterhouseCoopers[1]	GST Compliance and Refund Project for SiCorp	$124,358
Ernst & Young	Accounting and tax advice for the sale of Pillar Project	$71,792
Deloitte Touche Tohmatsu[1]	Performance audit of SiCorp's claims managers	$67,076
PricewaterhouseCoopers[1]	Investigation for SiCorp of GST and expenses for Public Liability, Motor Vehicle and Property Insurance	$61,613
Finity Consulting Pty Ltd[1]	Liability and Property claims review for the Treasury Managed Fund (TMF) claims manager tender	$60,779
Information Technology		
KPMG Corporate Finance (Aust) Pty Ltd	Information Technology advice for the Energy Reform Project	$2,815,696
SMS Consulting Group Ltd[1]	Professional services to resolve data management issues for SiCorp	$619,119
Internal Audit Bureau[1]	Implementation of data warehouse technical changes for SiCorp	$136,675
Internal Audit Bureau[1]	Agency reporting, quality assurance and preparation of business case for SiCorp	$116,287
Oakton Ltd[1]	Development of system specifications to support Working Together strategy for SiCorp	$113,050
Oakton Ltd[1]	Business analysis for TMF Data Warehouse WorkCover CDR5.2 Project	$91,700
SMS Consulting Group Ltd[1]	Chimera Project - Data Warehouse enhancement for SiCorp	$82,400
Oakton Ltd[1]	IT Infrastructure Project for SiCorp	$75,225
Management Services		
Worley Parsons	Legal and Engineering advices for the Energy Reform Project	$2,577,686
Environmental Resources Management	Environmental advice for the sale of WSN Project	$788,576
Cosway Australia Pty Ltd	Communication advice for the Energy Reform Project	$464,959
PVS & Associates Pty Ltd	Consultancy for the Energy Reform Project	$371,660
The Trustee for Mark Calvetti Trust	Consultancy for the Energy Reform Project	$352,300
Finity Consulting Pty Ltd[1]	Treasury Managed Fund (TMF) risk management function and contract management function reviews for TMF and SiCorp.	$343,646

Expenditure on Consultants

Consultants costing $50,000 or more

	Project	Amount (ex. GST)
Management Services (continued)		
RSM Bird	Probity advice for the sale of NSW Lotteries Project	$279,615
HAYS Specialist Recruitment	Consultancy for the Energy Reform Project	$260,232
RSM Bird	Probity advice for the Energy Reform Project	$257,625
Kreab & Gavin Anderson	Provide management and communication advice for the sale of NSW Lotteries Project	$211,890
Col Gellatly & Associates Pty Ltd	Consultancy for the Energy Reform Project	$189,000
PricewaterhouseCoopers[1]	Preparation of submission to the ATO and management of technical tax issues	$146,144
J S Frith Power Consulting Pty Ltd	Consultancy for the Energy Reform Project	$112,750
RSM Bird	Provide probity services for the sale of WSN Project	$86,077
Kreab & Gavin Anderson	Issue management advice for the Energy Reform Project	$74,681
Kreab & Gavin Anderson	Management and environmental solutions for the sale of WSN Project	$51,515
Legal		
Baker & McKenzie	Legal advice for the Energy Reform Project	$11,097,865
Gilbert & Tobin	Legal advice for the sale of NSW Lotteries Project	$3,221,732
Freehills	Legal advice for the Energy Reform Project	$2,270,838
Clayton UTZ	Advisory services for the stage 2 of the sale of WSN Environmental Solutions Project	$1,414,936
Gilbert & Tobin	Legal and competition advices for the sale of WSN Environmental Solutions Project	$560,145
Crown Solicitor's Office	Legal advice for the sale of NSW Lotteries Project.	$236,557
Macquarie Generation	Legal advice provided by Mallesons Pty Ltd to Macquarie Generation in relation to Gentrader agreements for the Energy Reform Project (recoupment of fees)	$191,958
APM	Consulting for the RTA Special Number Plates Project	$111,530
Gilbert & Tobin	Legal advice for the sale of Pillar Project	$100,035
Crown Solicitor's Office	Legal advice for general issues arising from Energy Reform Project	$51,396
Economic Assessment		
Frontier Economics Pty Ltd	Market and economic advice for the Energy Reform Project	$5,120,685
	Sub-total:	**$56,700,479**

Consultants costing less than $50,000

Finance and Accounting/Tax	5 projects totalling	$169,668
Information Technology	6 projects totalling	$163,640
Management Services[2]	18 projects totalling	$411,551
Legal	6 projects totalling	$67,086
	Sub-total:	**$811,945**
	Total:	**$57,512,424**

1) Projects of the NSW Self Insurance Corporation (SiCorp). These are also shown in the SiCorp Annual Report.
2) Four of these projects, totalling $111,024, are projects of the NSW Self Insurance Corporation (SiCorp). These are also shown in the SiCorp Annual Report.

Audit Requirements:

Disclosure statement from the Secretary of The Treasury

Statement by the Chair of the Audit & Risk Management Committee

Crown response to Significant Matters in Audit Office Client Service Report

The Office of Financial Management has an Audit & Risk Management Committee which covers the Crown Entity and its controlled activities, the Annual Reports of which can be found in this Volume from p.127. The Chair of this Committee has provided a Statement, from his independent position, for Treasury's Annual Report Volumes 1 and 3.

The Audit & Risk Management Policy (TPP 09-05) requires that a disclosure statement by the Secretary should appear in each agency's Annual Report. The Treasury Secretary's statement appears in each of the three volumes of this Report. The statements by the Chair and the Secretary are on following pages. To avoid repetition, they should be understood to apply to the Annual Reports of each of:

- Crown Entity
- Liability Management Ministerial Corporation
- State Rail Authority Residual Management Corporation
- Electricity Tariff Equalisation Ministerial Corporation

Additionally, under the Annual Reports legislation, agencies are required to respond in their Annual Reports to all significant matters raised by the Audit Office in its Client Service Report. For 2009-10, the findings in relation to the Crown and its responses are as follows:

Finding 1: Undistributed Commonwealth Grants

As at 30 June 2010, the Crown Entity has undistributed Commonwealth Grants of $1.6 billion. These grants mainly relate to National Partnership and Special Purpose payments, and are currently sitting in Consolidated Fund's bank overdraft account. They are not disclosed as assets.

Consolidated Fund has a bank overdraft of $2.2 billion as at 30 June 2010 after netting off with undistributed Commonwealth grants of $1.6 billion.

Whilst there may be no specific requirement to set up separate bank accounts for these grants, it is important for the Crown Entity to closely monitor the use of the undistributed funds to ensure they are spent in accordance with the funding agreements.

Management Response

These Commonwealth Grant receipts are closely monitored by Treasury analysts responsible for the respective agencies. Further, the Commonwealth requires regular reporting to ensure that the amounts have been spent in accordance with the agreements, otherwise the funds have to be returned.

These receipts are deposited into the Consolidated Fund in accordance with Treasury cash management policy. This does not affect the availability of funds for expenditure.

Finding 2: Hard Close Initiative

The Crown Entity responded to the hard close initiative of The Treasury by providing pro-forma financial statements as at 31 March 2010 for audit review. Crown Entity also prepared the reconciliations on OSR administered balances and Commonwealth Grants. I recognise the difficulty in conducting Hard Close procedures at the Crown Entity due to its dependence on information from other agencies, but it is a critical agency informing the Total State Sector. Some additional hard close procedures are necessary to improve the timeliness of reporting and the identification of issues.

Management Response

Additional significant Crown Entity hard close initiatives are difficult to justify given:

1. Under accounting standards, superannuation and long service leave valuations must be based on the Commonwealth ten year bond rate as at 30 June.
2. Higher actuarial expenses would be incurred to complete liability valuations twice within a three month period.
3. Dividends and tax equivalent revenues depend upon relevant agency board resolutions.
4. The Crown Entity is dependent on third party agency advice. This information is collected via a June Treasury circular to all State Sector agencies. An additional March circular could be subject to severe criticism from agencies regarding it as excessive central agency data collection.

Internal Audit and Risk Management Statement for the 2009-2010 Financial Year for NSW Treasury[5]

I, the Secretary, am of the opinion that NSW Treasury has internal audit and risk management processes in place that are, excluding the exceptions described below, compliant with the core requirements set out in Treasury Circular NSW TC 09/08 *Internal Audit and Risk Management Policy*.

I, the Secretary, am of the opinion that the internal audit and risk management processes for NSW Treasury depart from the following core requirements set out in Treasury Circular NSW TC 09/08 and that (a) the circumstances giving rise to these departures have been determined by the Portfolio Minister and (b) Treasury is implementing the following practicable alternative measures that will achieve a level of assurance equivalent to the requirement:

Ministerially Determined Departure	Reason for Departure and Description of Practicable Alternative Measures Implemented
Core Requirement 1	
The department head must establish an Audit and Risk Committee to oversee and monitor governance, risk and control issues affecting the operations of the department.	
The Treasurer has determined:	
a) That the Office of Financial Management (OFM) and the Office of State Revenue (OSR) may maintain separate Committees for the medium-term; and	a) OFM and OSR have traditionally maintained separate audit and risk functions because the nature of their risks differs significantly and it is held to be the most effective way to manage these risks. The Audit & Risk Committees of the two agencies have undertaken to hold annual joint meetings and to liaise regularly at officer level to ensure the arrangement is efficient, minimising duplication and omission.
b) That for the purposes of its audit and risk functions, "OFM" has been defined as: the Office of Financial Management, the NSW Self Insurance Corporation and the Crown Entity, which includes the statutory bodies Electricity Tariff Equalisation Ministerial Corporation, Liability Management Ministerial Corporation, and State Rail Authority Residual Holding Corporation. Because of this definition, all of these bodies fall under OFM's Audit & Risk Committee. This exception is intended to be permanent.	b) The strict application of the Policy would mean separate audit and risk management committees for each of these entities. However, these entities are managed by OFM, use OFM internal policies and have accounting services provided by OFM via the Crown Entity.

5 "NSW Treasury" is defined, for the purposes of this disclosure, as the Office of State Revenue, the Office of Financial Management, the NSW Self Insurance Corporation, and the Crown Entity including the Consolidated Fund, Crown Finance Entity, Electricity Tariff Equalisation Ministerial Corporation, State Rail Authority Residual Holding Corporation and Liability Management Ministerial Corporation.

Ministerially Determined Departure	Reason for Departure and Description of Practicable Alternative Measures Implemented
Core Requirement 2	
For the purposes of the Policy, a department head means a 'department head' as defined in section 3 of the Annual Reports (Departments) Act 1985.	
The Treasurer has determined:	
That the Executive Director of OSR (also the Chief Commissioner of State Revenue) is charged with fulfilling the everyday requirements of the Policy which would otherwise fall to the Secretary of the Treasury in his capacity as Departmental Head of OSR. Requirements reserved for the Secretary of the Treasury are: a) requesting access to an arbiter as per S.4.4.3. b) the Audit and Risk Committee's ability to escalate any matters of a 'material nature' to the Secretary.	This exception accords with the request to maintain a separate Audit and Risk Committee for OSR, which recognises that the administrative requirements in relation to the internal audit process are more effectively exercised at a local agency level. This exception is permanent, unless the Secretary should withdraw the delegation. The Secretary will continue to receive information copies of key documents and be kept informed of key issues.
Core Requirement 3	
An Audit & Risk Committee Chair must be appointed for a period of at least three years, with a maximum term of four years.	
For members, the initial term must not exceed four years. There is an option for reappointment for a further term of maximum four years.	
The Treasurer has determined: That members of OFM's and OSR's Committees who will pass their maximum terms during 2010-11 may be extended into 2012 to allow departures to be staggered.	The Policy also states that wherever possible departures from a Committee should be staggered to ensure that knowledge loss is minimised at any one time. Prior to the Policy terms of membership were not limited, thus some members of each Committee must either exceed their new maximum terms, or leave within a short time of other members' review dates. By mid-2012, neither Committee will require this exception.
Core Requirement 5	
The Policy requires that an enterprise risk management process that is appropriate to the department has been established.	
The Treasurer has determined: That OFM's full compliance with this requirement be extended to June 2011.	OFM has the major documentation and processes for risk management in place or in draft as at 30 June 2010. However, the Policy contains requirements for embedding significant practice change in the culture, which will take longer to embed.

I, the Secretary am of the opinion that the Audit and Risk Committee for Office of Financial Management is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08. The Chair and Members of the Office of Financial Management Audit and Risk Committee are:

Jim Mitchell, independent Chair (2008 to April 2011)
Christine Feldmanis, independent member (reappointment April 2010 to June 2012)
Carolyn Burlew, independent member (2009 to September 2011)
Mark Ronsisvalle, non-independent member (2004 to October 2010)
Sue Power, non-independent member (2009 to July 2013)

I, the Secretary am of the opinion that the Audit and Risk Committee for Office of State Revenue is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08. The Chair and Members of the Office of State Revenue Audit and Risk Committee are:

Peter Lucas, independent Chair (reappointment July 2009 to May 2011)
Ralph Kelly, independent (August 2009 to August 2011)
David Hunter independent (May 2010 to May 2014)
Dianne Barden non-independent member (reappointment May 2010 to March 2012)
Robert Gillam non-independent member (reappointment May 2010 to March 2013)

This structure became operative from the first meeting held after 30 June 2010. The structure prior to this date included a majority of OSR's executive team.

These processes, including the practicable alternative measures being implemented, provide a level of assurance that will enable the senior management of NSW Treasury to understand, manage and satisfactorily control risk exposures.

As required by the policy, I have submitted an Attestation Statement outlining compliance with the policy to the Treasury.

Michael Schur
Secretary
29 October 2010

Statement by the Chair of the Audit & Risk Management Committee

Dear Secretary

Report from OFM Audit and Risk Committee – 2009-10

The Audit and Risk Committee of the Office of Financial Management (OFM) aims to:

- oversee the internal audit function, risk management, corporate governance and other internal assurance processes that operate within OFM, which includes the Crown and its controlled activities
- assess risks arising from OFM's operations and the adequacy of measures to moderate those risks, and
- in tandem with external audit, ensure the integrity of OFM's external financial reporting and internal management reporting.

OFM's Committee is separately tasked with oversight of the controls on the preparation of the Total State Accounts.

The Committee oversees various assurance reviews of key OFM activities and functions, as scheduled in an Annual Internal Audit Plan. The areas to be reviewed are targeted toward potential strategic and operational risk areas. Staff can access the Audit and Risk Committee Charter from OFM's intranet.

In March 2008 the Performance Review Unit of Department of Premier and Cabinet reported on a *Review of Internal Audit Capacity in the NSW Public Sector*. Consequently during 2008-09 OFM, the Department of Premier and Cabinet and the Audit Office worked together to develop a new Internal Audit and Risk Management Policy that reflects the recommendations of the Review. The new policy was issued to the NSW public sector in August 2009.

OFM has been proactive in reviewing the structure and composition of its own Audit and Risk Committee against the best practice guidelines of the new policy. As a result, during 2009-10 the Committee operated with five members, three of whom (including the Chairperson) are independent of OFM. Membership of the Committee comprises:

- Mr James R Mitchell as Independent Chairperson
- Ms Christine Feldmanis as Independent Member
- Ms Carolyn Burlew as Independent Member
- Mr Mark Ronsisvalle, Deputy Secretary, Budget and Financial Management Directorate
- Ms Sue Power, Director, Property and Procurement Branch.

Meetings were also attended by observers from the NSW Audit Office, IAB Services (to which OFM outsources its internal audit reviews), OFM Directors and other senior OFM officers responsible for areas subject to audit review.

Early in 2010, the Committee reviewed its own Charter and proposed some amendments to bring it completely into line with the new Audit Policy and to enable it to better focus on the areas of OFM with higher risk profiles. The OFM Executive supported the amended Charter, which was subsequently approved by the Secretary.

Also in 2009-10, the Committee oversighted the review and updating of OFM's Strategic Risk Register and Risk Plan. These are used by the Committee to determine the scheduling of internal audit reviews, and to monitor progress on the mitigation of risk and the resolution of issues raised.

The restructure of the Committee and the appointment of a Chief Audit Executive have enabled the Committee to operate in compliance with Treasury Policy on Audit and Risk Management. The Committee and OFM are committed to ensuring the application of best practice by the Audit and Risk Committee. A committee performance self-assessment has been undertaken and plans developed to improve the areas that rated less well.

The Independent Members of the Committee meet quarterly with the Secretary to enable improved communication and assurance of levels of audit work undertaken and any issues arising.

The Committee met on 9 occasions during 2009-10 and considered a range of significant matters including:

- OFM's Enterprise Risk Assessment, risk profile and associated management policies and procedures
- OFM's Internal Audit Plan for 2009-10
- OFM's internal control environment
- Controls used by external service providers to mitigate the high level of risk assessed by OFM
- OFM's Internal Audit Plans for 2008-09 and for calendar year 2010
- OFM's compliance with Treasury Policy on Audit and Risk Management
- Follow up of action recommended by the internal auditors (IAB) and by the Audit Office, Public Accounts and Public Bodies Review Committees of Parliament.
- End of year financial reporting for OFM, Crown, SI Corp (Treasury Managed Fund) and the Electricity Tariff Equalisation Fund, and
- Management of Fraud and Corruption risks, including the introduction of revised OFM policy on Fraud and Anti-Corruption.

For the following reviews, due for completion after 30 June, the Committee advised the Secretary on scope and terms of reference and monitored progress during 2009-10:

- Security of SI Corp's database and data handling processes
- Crown Entity's key financial management processes, functions and procedures and asset and liability risk management
- OFM's adherence by Budget Analysts to relevant guidelines and policies
- OFM's compliance with legislative and internal requirements around Freedom of Information and requests for information by Parliament in terms of Standing Order 52

Audit findings were generally satisfactory. Recommendations to improve performance and processes, and management responses to them, are documented in a Risk Register that is monitored by the Committee.

The Committee also reviewed follow up action as required associated with internal audit reviews which were undertaken in the previous period. These included:

- SiCorp's management of third party providers
- Crown entity financial system internal controls
- Electronic funds transfer and internet banking systems
- Effectiveness of State Budget management processes, and
- OFM's process for procuring consultants and contractors.

J. R. Mitchell FCPA
Independent Chair
NSW Treasury (OFM) Audit and Risk Committee

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Crown Entity

Consolidated Financial Statements
for the year ended 30 June 2010

AUDITOR-GENERAL
NEW SOUTH WALES

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Crown Entity

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Crown Entity, which comprise the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity, statement of cash flows, service group statements and summary of compliance with financial directives for the year then ended, a summary of significant accounting policies and other explanatory notes.

Qualified Auditor's Opinion

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

- present fairly, in all material respects, the financial position of the Crown Entity as at 30 June 2010, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- are in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010

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

Basis for Qualified Auditor's Opinion

As disclosed in Note 2 Summary of Significant Accounting Policies, the Crown Entity held certain assets, including Crown reserves that were not recognised in the Statement of Financial Position as at 30 June 2009. In 2009, the Crown Entity was undertaking a project to identify and value these assets. As that project was not complete at 30 June 2009 I qualified my Independent Auditor's Report because I was unable to obtain all the information I required to form an opinion on the values (if any) of those Crown Assets that should have been recognised in the financial statements. This qualification applies to the 2009 comparative information but does not apply to the Crown Entity's financial position as at 30 June 2010 because these assets were transferred to the Land and Property Management Authority with effect from 1 July 2009.

Secretary of the Treasury's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

Peter Achterstraat
Auditor-General

21 October 2010
SYDNEY

CROWN ENTITY

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

Statement by Department Head

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

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Entity as at 30 June 2010 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 2010* and the Treasurer's Directions.

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

Michael Schur
Secretary
20 October 2010

CROWN ENTITY

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Revenue			
Retained taxes, fees and fines	3(a)	19,673,694	18,293,255
Commonwealth contributions	3(b)	26,072,257	21,435,753
Financial distributions	3(c)	1,983,857	1,852,071
Sale of goods and services	3(d)	758,557	1,013,514
Investment income	3(e)	617,609	(146,197)
Share of profit of an associate	7	154,326	122,931
Other income	3(f)	2,118,944	2,229,381
Total revenue		**51,379,244**	**44,800,708**
Expenses			
Superannuation - defined benefit plans	19	1,629,428	1,336,845
Long service leave	20	583,391	660,731
Depreciation and amortisation		1,057	1,782
Grants and subsidies	4(a)	925,580	878,050
Finance costs	4(b)	1,323,222	1,288,743
Insurance claims	4(c)	1,063,499	1,225,617
Recurrent appropriations	32	41,271,453	38,341,767
Capital appropriations	32	5,826,041	3,854,111
Other expenses	4(d)	931,779	833,625
Total expenses		**53,555,450**	**48,421,271**
Gain/(loss) on disposal of non-current assets	5	638,720	(31,964)
Gain from financial instruments	6	3,169	187,162
Deficit for the year		**(1,534,317)**	**(3,465,365)**
Other comprehensive income			
Net increase in property, plant and equipment asset revaluation surplus		-	2,889
Actuarial loss on defined benefit plans	19	(2,908,004)	(10,593,763)
Other net decrease in equity		-	(356)
Total other comprehensive income for the year		**(2,908,004)**	**(10,591,230)**
Total comprehensive result for the year		**(4,442,321)**	**(14,056,595)**

The accompanying notes form part of these financial statements.

CROWN ENTITY

STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Notes	2010 $'000	2009 $'000
Assets			
Current assets			
Cash and cash equivalents	27	628,881	613,610
Financial assets at fair value	8	13,312	79,987
Derivative financial instruments	9	37	1,556
Advances repayable to the Crown	10	59,820	46,464
Inventories	11	-	18,510
Receivables	12	3,665,654	2,982,596
Other		-	1
Total current assets		**4,367,704**	**3,742,724**
Non-current assets			
Property, plant and equipment	13	399	6,225,574
Investment in a joint venture	15	20,776	18,817
Investment in an associate	7	996,150	894,024
Financial assets at fair value	8	5,006,599	3,946,401
Advances repayable to the Crown	10	1,072,742	887,831
Inventories	11	-	21,348
Receivables	12	208,169	317,755
Intangible assets	14	985	1,759
Other		25	34
Total non-current assets		**7,305,845**	**12,313,542**
Total assets		**11,673,549**	**16,056,267**
Liabilities			
Current liabilities			
Payables	16	403,502	314,219
Bank overdraft	27	2,161,649	2,400,300
Borrowings	17	380,513	414,943
Unfunded superannuation	19	1,329,700	1,057,400
Employee benefits and other provisions	20	3,370,771	3,163,242
Provision for outstanding insurance claims	21	773,663	751,213
Aboriginal land council claims	24	-	992,271
Other	30	334,968	332,496
Total current liabilities		**8,754,766**	**9,426,084**
Non-current liabilities			
Payables	16	36,496	25,153
Borrowings	17	15,652,082	12,924,943
Unfunded superannuation	19	30,129,062	27,374,282
Employee benefits and other provisions	20	177,409	166,487
Provision for outstanding insurance claims	21	4,697,365	4,333,049
Other	30	583,451	332,059
Total non-current liabilties		**51,275,865**	**45,155,973**
Total liabilities		**60,030,631**	**54,582,057**
Net liabilities		**(48,357,082)**	**(38,525,790)**
Equity			
Revaluation surplus reserve		-	2,751,757
Accumulated deficit		(48,357,082)	(41,277,547)
Total equity		**(48,357,082)**	**(38,525,790)**

The accompanying notes form part of these financial statements.

CROWN ENTITY

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

	Notes	Accumulated deficit $'000	Revaluation reserve $'000	Total equity $'000
Balance at 1 July 2009		(41,277,547)	2,751,757	(38,525,790)
Deficit for the year		(1,534,317)	-	(1,534,317)
Other comprehensive income				
Actuarial loss on defined benefit plans	19	(2,908,004)	-	(2,908,004)
Total other comprehensive income		**(2,908,004)**	**-**	**(2,908,004)**
Total comprehensive result for the year		**(4,442,321)**	**-**	**(4,442,321)**
Transactions with owners in their capacity as owners				
Decrease in net assets from equity transfers		(2,637,214)	(2,751,757)	(5,388,971)
Total transactions with owners in their capacity as owners		**(2,637,214)**	**(2,751,757)**	**(5,388,971)**
Balance at 30 June 2010		**(48,357,082)**	**-**	**(48,357,082)**
Balance at 1 July 2008		(27,196,391)	2,765,801	(24,430,590)
Deficit for the year		(3,465,365)	-	(3,465,365)
Other comprehensive income				
Actuarial loss on defined benefit plans	19	(10,593,763)	-	(10,593,763)
Net increase in property, plant and equipment asset revaluation reserve		-	2,889	2,889
Other net decrease in equity		(356)	-	(356)
Total other comprehensive income		**(10,594,119)**	**2,889**	**(10,591,230)**
Total comprehensive result for the year		**(14,059,484)**	**2,889**	**(14,056,595)**
Transactions with owners in their capacity as owners				
Decrease in net assets from equity transfers		(32,927)	(4,872)	(37,799)
Transfers within equity		11,228	(11,228)	-
Other		27	(833)	(806)
Total transactions with owners in their capacity as owners		**(21,672)**	**(16,933)**	**(38,605)**
Balance at 30 June 2009		**(41,277,547)**	**2,751,757**	**(38,525,790)**

The accompanying notes form part of these financial statements.

CROWN ENTITY

STATEMENT OF CASH FLOWS
for the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Payments			
Employee related		(2,002,818)	(1,368,939)
Grants and subsidies		(892,682)	(1,028,522)
Finance costs		(856,272)	(853,675)
Recurrent appropriation	32	(41,271,453)	(38,341,767)
Capital appropriation	32	(5,826,041)	(3,854,111)
Other		(1,986,429)	(1,653,739)
Total payments		**(52,835,695)**	**(47,100,753)**
Receipts			
Retained taxes, fees and fines		19,166,026	18,410,137
Sale of goods and services		1,016,690	975,745
Commonwealth grants	32	26,072,281	21,430,636
Investment income		332,845	103,710
Financial distribution from other entities		2,012,630	2,140,974
Proceeds from sale of NSW Lotteries		845,708	-
Other		1,912,855	2,315,571
Total receipts		**51,359,035**	**45,376,773**
Net cash flows used in operating activities	27	**(1,476,660)**	**(1,723,980)**
Cash flows from investing activities			
Purchase of investments		(2,644,341)	(1,543,210)
Purchase of property, plant & equipment		(329)	(272)
Advances made		(296,248)	(42,538)
Proceeds from sales of investment		1,950,796	1,307,478
Proceeds from sales of property, plant & equipment		-	43,984
Advance repayments received		70,347	72,036
Dividend received from investment		52,200	34,800
Net cash (used in)/flows from investing activities		**(867,575)**	**(127,722)**
Cash flows from financing activities			
Proceeds from borrowings and advances		2,574,349	2,994,956
Repayment of borrowings and advances		(76,045)	(94,652)
Net cash flows from financing activities		**2,498,304**	**2,900,304**
Net (decrease)/increase in cash		**154,069**	**1,048,602**
Opening cash and cash equivalents		(1,786,690)	(2,835,292)
Cash transfer in as a result of restructuring		99,853	-
Closing cash and cash equivalents	27	**(1,532,768)**	**(1,786,690)**

The accompanying notes form part of these financial statements.

CROWN ENTITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

1. CROWN ENTITY INFORMATION

Reporting entity

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

Crown Finance Entity

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

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

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

Consolidated Fund

The Consolidated Fund collects state taxation, Commonwealth contributions and financial distributions from State Sector agencies. Payments comprise recurrent and capital appropriation payments to budget dependent agencies. Note 32 details the Fund's receipts and payments.

Other consolidated Crown entities are:

NSW Self Insurance Corporation (SiCorp)

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

SiCorp includes the:

- NSW Treasury Managed Fund (TMF)
- Pre-Managed Fund Reserve
- Governmental Workers Compensation Account (GWC)
- Transport Accidents Compensation Fund (TAC)
- Residual workers compensation liabilities of the former State Rail Authority (SRA) and Rail Infrastructure Corporation (RIC)

Electricity Tariff Equalisation Ministerial Corporation

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

1. CROWN ENTITY INFORMATION (continued)

Liability Management Ministerial Corporation (LMMC)

This corporation is a statutory body that manages the General Government Liability Management Fund (GGLMF). The Fund invests accumulated Crown funds pending the payment of Crown employer contributions to the SAS Trustee Corporation superannuation fund. The LMMC was inactive during 2009-10 and 2008-09.

State Rail Authority Residual Holding Corporation

This statutory body holds specific ongoing cross border rolling stock leases following the transfer of all remaining functions, assets, rights and liabilities of State Rail Authority of New South Wales in 2007 to various agencies, including RailCorp, Rail Infrastructure Corporation and the Crown Finance Entity.

The following entities were also included in these financial statements for the comparative period. From 1 July 2009, these entities ceased to be part of the Crown Entity and are reported within the Land Property Management Authority (LPMA) following the Amalgamation Order issued in July 2009:

- **Crown Lands Homesites Program (CLHP) -** This entity develops and sells urban Crown land for residential home sites.
- **Land Development Working Account (LDWA) -** This entity is a Public Trading Enterprise that develops and sells Crown land for residences in country NSW and for commercial purposes state-wide.
- **Crown Leaseholds Entity (CLE) -** This entity collects Crown land purchase instalments and generates income from leases, licences and permissive occupancies. It reports the value of untenured and tenured Crown Land.

Refer to Note 36 for more details on the assets and liabilities transferred to the LPMA.

The Crown reserves have also been transferred to the LPMA. The project to identify and value these assets is now the responsibility of the LPMA.

Crown Entity

The Crown Entity is a not-for-profit entity.

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 30 detail the contingent liabilities and assets and/or guarantees for specific activities. The Report on State Finances lists State sector contingencies/guarantees.

The principal office of the Crown Entity is 1 Farrer Place, Sydney NSW 2000.

The financial statements were authorised for issue by the Secretary of NSW Treasury on the date of accompanying statement by the Secretary was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards which include Australian Accounting Interpretations
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2010*
- NSW Treasury Accounting Policy Papers

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

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

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

These assets have been measured at fair value.

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

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

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

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars ($'000).

Statement of compliance

The financial statements comply with applicable Australian Accounting Standards including Australian Accounting Interpretations except for AASB 1023 *General Insurance Contracts*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective

Certain new standards and interpretations that have recently been issued or amended but are not yet effective for the annual reporting period ended 30 June 2010. It is considered that the impact of the new standards and interpretations in future periods will not have material impact on the financial statements of the Crown Entity.

The Crown Entity has not early adopted any new standards and interpretations in compliance with NSW Treasury mandates per Treasury Circular NSW TC 10/08.

New, revised or amending standards and interpretations

The Crown Entity has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting period.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the Crown Entity. The following Standards and Interpretations are most relevant to the Crown Entity:

- *AASB 101 Presentation of Financial Statements (June 2009) ('revised AASB 101')*
  The Crown Entity has applied revised AASB 101 from 1 July 2009 and now presents a statement of comprehensive income, which incorporates the income statement and all non-owner changes in equity. As a result, the Crown Entity now presents all owner changes in the statement of changes in equity. The standard also made changes to the terminology and naming of various statements.

- *AASB 7 Financial Instruments: Disclosures ('AASB 7')*
  This amended standard, which has been applied by the Crown Entity from 1 July 2009, requires additional disclosure about fair value measurement, using a three level fair value hierarchy and clarifies the disclosure requirements about liquidity risks for derivative transactions and assets used for liquidly risk management.

Basis of consolidation

These financial statements are the consolidated financial statements of the Crown Entity and the entities that it controls at 30 June each year. Each Crown controlled entity prepares its own financial statements using consistent accounting policies. Intercompany transactions and balances are eliminated. The accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Crown Entity.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME

Income is recognised when it is probable that economic benefits will flow to the Crown Entity and it can be reliably measured. Income is measured at the fair value of consideration received or receivable. The Crown Entity uses the following criteria to identify income:

Taxation, fines and regulation fees

The Crown Entity recognises state taxation by:

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

Sales of land

Revenue from the sale of land was recognised on settlement when the significant risks and rewards of ownership of the land have passed to the buyer.

Royalties, licences and permissive occupancies

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

Commonwealth contributions

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

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

Financial distributions

These are dividends, income tax equivalents that public trading enterprises and public financial enterprises pay. They are recognised in the period when they are earned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tariff receipts from electricity retailers/generators

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

Insurance premiums

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

Reinsurance and other recoveries revenue

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

Property rentals

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

Investment income

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

EXPENSES

Wages, salaries, annual leave and sick leave

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

- NSW Treasury Corporation (TCorp)
- NSW Treasury – Office of Financial Management (OFM)

SiCorp insurance claims are administered by GIO General Limited, Allianz Australia Insurance Limited, and Employers Mutual Limited. The administration costs are borne by SiCorp.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Wages, salaries, annual leave and sick leave (continued)

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

All NSW Budget Dependant agencies contribute varying levels of service to the Crown Entity. The agencies are funded for these services through appropriations made by the Consolidated Fund.

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

Superannuation – defined benefit plans

The Crown Entity has various defined benefit pension plans assumed from budget dependent general government sector agencies. The assets of the plans are held in separate funds administered independently by trustees.

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

Each year, an independent 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 reporting date of the contributory service of current and past State Government employees.

In calculating the liability, forecasts are made for:

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

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

The pension accounting costs are accrued using the projected unit credit method. The cost of pensions is charged to operations to spread the cost over the service lives of current and past employees. The trustee scheme independent actuary, currently Mercer, undertakes a complete valuation every three years. The triennial review report is available from the NSW Treasury website.

Actuarial gains and losses are recognised as other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long service leave

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

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

All other liabilities are classified as non-current.

The Crown Entity recognises LSL liability for selected entities in the Other Employee Benefits provision. The liability is measured at the present value of future payments anticipated for the employee services that the government has taken as at the reporting date, using the projected unit credit method. An independent 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.

Depreciation of physical non-current assets

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

Asset	Depreciation rates (%)	
	2009-10	2008-09
Buildings	N/A	2.5
Motor Vehicles	N/A	12.5
Computer Equipment	25.0	25.0
Furniture and Fittings	10.0 - 20.0	10.0 - 20.0

Land is not depreciated.

Amortisation of physical non-current assets

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

Amortisation of intangible non-current assets

Computer software is amortised on a straight line basis over its useful life, being 5 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and subsidies

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

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

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

Claims expenses

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

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Finance costs include the unwinding of discounts (the increase in the provision resulting from the passage of time) for the provision of outstanding claims and restoration costs.

Goods and Services Tax

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

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

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

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

Contingencies and commitments are inclusive of GST.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recurrent and capital appropriations and contributions from other bodies

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

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

ASSETS

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise:

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

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

Financial assets

Financial assets can be classified as:

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

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 reporting date.

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 buy or sell the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

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

Loans and Receivables

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

Short-term receivables with no stated interest rate are measured at the original invoice amounts where the effect of discounting is immaterial.

The Crown Entity does not have any held-to-maturity or available-for-sale investments.

Derecognition of financial assets

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

Derecognition of financial liabilities

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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 objective evidence that impairment has lessened after it has recognised the loss, it reverses the loss. It then recognises this in the Statement of Comprehensive Income, to the extent that the asset's carrying value is not more than its amortised cost had the impairment not been recognised at the reversal date.

Financial assets carried at cost

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

Derivative financial instruments

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Inventories acquired at no cost or for a nominal consideration were initially measured at current replacement cost at the date they are acquired. The net realisable value was the estimated selling price, less estimated cost of completion and the estimated costs necessary to make the sale.

Land held for sale was the land acquisition cost and related development expenses. This did not include vacant Crown land.

Receivables

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

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

Plant and equipment

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

Property

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluations

After initially recognising land and buildings at cost, they were carried at a re-valued amount. This was their fair value at the revaluation date, less ensuing accumulated building depreciation and impairment losses.

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

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

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

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

Land under tenure

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

Untenured Crown land

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluation movements

Revaluation increments were credited directly to the asset revaluation reserve, except that, to the extent that an increment reversed a revaluation decrement in respect of that class of asset previously recognised as an expense in surplus or deficit, the increment was recognised immediately as revenue in the Statement of Comprehensive Income.

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

Where an asset that had previously been re-valued was disposed of, any balance remaining in the asset revaluation reserve in respect of that asset was transferred to accumulated funds.

Assets not able to be reliably measured

In 2008-09 the Crown Entity held certain assets that were not recognised in the Statement of Financial Position because the Crown Entity was unable to reliably measure the value for the assets. These assets, which were transferred to the LPMA, included:

- Controlled Crown Reserve, the project to identify and value these assets is now the responsibility of the LPMA.
- Some minor infrastructure, such as redundant minor dams, on Crown land. As these items do not generate any future economic benefit to the Crown Entity, the land value was included in the untenured Crown land valuation, but the dams were not recognised as separate assets.
- Other infrastructure on Crown land. Due to the size and nature of the Crown Estate, the value of infrastructure assets on Crown land was not captured. Work was underway so that in future the Crown Entity could be in a position to determine a more reliable estimate of these values. Some infrastructure is likely to be of heritage significance.

Derecognition and disposal

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

Any gain or loss on the derecognition of the asset, being the difference between the net disposal proceeds and the asset's carrying amount was charged or credited to the Statement of Comprehensive Income in the year the asset was derecognised.

Leased assets

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependant on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets (continued)

Finance leases

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.

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 Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised on a straight line basis directly to the Statement of Comprehensive Income as an integral part of the total lease expense. Contingent rentals are recognised as incurred.

Impairment of assets

As detailed in TPP07-01, where an asset of a not-for-profit entity does not belong to a cash generating unit, it cannot be impaired under AASB 136 *Impairment of Assets*, 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, 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 or cash generating unit.. 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 are recognised directly in the Statement of Comprehensive Income unless the asset is carried at a revalued amount. The impairment loss is then treated as a revaluation decrease, to the extent of the asset revaluation surplus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

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

Investment in an associate

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

The Crown Entity accounts for the investment in associates using the equity method of accounting when the Crown Entity has significant influence and 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 post-acquisition changes in the Crown Entity's share of net assets of the associates. This changes the associate's share of net assets. The Crown Entity then determines whether it needs to recognise any extra impairment loss of the net investment in the associate.

The Statement of Comprehensive Income 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 as other comprehensive income.

The associate has a similar reporting date, 3 July 2010, and accounting policies for like transactions and events with the Crown Entity.

Jointly controlled assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

An intangible asset will have either a finite or an indefinite useful life. An asset with a finite life is amortised on a straight line basis over five years and is assessed for impairment when an indicator of impairment exists. The Crown Entity reviews both the amortisation period and the amortisation method at each reporting date. 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 on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the depreciation and amortisation line of the Statement of Comprehensive Income. An indefinite life intangible asset is not depreciated but is tested for impairment on an accrual basis.

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 Statement of Comprehensive Income when the asset is derecognised.

LIABILITIES

Payables

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

Borrowings

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

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

Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Where there is a material effect due to the time value of money, the Crown Entity discounts superannuation and long service leave provisions using the Commonwealth ten year bond rate as the benchmark. With discounting, the increase in the provision because of time passing is recognised as a finance cost.

Outstanding insurance claims

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

- outstanding claims
- estimated unreported claims
- settlement costs

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

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

Superimposed inflation is a factor such as trends in court awards, as in a rise in the level and period of compensation for injury. The expected future payments are then discounted to a present value based on TCorp's assessment of fair value for a ten year bond. The details of rates applied are included in Note 21.

Provision for Aboriginal land council claims

In 2008-09 the Crown Entity provided for the liability of claims which had been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983* but not yet transferred. The provision represented fair value of land granted based on estimated size of the land. These parcels of land remained under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared. Once this action occurs, freehold title can be issued to the respective local Aboriginal Land Councils. At that point the care, control and management of the land will be transferred from the Crown. At 1 July 2009 the responsibility for managing these claims was transferred to the LPMA and with it the provision for the liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts

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

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

RESERVES

Asset revaluation surplus

The asset revaluation surplus is a reserve used to record increments and decrements in the fair value of land and buildings to the extent that the decrements do not exceed the increments.

COMPARATIVES

To ensure consistency with the current financial year, comparative information may have been reclassified to ensure comparability.

USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Classification and valuation of investments

The Crown Entity uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets/liabilities
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly
- Level 3 – derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Classification and valuation of investments (continued)

An instrument is required to be classified in its entirety on the basis of the lowest level of valuation inputs that is significant to fair value. Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

The Crown Entity classifies its investments as fair value through profit or loss. The fair value has been determined by reference to the quoted market price for similar instruments and the underlying value provided by Portfolio manager, New South Wales Treasury Corporation (TCorp). TCorp values financial assets and liabilities using valuation techniques, which discount cash flows to present value based on observable market yields for the same or equivalent securities. Changes in fair value are mainly attributable to fluctuations in market yields and prices arising from changes in market conditions. This information is specifically relevant to Notes 8 and 18 to the financial statements. There is significant use of estimates and judgements for assessing fair value for level 3 category investments.

Valuation of derivative financial instruments

The fair values of derivatives are determined by reference to the market value for similar instruments. This information is specifically relevant to Notes 9 and 18 to the financial statements.

Provision for outstanding claims

The significant estimates and judgements used in determining the provision for outstanding claims are included in Note 21 to the financial statements.

Long service leave liability

The significant estimates and judgements used in determining the long service liability are included in Note 20 to the financial statements.

Unfunded superannuation liability

The significant estimates and judgements used in determining the Unfunded Superannuation Liability are included in Note 19 to the financial statements.

Fair value of land and buildings held at fair value

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

3. INCOME

	2010 $'000	2009 $'000
(a) Retained taxes, fees and fines		
Payroll tax	6,975,718	7,139,874
Stamp duties	5,169,189	4,101,622
Petroleum, tobacco and liquor licences	979	1,048
Gambling and betting	1,636,806	1,667,987
Land tax	2,294,685	2,253,726
Motor vehicle taxes and fees	1,748,092	1,663,214
Fees and fines	512,181	475,552
Fire insurance levy[1]	-	369,421
Government guarantee fees	452,261	165,989
Other	883,783	454,822
	19,673,694	**18,293,255**
(b) Commonwealth contributions		
Revenue replacement	62,644	130,501
Specific purpose - recurrent	5,630,602	5,949,111
Specific purpose - capital	305,939	448,626
Commonwealth National Partnership payments - recurrent	1,891,356	1,445,719
Commonwealth National Partnership payments - capital	4,703,967	1,617,389
GST revenue	13,477,749	11,844,407
	26,072,257	**21,435,753**
(c) Financial distributions		
Dividends	1,238,194	1,104,226
Income tax equivalents	745,663	747,846
	1,983,857	**1,852,071**
(d) Sales of goods and services		
Insurance premium revenue	847,567	830,455
Reinsurance and other recoveries revenue	(89,010)	183,059
	758,557	**1,013,514**
(e) Investment income		
Interest		
Advances	83,695	85,639
Short term money market deposit	34,210	-
Other	25,017	21,381
TCorp investments	474,687	(253,217)
	617,609	**(146,197)**

3. INCOME (continued)

	2010 $'000	2009 $'000
(f) Other income		
Royalty on minerals	985,271	1,278,558
Electricity tariff equalisation contributions from retailers	409,428	262,061
Electricity tariff equalisation contributions from generators	82,003	135,984
Contribution from other General Government agencies	164,929	156,500
Revenue from Crown leasehold assets[2]	-	61,765
Fire brigade levy from Local Government[1]	-	60,104
Crown share of budget agency asset sales	69,572	25,702
Repayments of previous years appropriation	126,839	66,910
Long service leave contributions	36,602	32,597
Unclaimed monies	25,524	23,024
Bona vacantia - Public Trustee	8,878	6,499
HIH insurance recoveries	79,549	28,413
Other	130,349	91,264
	2,118,944	**2,229,381**

[1] Prior to June 2009, the Consolidated Fund has provided the Brigade with full funding through appropriation and recovers part of its contribution from the Brigade progressively during the year as it collects levies from the insurance companies and local government. During 2009-10, the Consolidated Fund will only pay for its share of contributions.

[2] From 1 July 2009, as part of the Government's administrative restructure, income from the Crown Leasehold assets will be reported by the Land Property Management Authority.

3. INCOME (continued)

(g) Contributions

All these reforms are under National Partnership Agreements. Under each agreement objectives, implementation plan and reporting conditions are agreed. Performance measures and targets are set and the governance arrangements designed to facilitate review of progress made towards outcomes. Payments can only be spent on specific agreed items and to a specific timetable agreed with the Commonwealth or the funds must be returned.

The Crown included the following contributions as revenue where:

Conditional contributions recognised in the current year and not fully spent

Description	Unspent $'000	2009-10 $'000	2010-11 $'000	2011-12 $'000	Beyond $'000
Health	364,514	121,278	119,503	123,733	-
Education	185,209	3,168	71,808	51,636	58,597
Human Services	5,536	5,536	-	-	-
Transport	907,607	734,251	173,356	-	-
Industry and Investment	2,307	2,307	-	-	-
Housing	147,545	32,407	31,819	33,954	49,365
	1,612,718	**898,947**	**396,486**	**209,323**	**107,962**

2008-09 comparative

Description	Unspent $'000	2009-10 $'000	2010-11 $'000	2011-12 $'000	Beyond $'000
Health	425,041	102,700	107,220	105,415	109,706
Education	347,766	347,766	-	-	-
Transport	551,800	106,100	70,000	80,000	295,700
Environment, Climate Change and Water	4,696	764	3,932	-	-
Housing	34,500	34,500	-	-	-
	1,363,803	**591,830**	**181,152**	**185,415**	**405,406**

4. EXPENSES

	2010 $'000	2009 $'000
(a) Grants and subsidies		
Natural disaster relief	127,929	49,141
Snowy river water rights	13,496	38,910
Health capital grant	23,000	23,000
Advances	46,776	2,871
First home owners grant	696,616	738,052
Other	17,763	26,076
	925,580	**878,050**
(b) Finance costs		
Finance charges incurred to:		
NSW Treasury Corporation	890,876	855,349
Commonwealth Government	82,698	84,574
Other NSW Government agencies	67,395	77,669
Other	7,238	8,583
Unwinding of discounts	275,015	262,568
	1,323,222	**1,288,743**
(c) Insurance claims		
Claims paid	809,333	726,169
Movement in outstanding claims	80,996	358,884
Management fees and legal expenses	102,061	82,946
HIH insurance claims	71,109	57,618
	1,063,499	**1,225,617**
(d) Other expenses		
Remissions/refunds Crown revenue	30,301	69,614
Bad and doubtful debts	4,730	21,356
Outward reinsurance expense	34,989	33,773
Audit fees - financial statements	1,056	886
Audit fees - performance audits	4,285	4,140
Production of Auditor-General's reports to Parliament	1,540	1,500
Electricity tariff equalisation payments to retailers	356,180	152,050
Electricity tariff equalisation payments to generators	82,003	197,225
Electricity restructure costs	78,826	24,623
GST administration costs	183,088	205,136
Refunds to the Commonwealth	80,140	-
Statutory fees - Workcover levy	26,057	25,526
Financial guarantees	-	25,900
Other	48,584	71,896
	931,779	**833,625**

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

	2010 $'000	2009 $'000
Land		
Proceeds from sale	-	36,477
Written down value	-	(68,354)
Net loss on disposals	-	**(31,877)**
Motor vehicle		
Proceeds from sale	-	7,507
Written down value	-	(7,594)
Net loss on disposals	-	**(87)**
NSW Lotteries		
Proceeds from sale	595,708	-
Written down value	43,012	-
Net gain on disposals	**638,720**	-
Net gain/(loss) on disposal of non-current assets	**638,720**	**(31,964)**

From 1 July 2009, the CLE, LDWA and CLHP ceased to be part of the Crown Entity. Gains or loss from sale of land for these entities are reported in the Land Property Management Authority financial statements.

Motor vehicles of the Crown Entity were fully disposed of during 2008-09.

The NSW Lotteries Corporation was sold to Tattersall's Holding Pty Ltd on 31 March, 2010. The proceeds from sale of shares in the Corporation equal $600 million initial purchase price less $4.292 million working capital adjustment following the sale. The $43.012 million written down value equals the negative net assets of the Corporation at the date of sale following the transfer of most of its cash and investments to the Crown Entity.

6. GAIN FROM FINANCIAL INSTRUMENTS

Net (loss)/gain on financial assets held for trading		
Derivative financial instruments	(2,729)	81,080
Net gain on financial assets designated as at fair value through profit or loss		
TCorp bond portfolio	5,898	106,082
Net gain from financial instruments	**3,169**	**187,162**

7. INVESTMENT IN AN ASSOCIATE

	2010 $000	2009 $000
Non-current investment in an associate[1]	996,150	894,024
	996,150	**894,024**

[1] This is investment in Snowy Hydro Limited. The investment is classified as non-current as there is currently no intention to sell the asset.

Snowy Hydro Limited (SHL) was incorporated on 27 June 2001 in Australia. Its principal activities are the generation and marketing of flexible and renewable electrical energy. The annual financial reporting period for SHL is from 5 July 2009 to 3 July 2010. SHL varies its reporting date annually to coincide with market settlements in the National Electricity Market.

Payment of dividends by SHL are done in accordance with the *Corporations Act 2001* and its Constitution and must be cognisant of the borrowing covenants on its interest- bearing debt and on its credit rating which is essential for participation in the National Electricity Market

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

Share of associate's assets and liabilities		
Current assets	163,618	140,339
Non current assets	1,237,140	1,260,843
	1,400,758	1,401,182
Current liability	274,862	373,902
Non current liability	129,746	133,256
	404,608	507,158
Net assets	**996,150**	**894,024**
Share of associate's profit		
Revenue	456,402	413,817
Profit before income tax	219,936	174,773
Income tax expense	(65,610)	(51,842)
Profit after income tax	**154,326**	**122,931**
Commitment of expenditure		
Share of capital expenditure commitment contracted for	36,714	31,398
Share of other expenditure and operating lease commitment contracted	47,618	41,009
	84,332	**72,407**

8. FINANCIAL ASSETS AT FAIR VALUE

	2010 $000	2009 $000
Current:		
Bond portfolio	-	79,886
Other	13,312	101
	13,312	**79,987**
Non - current:		
Hour-Glass investments		
Australian shares	2,168,266	811,789
Indexed Australian shares	430,654	223,874
International shares	712,755	720,106
Indexed International shares	305,573	291,534
Listed property	258,308	213,066
International bonds	154	357,632
Australian bonds	537,605	-
Cash	201,236	224,523
Medium-term growth	189,666	165,948
Long-term growth	185,315	163,850
Bond portfolio	-	773,696
Other	17,067	383
	5,006,599	**3,946,401**

At 30 June 2010, total investments of the Crown Entity are financial assets designated at fair value through profit and loss.

9. DERIVATIVE FINANCIAL INSTRUMENTS

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

Debt Portfolio

The Crown Entity has interest rate future contracts at a $135.1 million face value (2009: $468.5 million) to hedge against unfavourable interest rate movements and to maintain the portfolio duration within the agreed band.

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

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

Investment portfolio

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

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

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

Fair value of the Crown Entity's derivative financial instruments

	2010 $'000	2009 $'000
Current assets		
Interest rate futures	37	1,556
Amount receivable under derivative financial instruments	**37**	**1,556**

10. ADVANCES REPAYABLE TO THE CROWN

	2010 $'000	2009 $'000
Current	59,820	46,464
Non-current	1,072,742	887,831
Total advances	**1,132,562**	**934,295**
Represented by:		
Rural Assistance Authority	103,039	95,281
Sydney Water Corporation	26,004	29,742
Commonwealth housing advances	653,625	673,895
Administered advances	33,689	35,523
Department of Primary Industry and Investment	17,505	21,696
Department of Education	85,000	-
Department of Health	6,528	8,694
Department of Environment, Climate Change and Water	48,120	42,358
Roads and Traffic Authority	12,039	13,732
Local Government infrastructure	134,136	-
Other	12,877	13,374
	1,132,562	**934,295**

Advances repayable to the Crown, with a face value of $1,641 million as at 30 June 2010 (2009: $1,415 million), have stated interest rates of 0.0 - 10.2 per cent and mature in 1 - 34 years.

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

11. INVENTORIES

Current	-	18,510
Non-current	-	21,348
	-	**39,858**
Details:		
Work in progress	-	8,498
Developed land	-	16,368
Undeveloped land	-	14,992
	-	**39,858**
Acquisition cost	-	14,475
Development cost	-	25,100
	-	283
	-	**39,858**

Inventories of the Crown Entity at 30 June 2009 are those of the LDWA and CLHP. These inventories are included in the financial statements of the LPMA from 1 July 2009.

12. RECEIVABLES

	2010 $'000	2009 $'000
Current:		
Retained taxes, fees and fines	1,793,943	1,297,442
Less: allowance for impairment	(34,872)	(30,720)
Net - retained taxes, fees and fines	1,759,071	1,266,722
Dividends	1,303,734	1,203,534
Tax equivalents	291,071	249,254
Reinsurance and other recoveries receivable	41,431	64,688
Unspent appropriations	62,916	18,235
Insurance premiums receivable	98,509	102,747
ETEF tariff	41,161	31,167
Other	67,761	46,249
	3,665,654	**2,982,596**
Non-current:		
Reinsurance and other recoveries receivable	201,269	295,786
Conversions - Crown Leaseholds	-	21,969
Other	6,900	-
	208,169	**317,755**

Movements in the allowance for impairment

	2010 $'000	2009 $'000
Balance at 1 July	30,720	17,338
Add: new provisions	29,050	30,361
Less: transfer to LPMA	(578)	-
Less: amounts used	(24,320)	(16,979)
Balance at 30 June	**34,872**	**30,720**

The average credit period on sales, unless agreed, is 30 days. No interest is being charged on payments which are delayed. An allowance for impairment of receivables is made for specific receivables which are not likely to be received. Movement of this allowance is recognised in the Statement of Comprehensive Income.

The current receivables included assessments totalling $576.3 million (2009: $534.1 million) which were under objection or appeal.

13. PROPERTY, PLANT AND EQUIPMENT

	2010 $'000	2009 $'000
Finance lease	-	-
Owned	399	6,225,574
	399	**6,225,574**

a) Property, plant and equipment – finance lease

	2010 $'000	2009 $'000
Fair value - motor vehicle		
Opening balance	-	10,413
Less: disposals	-	(10,413)
Closing balance	-	-
Accumulated depreciation		
Opening balance	-	2,171
Add: charge for the year	-	648
Less: disposals	-	(2,819)
Closing balance	-	-
Net carrying amount		
Opening balance	-	8,242
Balance at the year end	-	-

Finance lease - motor vehicles

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

There are no finance leases during the year.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Property, plant and equipment - owned

	Land $'000	Leasehold Land $'000	Plant & Equipment $'000	Total $'000
Fair value				
Opening balance 1 July 2009	5,594,826	630,400	1,059	6,226,285
Add: acquisition	-	-	168	168
Less: Trsf to LPMA	(5,594,826)	(630,400)	(13)	(6,225,239)
Closing balance 30 June 2010	**-**	**-**	**1,214**	**1,214**
Accum depreciation				
Opening balance 1 July 2009	-	-	711	711
Add: charge for the year	-	-	112	112
Less: transfer to other government agencies	-	-	(8)	(8)
Closing balance 30 June 2010	**-**	**-**	**815**	**815**
Net carrying amount				
Balance 1 July 2009	5,594,826	630,400	348	6,225,574
Balance 30 June 2010	**-**	**-**	**399**	**399**

	Land $'000	Leasehold Land $'000	Plant & Equipment $'000	Total $'000
Fair value				
Opening balance 1 July 2008	5,676,911	625,435	1,032	6,303,378
Add: acquisition	9,559	-	26	9,585
Add: asset revaluation increment/(decrement)	11,770	(8,881)	-	2,889
Less: disposals	(57,220)	(12,016)	-	(69,236)
Less: transfer to other government agencies	(10,506)	-	-	(10,506)
Less: transfer between classes	(35,688)	25,862	1	(9,825)
Closing balance 30 June 2009	**5,594,826**	**630,400**	**1,059**	**6,226,285**
Accum depreciation				
Opening balance 1 July 2008	-	-	503	503
Add: charge for the year	-	-	208	208
Closing balance 30 June 2009	**-**	**-**	**711**	**711**
Net carrying amount				
Balance 1 July 2008	5,676,911	625,435	529	6,302,875
Balance 30 June 2009	**5,594,826**	**630,400**	**348**	**6,225,574**

Transfer of assets

As at 1 July 2009, land, property and equipment of the CLE and LDWA were transferred to the LMPA. Total net value of transfer was $6.2 billion.

14. INTANGIBLE ASSETS

	2010 $'000	2009 $'000
Intangible	4,951	4,790
Accumulated amortisation	(3,966)	(3,031)
Net intangible	**985**	**1,759**

Reconciliation of carrying amount		
Fair value		
Opening balance at 1 July	4,790	4,543
Additions	161	247
Closing balance at 30 June	**4,951**	**4,790**
Accumulated amortisation		
Opening balance at 1 July	3,031	2,111
Add: charge for the year	935	920
Closing balance at 30 June	**3,966**	**3,031**

15. JOINTLY CONTROLLED ASSETS

Non-current assets	**20,776**	**18,817**

Joint Government Enterprise Limited (JGE) – water for rivers

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

Under the Funding Agreement, the JGE was contractually funded jointly by the three parties from the date of incorporation. The New South Wales Government’s share $150 million in total is to be paid each quarter over 10 years.

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

16. PAYABLES

	2010 $'000	2009 $'000
Current:		
Creditors	16,423	10,877
Financial charges	256,990	190,549
GST payable to Commonwealth	90,322	82,582
Motor Accident Authority - HIH liability to nominated claimants	10,668	8,480
Accrued ETEF tariffs	2,874	10,568
Other	26,225	11,163
	403,502	**314,219**
Non-current:		
Motor Accident Authority - HIH liability to nominated claimants	36,496	25,153
	36,496	**25,153**

If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or statement is received. Financial charges mainly represent accrued interest payable on due date to TCorp and Commonwealth government. Other payables are non-interest bearing and are generally on 30 day terms.

17. BORROWINGS

Current:	380,513	414,943
Non-current:	15,652,082	12,924,943
	16,032,595	**13,339,886**
Analysed as:		
New South Wales Treasury Corporation (TCorp)	15,198,975	12,476,086
Commonwealth financial agreement	7,942	8,003
Commonwealth specific purpose advances	791,189	819,474
Administered loans	33,689	35,523
Other	800	800
Total borrowings at amortised cost	**16,032,595**	**13,339,886**

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

Borrowings from TCorp are interest bearing. The average interest costs, including the amortisation of bond premium or discount, of the TCorp debt portfolio was 5.90 per cent (2009: 7.24 per cent). The modified duration of the nominal debt portfolio is 5.24 per cent (2009: 5.04 per cent) and for the indexed debt portfolio is 13.20 per cent (2009: 14.96 per cent).

The fair value is estimated by using the market value of the equivalent TCorp bonds that underlie the borrowings. The Crown Entity measures its exposure to interest rate risk in terms of cash flows or notional cash flows generated by financial instruments as discussed in Note 18.

18. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

Financial instrument categories

	Note	Category	Carrying Amount 2010 $'000	2009 $'000
Financial assets				
Cash and cash equivalents	27	N/A	628,881	613,610
Financial assets at fair value	8	At fair value through profit or loss (designated as such upon initial recognition)	5,019,911	4,026,388
Derivative financial instruments	9	At fair value through profit or loss (classified as held for trading)	37	1,556
Advances repayable to the Crown	10	Loans and Receivables (at amortised cost)	1,132,562	934,295
Receivables[1]	12	Loans and Receivables (at amortised cost)	1,760,764	1,766,140
Financial liabilities				
Payables[2]	16	Financial liabilities (at amortised cost)	349,676	256,790
Bank overdrafts	27	N/A	2,161,649	2,400,300
Borrowings	17	Financial liabilities measured at amortised cost	16,032,595	13,339,886
Financial guarantees	30(e)	Financial liabilities measured at fair value less accumulated amortisation	18,300	20,900

[1] Excludes statutory receivables and therefore differs from the amounts shown in the Statement of Financial Position.

[2] Excludes statutory payables and therefore differs from the amounts shown in Statement of Financial Position.

18. FINANCIAL INSTRUMENTS (continued)

Risk management

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

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

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

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

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

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

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

18. FINANCIAL INSTRUMENTS (continued)

Market risk

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

The effects on the Crown Entity's profit and equity due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which the Crown Entity operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis is performed on the same basis for 2009. The analysis assumes that all other variables remain constant.

Interest Rate Risk

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

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

The value of the Crown Entity's investments in the TCorp Bond Portfolio is impacted by changes in interest rates. TCorp manages the portfolio to agreed benchmarks that have been established by the Crown Entity in the context of risks present in its liabilities. As at 30 June 2010, the Crown Entity has no investments in the Bond Portfolio following the review of SiCorp's strategic asset allocation.

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

18. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

	Carrying Amount $'000	-1% Profit $'000	-1% Equity $'000	+1% Profit $'000	+1% Equity $'000
2010					
Financial assets					
Cash and cash equivalents[1]	571,387	(5,714)	-	5,714	-
Managed asset porfolio[2]	29,889	(82)	-	82	-
Financial liabilities					
Bank overdrafts	2,161,649	21,616	-	(21,616)	-
Borrowings managed by TCorp	15,207,717	984,000	-	(984,000)	-
2009					
Financial assets					
Cash and cash equivalents[1]	410,378	(4,104)	-	4,104	-
Bond portfolio	1,058,036	36,800	-	(36,800)	-
Financial liabilities					
Bank overdrafts	2,400,300	24,003	-	(24,003)	-
Borrowings managed by TCorp	12,484,889	748,000	-	(748,000)	-

[1] Excludes the cash and cash equivalents which are in the Hour-Glass investment facility and Bond Portfolio managed by TCorp. Cash and cash equivalents of the Bond Portfolio is included in the Bond Portfolio line. There were no investments in the Bond Portfolio as at 30 June 2010. The cash and cash equivalents in the Hour-Glass are subject to the overall price risks of the Hour-Glass facilities. Refer to the section on Other Price Risk.

[2] Assets transferred from NSW Lotteries.

Currency risk

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

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

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

As at 30 June 2010, the Crown Entity has no transactional or structural currency exposures (2009: Nil). There are no investments in the Bond Portfolio.

18. FINANCIAL INSTRUMENTS (continued)

Other price risk

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

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

Facility	**Investment Sectors**	**Investment Horizon**	**2010 $'000**	**2009 $'000**
Cash Facility	Cash, money market instruments	Up to 1.5 years	57,495	Nil
Treasury Managed Fund Facility	Cash, money market instruments, bonds, listed property, Australian & International shares	Long term	4,614,551	2,842,524
Medium Term Growth Facility	Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares	3 years to 7 years	189,666	165,949
Long Term Growth Facility	Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares	7 years and over	185,315	163,853

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

18. FINANCIAL INSTRUMENTS (continued)

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

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

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

Hour-Glass Investment Facility	**Change in Unit Price**		**Impact on Surplus/(Deficit)**	
	2010 %	**2009 %**	**2010 $'000**	**2009 $'000**
Cash Facility	+/- 1.0	N/A	+/- 575	Nil
Treasury Managed Fund	+/- 22.2	+/- 20.0	+/- 1,024,430	+/- 568,505
Medium Term Growth	+/- 7.0	+/- 7.0	+/- 13,277	+/- 11,616
Long Term Growth	+/- 15.0	+/- 15.0	+/- 27,797	+/- 24,578

Credit risk

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

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

Cash and cash equivalents

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

18. FINANCIAL INSTRUMENTS (continued)

Receivables

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

Trade debtors

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

Reinsurance and other recoveries receivable

Receivables from reinsurance and other recoveries are actuarially assessed.

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

Advances

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

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

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

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

	Total $'000	Past due but not impaired $'000			Considered impaired $'000
		< 3 months overdue	3 - 6 months overdue	> 6 months overdue	
2010					
Receivables	1,192	-	-	1,192	-
2009					
Receivables	23,158	17,028	1,213	4,140	777

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

18. FINANCIAL INSTRUMENTS (continued)

Financial assets at fair value

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

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

Concentration of credit risk

By credit rating	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other ratings[1] $'000	Total $'000
2010								
Advances	-	-	-	-	-	-	1,132,562	1,132,562
Receivables	38,100	-	-	-	-	128,317	1,594,347	1,760,764
Managed asset porfolio[2]	9,800	2,000	2,900	7,800	-	5,500	1,889	29,889
2009								
Advances	-	-	-	-	-	-	934,295	934,295
Receivables	449,600	-	-	-	-	116,707	1,199,833	1,766,140
Bond portfolio	683,100	225,100	100,700	3,600	14,300	1,500	29,736	1,058,036

By classification of counterparty	Governments $'000	Banks $'000	Other $'000	Total $'000
2010				
Advances	1,097,126	-	35,436	1,132,562
Receivables	1,516,296	-	244,468	1,760,764
Managed asset porfolio[2]	4,200	5,200	20,489	29,889
2009				
Advances	896,883	-	37,412	934,295
Receivables	1,403,538	-	362,602	1,766,140
Bond portfolio	798,636	119,100	140,300	1,058,036

[1] When the counterparty has no rating or the rating lower than A. The majority of receivables are from government agencies with no individual credit rating. The NSW Government, of which they form a part, has a AAA credit rating.

[2] Assets transferred from NSW Lotteries.

18. FINANCIAL INSTRUMENTS (continued)

Financial guarantees

The Crown Entity has a number of financial guarantees which it is a party on behalf of other entities, agencies, departments and the Crown itself. The guarantees outstanding at 30 June 2010 have an estimated total value of $18.3 million (2009: $20.9 million). The estimated value was calculated by independent valuer based on the probabilities of these guarantees being exercised. These guarantees are grouped into four categories.

1. Structured Finance Activities: The Crown has guaranteed certain payment and performance obligations under cross border leases. The Crown Entity has a third-party risk in terms of monies being placed on deposit with counterparty. TCorp regularly monitors the risk on behalf of the Crown. During 2009-10 two of the counterparties had a one notch rating downgrade. Overall, the credit ratings of the counterparties range from A- to AAA. The credit risk for these activities is $17 million (2009: $124 million).

2. NSW Treasury Corporation – National Electricity Marketing Management Company (‘NEMMCO’) Guarantees: The Crown provides a guarantee over electricity related settlement payments made by State electricity agencies to the NEMMCO and power generators. Settlement payments are normally four weeks in arrears. The stability and financial integrity of the National Electricity Market is underpinned by the regulatory framework set out in the National Electricity Code and supported by established risk management procedures administered by NEMMCO including strategies for the management of credit risk. The credit risk for these activities is $839 million (2009: $655 million).

3. GIO Guarantees: The Crown provided a guarantee over GIO obligations for insurance policies entered into before its sale in 1992. The Crown’s guarantee can only be called upon if the existing owners are unable to make payment. This is regarded as extremely unlikely. The credit risk for these guarantees is $271 million (2009: $289 million).

4. Public Private Partnership Guarantees: The Crown has guaranteed that five State agencies involved in public private partnerships will meet their obligations to pay for finance leases and services provided. These are long term agreements involving significant sums. It is very unlikely that the agencies would cease to pay the finance lease contracts on assets or meet payments for services they require for their operations. The credit risk for these activities is $5,119 million (2009: $4,352 million).

The Crown’s exposure to financial guarantees is considered to be very low.

Liquidity risk

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

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

- bank overdrafts
- TCorp’s “Come & Go” facility
- borrowings
- finance leases

The Crown Entity outsources the management of its borrowings to TCorp, which manages them in accordance with established modified duration targets.

18. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The Crown Entity has approved financial accommodation for $22,700 million under the *Public Authorities (Financial Arrangements) Act 1987*. This amount is the overall funding to the Crown Entity which include the existing, additional permanent loans and the Come and Go Facility. The Come and Go Facility has a limit of $3,500 million. No amounts were drawn from the Facility at 30 June 2010 (2009: $551 million). In 2008-09 the financial accommodation was approved at $6,800 million which represented only additional permanent loans and the Come and Go Facility.

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

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

The table below summarises the maturity profile of the Crown Entity's financial liabilities.

			Interest rate exposure			Maturity dates		
	Weighted average effective interest rate	Nominal amount[1]	Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 Year	1 - 5 Years	> 5 Years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2010								
Payables[2]	-	349,676	-	-	349,676	313,180	36,496	-
Bank overdrafts	3.44	2,161,649	-	2,161,649	-	2,161,649	-	-
TCorp borrowings	5.90	23,429,997	23,429,997	-	-	1,224,565	7,663,543	14,541,889
Cwlth general purpose borrowings	3.00	7,942	7,942	-	-	7,942	-	-
Cwlth specific purpose borrowings	4.80	1,296,616	1,296,616	-	-	50,369	212,050	1,034,197
Own name borrowings	6.82	800	800	-	-	-	550	250
Administered borrowings	5.21	33,689	33,689	-	-	1,450	17,400	14,839
Financial guarantees[3]	-	6,246,100	-	-	6,246,100	1,073,250	760,590	4,412,260
Total financial liabilities[4]		**33,526,469**	**24,769,044**	**2,161,649**	**6,595,776**	**4,832,405**	**8,690,629**	**20,003,435**
2009								
Payables[2]	-	256,790	-	-	256,790	231,637	25,153	-
Bank overdrafts	5.33	2,400,300	-	2,400,300	-	2,400,300	-	-
TCorp borrowings	7.24	20,256,114	20,256,114	-	-	1,577,862	6,024,304	12,653,948
Cwlth general purpose borrowings	3.00	8,003	8,003	-	-	8,003	-	-
Cwlth specific purpose borrowings	4.80	1,345,777	1,345,777	-	-	49,162	207,535	1,089,080
Own name borrowings	6.82	800	800	-	-	-	400	400
Administered borrowings	4.03	42,782	17,958	24,824	-	1,767	23,138	17,877
Financial guarantees[3]	-	20,900	-	-	20,900	3,100	12,400	5,400
Total financial liabilities[4]		**24,331,466**	**21,628,652**	**2,425,124**	**277,690**	**4,271,831**	**6,292,930**	**13,766,705**

[1] The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities. Therefore the amounts disclosed above will not reconcile to the amounts shown in the Statement of Financial Position.

[2] Excludes statutory payables and therefore differs from the amounts shown in the Statement of Financial Position.

[3] The amounts disclosed in 2009-10 is the worst case scenario being the maximum amount of the guarantees being allocated to the earliest period in which the guarantees could be called. It is unlikely that the actual liabilities will arise. These guarantees are recognised in the Statement of Financial Position at $18.3 million (2009: $20.9 million). The 2009 comparative shows the maturity profile of the liabilities recognised.

[4] Total differs from the Statement of Financial Position mainly due to guarantees being measured on a worst case scenario.

18. FINANCIAL INSTRUMENTS (continued)

Fair value

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

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

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

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

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

Derivatives and investments are carried at fair value.

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

Except where specified below, the carrying amount of financial instruments recognised in the Statement of Financial Position approximates the fair value, because of the short term nature of many of the financial instruments.

18. FINANCIAL INSTRUMENTS (continued)

a) Fair value compared to carrying amount

	2010		2009	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial assets				
Administered borrowings	33,689	34,606	35,523	35,896
Unrecognised profit	917	-	373	-
Total	**34,606**	**34,606**	**35,896**	**35,896**
Financial liabilities				
TCorp borrowings	15,198,975	15,690,643	12,476,086	12,231,735
Commonwealth general purpose borrowings	7,942	4,720	8,003	4,209
Administered borrowings	33,689	34,606	35,523	35,896
Unrecognised loss/(profit)	489,363	-	(247,772)	-
Total	**15,729,969**	**15,729,969**	**12,271,840**	**12,271,840**

b) Fair value recognised in the statement of financial position

The Crown Entity uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets/liabilities
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly
- Level 3 – derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	2010 Total $'000
Financial assets at fair value				
Tcorp Hour-Glass investment facilities	-	5,019,423	-	**5,019,423**
Other	-	488	-	**488**
	-	**5,019,911**	-	**5,019,911**

There were no transfers between the levels during the year ended 30 June 2010.

19. UNFUNDED SUPERANNUATION LIABILITY

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

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

State Super engaged an independent actuary, Mercer, to calculate the unfunded liabilities of State public sector superannuation schemes.

State Super Funds consist of SSS, PSS, SASS and SANCS.

In 2009-10, unfunded superannuation liabilities increased by $3,027 million (2009: $10,924 million).

Actuaries calculated unfunded superannuation liabilities at 30 June 2010 using:

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

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2010 actual

Member numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS	TOTAL
Contributors	30,864	47,038	14,077	2,097	138	93	94,307
Deferred nenefits	-	-	2,196	120	-	8	2,324
Pensioners	3,432	-	34,059	6,328	189	254	44,262
Pensions fully commuted	-	-	13,093	-	-	-	13,093

Superannuation position for AASB 119 *Employee Benefits*

	SASS	SANCS	SSS	PSS	JPS	PCSS	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accrued liability	9,420,139	2,222,614	30,824,342	9,373,243	660,222	476,000	52,976,560
Estimated reserve account balance	(5,196,392)	(818,844)	(12,422,132)	(2,873,508)	-	(206,922)	(21,517,798)
	4,223,747	1,403,770	18,402,210	6,499,735	660,222	269,078	31,458,762
Future service liability	(1,668,675)	(670,853)	(888,072)	(275,810)	-	-	(3,503,410)
Net liability to be disclosed in the Statement of Financial Position	4,223,747	1,403,770	18,402,210	6,499,735	660,222	269,078	31,458,762
Current							1,329,700
Non-current							30,129,062
Total							31,458,762

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

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

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Present value at 1/7/09	8,660,560	2,024,193	28,092,665	8,670,694	605,495	438,600	48,492,207
Current service cost	285,254	84,495	171,217	82,512	19,660	9,000	652,138
Interest cost	474,847	109,707	1,542,293	473,962	33,022	23,927	2,657,758
Contributions by fund participants	154,022	-	171,126	12,672	-	1,911	339,731
Equity adjustment - RIC	41,245	1,056	4,894	-	-	-	47,195
Actuarial (gains)/losses	532,285	148,832	1,828,835	477,833	31,570	23,681	3,043,036
Benefits paid	(728,074)	(145,669)	(986,688)	(344,430)	(29,525)	(21,119)	(2,255,505)
Present value at 30/6/10	**9,420,139**	**2,222,614**	**30,824,342**	**9,373,243**	**660,222**	**476,000**	**52,976,560**

Reconciliation of the fair value of fund assets

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Fair value at 1/7/09	4,639,116	537,313	11,941,003	2,735,293	-	207,800	20,060,525
Expected return on fund assets	406,015	52,866	978,898	225,644	-	17,045	1,680,468
Actuarial gains/(losses)	17,340	(5,956)	101,753	20,610	-	1,285	135,032
Equity adjustment - RIC	(56,713)	(10,650)	3,499	-	-	-	(63,864)
Employer contributions	764,686	390,940	212,541	223,719	29,525	-	1,621,411
Contributions by fund participants	154,022	-	171,126	12,672	-	1,911	339,731
Benefits paid	(728,074)	(145,669)	(986,688)	(344,430)	(29,525)	(21,119)	(2,255,505)
Fair value at 30/6/10	**5,196,392**	**818,844**	**12,422,132**	**2,873,508**	**-**	**206,922**	**21,517,798**

Reconciliation of the assets and liabilities recognised in the Statement of Financial Position

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Present value of defined benefit obligations at 30/6/10	9,420,139	2,222,614	30,824,342	9,373,243	660,222	476,000	52,976,560
Fair value of fund assets at 30/6/10	(5,196,392)	(818,844)	(12,422,132)	(2,873,508)	-	(206,922)	(21,517,798)
Net liability at 30/6/10	**4,223,747**	**1,403,770**	**18,402,210**	**6,499,735**	**660,222**	**269,078**	**31,458,762**

Expense recognised in the Statement of Comprehensive Income

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current service cost	285,254	84,495	171,217	82,512	19,660	9,000	652,138
Interest cost	474,847	109,707	1,542,293	473,962	33,022	23,927	2,657,758
Expected return on fund assets (net of expenses)	(406,015)	(52,866)	(978,898)	(225,644)	-	(17,045)	(1,680,468)
Expense/(income) recognised	**354,086**	**141,336**	**734,612**	**330,830**	**52,682**	**15,882**	**1,629,428**

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

Expense recognised in Other Comprehensive Income

	SASS $'000	SANCS $'000	SSS $'000	PSS $'000	JPS $'000	PCSS $'000	Total $'000
Actuarial (gains)/losses	514,945	154,788	1,727,082	457,223	31,570	22,396	2,908,004

Cumulative expense recognised in Other Comprehensive Income

	SASS $'000	SANCS $'000	SSS $'000	PSS $'000	JPS $'000	PCSS $'000	Total $'000
Cumulative amount of actuarial (gains)/losses	1,204,578	343,734	9,050,589	2,722,614	58,318	121,934	13,501,767

Fund Assets

	State Super 30/06/2010 %	PCSS 30/06/2010 %
Australian equities	31.0	31.0
Overseas equities	26.8	26.0
Australian fixed interest securities	6.1	13.0
Overseas fixed interest securities	4.3	13.0
Property	9.5	14.0
Cash	9.6	1.0
Other	12.7	2.0

Fair value of fund assets

All Fund assets are invested by SAS Trustee Corporation and the Parliamentary Contributory Superannuation Fund Trustees at arm’s length through independent fund managers.

Expected rate of return on assets

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

Actual return on fund assets

	SASS $'000	SANCS $'000	SSS $'000	PSS $'000	JPS $'000	PCSS $'000	Total $'000
Actual return on fund assets	423,356	46,910	1,080,651	246,254	-	26,775	1,823,946

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

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, Judges and Parliamentary Super Schemes)

	State Super	JPS	PCSS
Salary increase rate (including promotional increases)	3.5% p.a.	3.5% p.a.	3.5% p.a.
Rate of CPI increase	2.5% p.a.	2.5% p.a.	2.5% p.a.
Expected rate of return on assets	8.6%	N/A	8.6%
Discount rate	5.17% p.a.	5.17% p.a.	5.17% p.a.

(c) Demographic assumptions

The demographic assumptions at 30 June 2010 are those that were used in the Mercer 2009 triennial actuarial valuation. The triennial review report is available from the NSW Treasury website. The PCSS assumptions are those used for the 2008 PCSS triennial actuarial valuation and the JPS assumptions are those used for the 2007 JPS triennial actuarial valuation.

Historical information

	SASS $'000	SANCS $'000	SSS $'000	PSS $'000	JPS $'000	PCSS $'000	Total $'000
Present value of defined benefit obligation	9,420,139	2,222,614	30,824,342	9,373,243	660,222	476,000	52,976,560
Fair value of fund assets	(5,196,392)	(818,844)	(12,422,132)	(2,873,508)	-	(206,922)	(21,517,798)
(Surplus)/deficit in fund	4,223,747	1,403,770	18,402,210	6,499,735	660,222	269,078	31,458,762
Experience adjustments – fund liabilities	573,530	149,888	1,833,729	477,833	31,570	23,681	3,090,231
Experience adjustments – fund assets	39,373	16,606	(105,252)	(20,610)	-	(1,285)	(71,168)

Expected contributions

	SASS $'000	SANCS $'000	SSS $'000	PSS $'000	JPS $'000	PCSS $'000	Total $'000
Expected employer contributions	N/A	N/A	N/A	N/A	N/A	N/A	N/A

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

Funding arrangements for employer contributions

a) Surplus/(deficit)

The following is a summary of the 30 June 2010 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*:

	SASS $'000	SANCS $'000	SSS $'000	PSS $'000	JPS $'000	PCSS $'000	Total $'000
Accrued benefits	8,689,316	2,026,472	21,688,571	6,349,733	492,995	354,300	39,601,387
Net market value of fund assets	(5,196,392)	(818,844)	(12,422,132)	(2,873,508)	-	(206,922)	(21,517,798)
Net deficit	3,492,924	1,207,628	9,266,439	3,476,225	492,995	147,378	18,083,589

b) Contribution recommendations

Recommended contribution rates for the entity are:

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

c) Funding method (State Super)

Crown Entity liabilities are funded by contributions from scheme employees and employers and investment earnings on financial assets. The margin between gross liabilities and the market value of assets represents the value of unfunded superannuation liabilities. Employer contribution rates and funding arrangements are intended to meet benefit payments and to target the full funding of superannuation liabilities by 2030.

The Mercer Triennial review confirmed that the funding plan advised in the 2009-10 State Budget would fully fund the State Super's liabilities by 2030.

d) Economic assumptions

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

	State Super	JPS	PCSS
Weighted-average assumptions			
State Super expected rate of return on fund assets backing current pension liabilities	8.3% p.a.	N/A	N/A
State Super expected rate of return on fund assets backing other liabilities	7.3% p.a.	N/A	N/A
Expected return on plan assets	N/A	7.3% p.a.	7.5% p.a.
Expected salary increase rate	4.0% p.a.	4.0% p.a.	3.5% p.a.
Expected rate of CPI increase	2.5% p.a.	2.5% p.a.	2.5% p.a.

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

Nature of asset/liability

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

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

The following figures are 2009 comparatives

Member numbers

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

Superannuation position for AASB 119 *Employee Benefits*

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

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

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$000	$000	$000	$000	$000	$'000	$'000
Present value at 1/7/08	8,498,344	1,918,845	22,851,587	6,887,768	553,467	373,600	41,083,611
Current service cost	266,709	83,593	141,681	68,350	18,712	7,700	586,745
Interest cost	539,532	120,822	1,463,143	439,029	35,311	23,803	2,621,640
Contributions by fund participants	153,783	-	179,247	13,299	-	1,800	348,129
Actuarial (gains)/losses	(74,253)	88,524	4,797,007	1,667,672	26,748	52,097	6,557,795
Benefits paid	(723,555)	(187,591)	(1,340,000)	(405,424)	(28,743)	(20,400)	(2,705,713)
Present value at 30/6/09	**8,660,560**	**2,024,193**	**28,092,665**	**8,670,694**	**605,495**	**438,600**	**48,492,207**

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

Reconciliation of the fair value of fund assets

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

Reconciliation of the assets and liabilities recognised in the Statement of Financial Position

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Present value of defined benefit obligations at 30/6/09	8,660,560	2,024,193	28,092,665	8,670,694	605,495	438,600	48,492,207
Fair value of fund assets at 30/6/09	(4,639,116)	(537,313)	(11,941,003)	(2,735,293)	-	(207,800)	(20,060,525)
Net liability in Balance Sheet at 30/6/09	**4,021,444**	**1,486,880**	**16,151,662**	**5,935,401**	**605,495**	**230,800**	**28,431,682**

Expenses recognised in Statement of Comprehensive Income

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current service cost	266,709	83,593	141,681	68,350	18,712	7,700	586,745
Interest cost	539,532	120,822	1,463,143	439,029	35,311	23,803	2,621,640
Expected return on fund assets (net of expenses)	(398,686)	(49,584)	(1,137,341)	(266,043)	-	(19,886)	(1,871,540)
Expense/(income) recognised	**407,555**	**154,831**	**467,483**	**241,336**	**54,023**	**11,617**	**1,336,845**

Expense recognised in Other Comprehensive Income

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Actuarial (gains)/losses	689,633	188,946	7,323,507	2,265,391	26,748	99,538	10,593,763

Cumulative expense recognised in Other Comprehensive Income

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cumulative amount of actuarial (gains)/losses	689,633	188,946	7,323,507	2,265,391	26,748	99,538	10,593,763

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

Fund Assets

	State Super 30/06/2009 %	PCSS 30/06/2009 %
Australian equities	32.1	30.0
Overseas equities	26.0	23.0
Australian fixed interest securities	6.2	13.0
Overseas fixed interest securities	4.7	15.0
Property	10.0	13.0
Cash	8.0	4.0
Other	13.0	2.0

Fair value of fund assets

All Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers.

Expected rate of return on assets

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

Actual return on fund assets

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

Valuation method and principal actuarial assumption at the reporting date

(a) Valuation method

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

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

(b) Economic assumptions (State Super, Judges and Parliamentary Super Schemes)

	Pooled Fund	JPS	PCSS
Salary increase rate (excluding promotional increases)	3.5% p.a .	3.5% p.a.	0% in 2009-10 3.5% thereafter
Rate of CPI increase	2.5% p.a.	2.5% p.a.	2.5% p.a.
Expected rate of return on assets backing	8.13%	N/A	8.13%
Discount rate	5.59%	5.59%	5.59%

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

(c) Demographic assumptions

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

Historical information

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

Expected contributions

	SASS $'000s	SANCS $'000s	SSS $'000s	PSS $'000s	JPS $'000s	PCSS $'000s	Total $'000s
Expected employer contributions	408,003	160,256	409,895	100,000	29,886	-	1,108,040

Funding arrangements for employer contributions

a) Surplus/deficit

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

	SASS $'000	SANCS $'000	SSS $'000	PSS $'000	JPS $'000	PCSS $'000	Total $'000
Accrued benefits	8,113,373	1,867,638	20,774,056	6,158,213	469,756	365,900	37,748,936
Net market value of fund assets	(4,639,116)	(537,313)	(11,941,003)	(2,735,293)	-	(207,800)	(20,060,525)
Net deficit	3,474,257	1,330,325	8,833,053	3,422,920	469,756	158,100	17,688,411

b) Contribution recommendations

Recommended contribution rates for the entity are:

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

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

c) Funding method (pooled fund)

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

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

d) Economic assumptions

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

	State Super	JPS	PCSS
Weighted-Average Assumptions			
State Super expected rate of return on fund assets backing current pension liabilities	8.3%	7.3%	7.5%
State Super expected rate of return on fund assets backing other liabilities	7.3%	N/A	N/A
Expected salary increase rate	4.0%	4.0%	0% in 2009-10 4.0% thereafter
Expected rate of CPI increase	2.5%	2.5%	2.5%

Nature of asset/liability

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

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

19. UNFUNDED SUPERANNUATION LIABILITY (continued)

Historical information

SASS	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Present value of defined benefit	9,420,139	8,660,560	8,498,344	8,814,246	8,024,830
Fair value of Fund assets	(5,196,392)	(4,639,116)	(4,764,955)	(5,072,168)	(4,763,339)
(Surplus)/Deficit in Fund	4,223,747	4,021,444	3,733,389	3,742,078	3,261,491
Experience adjustments - Fund[1]	573,530	(74,253)	(575,031)	169,025	N/a
Experience adjustments - Fund assets[1]	39,373	763,886	741,490	(291,210)	N/a

SANCS	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Present value of defined benefit	2,222,614	2,024,193	1,918,845	1,923,915	1,844,159
Fair value of Fund assets	(818,844)	(537,313)	(594,824)	(525,032)	(669,487)
(Surplus)/Deficit in Fund	1,403,770	1,486,880	1,324,021	1,398,883	1,174,672
Experience adjustments - Fund[1]	149,888	88,524	(26,762)	(43,585)	N/a
Experience adjustments - Fund assets[1]	16,606	100,422	96,149	(34,352)	N/a

SSS	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Present value of defined benefit	30,824,342	28,092,665	22,851,587	22,607,420	22,159,608
Fair value of Fund assets	(12,422,132)	(11,941,003)	(14,504,256)	(16,646,507)	(10,511,807)
(Surplus)/Deficit in Fund	18,402,210	16,151,662	8,347,331	5,960,913	11,647,801
Experience adjustments - Fund[1]	1,833,729	4,772,124	(221,364)	(1,352,317)	N/a
Experience adjustments - Fund assets[1]	(105,252)	2,551,383	2,309,031	(898,461)	N/a

PSS	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Present value of defined benefit	9,373,243	8,670,694	6,887,768	6,787,701	7,069,116
Fair value of Fund assets	(2,873,508)	(2,735,293)	(3,458,437)	(4,098,904)	(919,342)
(Surplus)/Deficit in Fund	6,499,735	5,935,401	3,429,331	2,688,797	6,149,774
Experience adjustments - Fund[1]	477,833	1,667,672	(26,691)	(419,444)	N/a
Experience adjustments - Fund assets[1]	(20,610)	597,719	572,041	(409,383)	N/a

JPS	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Present value of defined benefit	660,222	605,495	553,467	539,030	580,911
Fair value of Fund assets	-	-	-	-	-
(Surplus)/Deficit in Fund	660,222	605,495	553,467	539,030	580,911
Experience adjustments - Fund[1]	31,570	26,748	(9,278)	(74,186)	N/a
Experience adjustments - Fund assets[1]	-	-	-	-	N/a

PCSS	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Present value of defined benefit	476,000	438,600	373,600	395,590	390,256
Fair value of Fund assets	(206,922)	(207,800)	(253,855)	(302,830)	(276,100)
(Surplus)/Deficit in Fund	269,078	230,800	119,745	92,760	114,156
Experience adjustments - Fund[1]	23,681	52,097	(33,781)	(11,100)	N/a
Experience adjustments - Fund assets[1]	(1,285)	47,441	51,242	(25,851)	N/a

[1] Information not is available for 2005-06.

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	2010 $'000	2009 $'000
Current	3,370,771	3,163,242
Non-current	177,409	166,487
	3,548,180	**3,329,729**

Long service leave (LSL)

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

Valuation methodology

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

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

a) Long service leave and on-costs

Current		
Budget dependent long service leave and other leave benefits	3,286,394	3,068,610
Non-budget dependent long service leave pool	84,377	94,632
	3,370,771	**3,163,242**
Non-current		
Budget dependent long service leave and other leave benefits	172,968	161,506
Non-budget dependent long service leave pool	4,441	4,981
	177,409	**166,487**
Total long service leave provision	**3,548,180**	**3,329,729**

20. EMPLOYEE BENEFITS AND OTHER PROVISIONS (continued)

Movement in major provisions:

	Budget dependent long service leave $'000	Non-budget dependent long service leave $'000	TOTAL $'000
Balance as at 1 July 2009	3,230,116	99,613	3,329,729
Add: increase in liability during the year	377,663	10,822	388,485
Add: interest costs	181,781	4,847	186,628
Less: Transfer in/(out) due to agency restructure	21,195	(12,917)	8,278
Less: cash payments	(351,393)	(13,547)	(364,940)
Balance as at 30 June 2010	**3,459,362**	**88,818**	**3,548,180**
Balance as at 1 July 2008	2,925,684	95,718	3,021,402
Add: increase in liability during the year	455,483	8,857	464,340
Add: interest costs	190,169	6,222	196,391
Less: cash payments	(341,220)	(11,184)	(352,404)
Balance as at 30 June 2009	**3,230,116**	**99,613**	**3,329,729**

21. PROVISION FOR OUTSTANDING INSURANCE CLAIMS

SiCorp consults with an independent actuary to set the liability for outstanding claims for the Treasury Managed Fund (TMF), Transport Accidents Compensation Fund, Governmental Workers Compensation Account and other residual workers compensation it currently manages. The liability is measured as the best estimate of the expected future payments needed to settle the present obligation at the reporting date. This estimate is based on the ultimate cost to settle claims, taking into account both normal and any superimposed inflation. Superimposed inflation is a factor such as trends in court awards, as in a rise in the level and period of compensation for injury.

The estimate is then discounted to a present value at the reporting date based on TCorp’s assessment of fair value for a ten year bond.

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

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

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

21. PROVISION FOR OUTSTANDING INSURANCE CLAIMS (continued)

Provision for Outstanding Claims

	Treasury Managed Fund $'000	Government Workers Compensation $'000	Transport Accidents Compensation Fund $'000	HIH[1] $'000	Other $'000	2010 Total $'000	2009 Total $'000
Balance at 1 July	4,486,277	61,270	188,753	111,590	236,372	5,084,262	4,344,855
Additions	843,567	-	-	-	65	843,632	719,750
Payments	(756,381)	(5,230)	(13,429)	(19,715)	(16,509)	(811,264)	(736,741)
Actuarial (gains)/losses	85,063	12,322	(13,602)	51,672	(54,873)	80,582	400,357
Provisions transferred in	-	-	-	-	-	-	90,248
Interest costs	246,665	3,522	10,906	4,379	8,344	273,816	265,793
Balance at 30 June	**4,905,191**	**71,884**	**172,628**	**147,926**	**173,399**	**5,471,028**	**5,084,262**
Current	709,583	4,725	6,143	36,950	16,262	773,663	751,213
Non-current	4,195,608	67,159	166,485	110,976	157,137	4,697,365	4,333,049
Total	**4,905,191**	**71,884**	**172,628**	**147,926**	**173,399**	**5,471,028**	**5,084,262**

[1] Building insurance cover was assumed by the Crown when HIH collapsed. Refer to Note 16 for assumed HIH outstanding liabilities on motor accident liabilities.

The TMF weighted average expected term to settlement from the reporting date of the outstanding claims is estimated to be 6.63 years (2009: 6.44 years).

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

	2010 %	2009 %
Claims expected to be paid		
Not later than one year:		
Inflation rate	2.5 - 4.0	2.5 - 4.0
Discount rate	6.0	6.0
Superimposed inflation *	0 - 4.0	0 - 10.0
Later than one year:		
Inflation rate	2.5 - 4.0	2.5 - 4.0
Discount rate	6.0	6.0
Superimposed inflation *	0 - 4.0	0 -10.0

* Dependant on payment type

22. INDIVIDUALLY SIGNIFICANT ITEMS

In 2009-10, there were the following significant items:

1. Revenue from taxes, fees and fines increased overall by $1,380 million. This was mainly due to increased revenue from stamp duties of $1,068 million, Motor Vehicle taxes $85 million and Land tax $41 million. This was offset by reduced payroll tax $164 million. In addition the fees the Crown Entity receives for guaranteeing the debt of other agencies increased by $286 million. However due to a new system of funding NSW Fire Brigades, Fire Insurance Levies are now paid to the agency without going through the Consolidated Fund leading to a reduction in revenue of $369 million.
2. Commonwealth contributions increased by $4,636 million. This was mainly due to increases in National Partnership payments of $445 million for recurrent and $3,087 million for capital. There were also additional GST payments of $1,633 million. These were partially offset by decreases of $318 million and $143 million for Special Purpose recurrent and capital payments respectively.
3. Investment income improved by $764 million. This was mainly due to SI Corp investments at T Corp turning around from a $253 million loss in 2009 to a $475 million profit in 2010. The 2009 losses were due to the global financial crisis and the turnaround in 2010 has been aided by a strategic reallocation of assets from bonds to equities.
4. Superannuation expenses increased by $293 million. This was mainly due to the lower reported investment return on plan assets due to the reduced opening asset balance reflecting the negative 2009 investment result, $191 million. The balance of the increase was primarily due to the higher current service cost, $65 million, caused by the fall in the discount rate from 5.59% in 2009 to 5.17% in 2010. (The lower discount rate is also the major impact on the actuarial loss on defined benefit plans, $2.9 billion.)
5. Recurrent Appropriations increased by $2,929 million. The main increases were to Housing NSW $1,050 million, Department of Education and Training $709 million, Department of Health $506 million and Department of Transport and Infrastructure $615 million.
6. Capital Appropriations increased by $1,972 million. The main increases were to Department of Education and Training $1,908 million and the Roads and Traffic Authority $71 million.
7. Following the sale of NSW Lotteries Corporation to Tattersalls Holding Pty Ltd, the Crown Entity received $846 million (net of purchase price adjustment, refer to Note 5) for the sale of shares in the Corporation and providing a 40 year lotteries licence.

   Prior to the sale NSW Lotteries transferred $154 million of assets and $6 million of liabilities to the Crown Entity and $10 million of properties to another government agency.

22. INDIVIDUALLY SIGNIFICANT ITEMS (continued)

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

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

23. COMMITMENTS FOR EXPENDITURE

(a) Capital commitments

	2010 $'000	2009 $'000
Capital commitments contracted for at reporting date but not recognised as liability are as follows:		
- not later than one year	20,010	20,480
- later than one year but not later than five years	16,704	10,919
Total (including GST)	**36,714**	**31,399**

At 30 June 2010 the Crown Entity has capital commitments of $36.7 million (2009: $31.4 million) principally relating to the Crown Entity's share (58 per cent) of capital expenditure commitments in Snowy Hydro Limited (SHL). The details of the agreement are disclosed at Note 7 and Note 25.

(b) Operating lease commitments – as lessee

At 30 June 2010, the Crown Entity, as a lessee, has operating leases commitments of $44.7 million (2009: $39.7 million).

	2010 $'000	2009 $'000
Future non-cancellable operating lease rentals not provided for and payable:		
- not later than one year	1,960	2,117
- later than one year but not later than five years	5,842	5,852
- later than five years	36,888	31,764
Total (including GST)	**44,690**	**39,733**

Operating lease commitments of $43.7 million (2009: $38.4 million) relates to the Crown Entity's share
(58 per cent) of capital expenditure commitments in SHL.

NSW Self Insurance Corporation (SiCorp)

Operating lease commitments of $1.0 million (2009: $1.3 million) relates to the rental of SiCorp's Head office. The lease is a non-cancellable lease with a term of six years and an option to extend for a further four years. A market review of rents payable is undertaken biannually. On expiration of the lease the rental premises are to be returned to their original condition. A make-good restoration provision has been taken up.

23. COMMITMENTS FOR EXPENDITURE (continued)

(c) Operating lease commitments – as lessor

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

	2010 $000	2009 $000
Future non-cancellable operating lease receivables:		
- not later than one year	-	24,539
- later than one year but not later than five years	-	105,486
- later than five years	-	118,163
Total (including GST)	**-**	**248,188**

At 30 June 2010 the Crown Entity, as a lessor, has no operating lease commitments. The commitments as at 30 June 2009 of $248.2 million were transferred to the LPMA as at 1 July 2009. These operating lease commitments were entered into by the CLE on the land it holds. The lands are leased to farmers, private individuals, companies and other State and Federal government agencies. The lease terms range from 1 year to 99 years and some are perpetual.

(d) Other commitments

At 30 June 20010 the Crown Entity had other commitments contracted for at reporting date but not recognised as liabilities, of $3.8 million (2009: $2.6 million). These represent the Crown Entity's share of SHL's other commitments.

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

- not later than one year	3,364	1,158
- later than one year but not later than five years	464	1,411
Total (including GST)	**3,828**	**2,569**

Joint Government Enterprise Limited (JGE) – water for rivers

Refer to Note 15 for the details on the establishment of JGE.

As per the agreement NSW Government ("NSW") has to pay $150 million in total to be paid each quarter over 10 years. NSW has paid $120 million at the reporting date (2009: $105 million). The remaining commitment is $30 million as at 30 June 2010 (2009: $45 million). In addition NSW's share in joint 'Funding Account' of $20.8 million (2009: $18.8 million) is also committed. However, the constitution of the JGE states that the members will share in any contribution not utilised for operations at the date of winding up plus any accrued interest.

24. ABORIGINAL LAND COUNCIL CLAIMS

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

From 1 July 2010, provisions for Aboriginal land council claims are reported in the LPMA financial statements.

	2010 $'000	**2009 $'000**
Current	-	992,271
Total	**-**	**992,271**
Balance at the beginning of year	992,271	1,010,273
Claims granted	-	8,707
Revaluation decrement	-	(20,455)
Claims transferred out	(992,271)	(6,254)
Balance at the end of year	**-**	**992,271**

25. CONTINGENT LIABILITIES

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

Snowy Hydro Limited

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

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

On 1 May 2010 a five year review of the Snowy Water Licence was completed. Under the Snowy Hydro Corporatisation Act 1997, amendments made to the Snowy Water Licence for the purpose of giving effect to the outcome of the five year review are not subject to compensation. No major amendments to the Snowy Water Licence took place under the five year review. If any further variation to, or revocation of, the Snowy Water Licence by the Ministerial Corporation or NSW (which have not been agreed to by SHL) has an adverse financial impact on SHL, the company will receive that corresponding amount from NSW under a compensation deed. No major amendments to the Snowy Water Licence are proposed. The Snowy Water Licence expires on the 75th anniversary of the Corporatisation date (June 2077) or if revoked earlier. The compensation deed terminates on the expiry or revocation of the Snowy Water Licence.

25. CONTINGENT LIABILITIES (continued)

Snowy Hydro Limited (continued)

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

Sale of Pacific Power International

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

The compensation payment amount would be the lower of:

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

At 30 June 2010, the net market value of fund assets was $5.9 million less than the estimated value of liabilities (accrued benefits under AAS 25).

The unfunded liability is different to both the actual fund shortfall and the investment return shortfall. Based on returns to June 2009, the scheme independent actuary has estimated an actual fund shortfall of $6.6 million, and an investment return shortfall of $2.2 million. As the payment amount is the lower of the two amounts, the compensation payment amount would be $2.2 million (2009: $3 million).

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

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

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

TCorp guarantees

The government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of $57.4 billion (2009: $49.0 billion) under the *Public Authorities (Financial Arrangements) Act 1987*.

25. CONTINGENT LIABILITIES (continued)

NSW Treasury Corporation

NSW Treasury Corporation has issued unconditional payment undertakings on behalf of some government authorities in the national wholesale electricity market to pay to the system administrator, the Australian Energy Market Operator (AEMO), on demand in writing any amount up to an aggregate maximum agreed with individual participants.

At the reporting date, the amounts of these undertakings were as follows:

Market participants	**2010 $ million**	**2009 $ million**
National Electricity Market (NEM)	739.2	480.2
Short Term Trading Market (STTM)	12.8	2.0
	752.0	**482.2**

NSW Treasury Corporation has also undertakings for other government authorities for their performance under contracts with third parties. These amounts are recoverable from the government authority participants. At the reporting date they were valued at $86.8 million (2009: $173.2 million).

Floating interest rate exposure on motor vehicle financing arrangements

The State's motor vehicles leasing is financed by an internal arrangement managed by StateFleet and funded by TCorp (Tranche 4).

In September 2009, Tranche 4 was restructured from a floating rate debt to a portfolio of fixed rate and short term floating debt with a modified duration of around 3 years. There is a principal exposure of $541 million as at 30 June 2010 (2009: floating rate exposure of $551 million).

Unclaimed money

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

Office of State Revenue

The State Debt Recovery Office is reviewing some infringement matters to decide if special circumstances exist for payment returns. During the year, refund claims totalling $27.6 million were paid for general insurance duty in 2010 following a Court decision in 2009.

There are currently 151 matters where the Crown Solicitor or other legal firms are acting on behalf of The Treasury. A settlement estimate for these matters cannot be reliably determined.

25. CONTINGENT LIABILITIES (continued)

Contracts with private sector parties

The State has guaranteed the obligations performance of various statutory authorities with private sector party contracts. These are:

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

GST debts

The Crown Entity has no operating lease revenue commitments receivable at 30 June 2010 (2009: $248.2 million). At 30 June 2010 there were no future GST contingent liabilities (2009: $22.6 million).

	2010 $'000	2009 $'000
GST payable on operating lease commitments	-	22,563
	-	**22,563**

25. CONTINGENT LIABILITIES (continued)

NSW Energy Industry Reform

The State of NSW has provided to the directors and designated senior management, an estimated 42 and 62 individuals respectively, of some State-owned Corporations (SOC) against claims and liabilities in connection with the Energy Industry Reform transactions (Transaction Process).

The SOC covered in this indemnity are:

- Country Energy
- Eraring Energy
- Energy Australia
- Macquarie Generation
- Integral Energy
- Delta Electricity

To the extent permitted by law, the indemnity covers each indemnified party, in their capacity as directors or senior management, against:

- civil liability arising in respect of the Transaction Process if such liability is or was not due to conduct which involve a lack of good faith on the part of the indemnified party, and
- costs in defending proceedings, whether civil or criminal, in which judgement is or was given in favour of the indemnified party or in which the indemnified party is or was acquitted or where the proceedings are discontinued or in connection with any application in relation to a proceeding in which a court grants or granted relief to the indemnified party

The indemnified parties have a duty to maintain in force comprehensive directors' and officers' insurance policy which cover all of the risks indemnified by the State under the indemnities until:

- the completion of the Transaction Process, and
- for seven year following the completion of the Transaction Process for any acts or omissions of the Indemnified Party occurring before completion of the Transaction Process

The indemnity does not apply in respect of a liability which arises out of any act or omission on the part of the Indemnified Party that involves, among others as detailed in the Deed of Indemnity, gross negligence, recklessness and conduct contrary to any written direction or instructions to the Indemnified Party made by or on behalf of the State.

It is not possible to estimate the amount of contingent liability exposure at this time. There are no known claims as at the reporting date.

25. CONTINGENT LIABILITIES (continued)

NSW Lotteries

The State provided minimal warranties, indemnities and other obligations in favour of the new operator.

As at 30 June 2010, the Crown Entity has a provision for unclaimed prize funds of $6 million from the sale of NSW Lotteries on 31 March 2010. The provision taken up was based on historical data which showed that annual claims for unclaimed prizes were no more than $1 million in a normal year. The NSW Lotteries transaction resulted in the State being liable for unclaimed prizes extant at 29 March 2010. In accordance with the *Public Lotteries Regulation 2007*, any prizes won on or before 30 November 2010 must be claimed on or before 1 December 2016. The Crown Entity has therefore conservatively provided $1 million per annum until 2016. However, future claims cannot be reliably measured and could exceed the current provision.

The State is liable for the direct losses incurred by NSW Lotteries if an adverse regulatory event occurs. The State's aggregate liability is capped. Adverse regulatory events are defined in the transaction documents and include, for example, the introduction by the State of new duties, texes or other imposts on public lotteries in New South Wales without the agreement of the operator. There are no known adverse regulatory events as at the reporting date.

Asbestos Injuries Compensation Fund

The NSW Government has negotiated a Heads of Agreement with the Commonwealth which provides up to $320 million of Commonwealth/State funding on a 50/50 basis for the Asbestos Injuries Compensation Fund. James Hardie Industries NV retains full responsibility for repaying any funding provided.

26. 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 independent actuary estimated the discounted present value of the outstanding liability to be $195.1 million as at 30 June 2010 (2009: $145.2 million).

The liquidators currently intend to distribute various percentages up to “more than 50 per cent” depending on the scheme company. In 2010, the Crown Entity received payments totalling $79.5 million
(2009: $28.4 million). Recoveries from the liquidators are paid into the Consolidated Fund.

GST credits

The Crown Entity has capital commitments of $36.7 million (2009: $31.4 million), operating lease commitments payable of $44.7 million (2009: $39.7 million) and other expenditure commitments of $3.8 million (2009: $2.6 million). The recoverable input tax credits constitute a contingent asset of $7.7 million (2009: $6.7 million).

	2010 $'000	2009 $'000
GST recoverable input tax credits:		
Capital commitments	3,338	2,854
Other commitments	348	234
Operating lease commitments - lessee	4,062	3,612
	7,748	**6,700**

27. CASH FLOW INFORMATION

Cash and cash equivalents

In 2009-10, under the *Public Authorities (Financial Arrangements) Act 1987*, the Governor approved financial accommodation of $22,700 million for the Crown Entity. This amount is the overall funding to the Crown Entity which include the existing, additional permanent loans and the Come and Go Facility. The Come and Go Facility has a limit of $3,500 million. No amounts were drawn from the Facility at 30 June 2010
(2009: $551 million). In 2008-09 the financial accommodation was approved at $6,800 million which represented only additional permanent loans and the Come and Go Facility.

In 2007-08 the Governor approved the Electricity Tariff Equalisation Ministerial Corporation a financial accommodation from TCorp for $300 million under the *Public Authorities (Financial Arrangements) Act 1987*. The financial facility is to cover temporary cash deficits which occur during the day of settlement between retailers and generators.

Of the cash on hand and at bank, $428.3 million is restricted cash assets (2009: $764.7 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 28 and 29 details these transactions.

Cash and cash equivalents in the Statement of Financial Position are cash at bank, cash on hand, restricted cash in special deposit accounts and other short term deposits.

27. CASH FLOW INFORMATION (continued)

(a) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash at bank, short term deposits and bank overdraft.

Cash and cash equivalents assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

	2010 $'000	2009 $'000
Cash at bank	525,237	613,610
Short term deposits	103,645	-
	628,881	**613,610**
Bank overdraft	(2,161,649)	(2,400,300)
Net cash and cash equivalents (per Statement of Cash Flows)	**(1,532,768)**	**(1,786,690)**

(b) Reconciliation of cash flows used from operating activities to deficit for the year

	2010 $'000	2009 $'000
Net cash flows used on operating activities	(1,476,660)	(1,723,980)
Non cash items added back		
Share of profit of an associate	154,326	122,931
Decrease asset revaluation	-	(7,923)
Actuarial loss on outstanding insurance liabilities	(66,431)	(592,863)
Unrealised (gain)/loss on investments	268,457	(336,804)
Depreciation and amortisation	(1,057)	(1,782)
Non cash finance costs	(354,565)	(322,190)
Loss on asset disposals	-	(31,964)
Administrative restructure - transfer in	160,134	35,217
Other	-	12,809
	160,864	**(1,122,569)**
Change in operating assets and liabilities		
Movement in working capital	426,539	(128,888)
Increase in other liabilities	(638,079)	(675,796)
Decrease/(increase) in other assets	(6,981)	185,868
	(218,521)	**(618,816)**
Movement for the year	**(57,657)**	**(1,741,385)**
Deficit for the year	**(1,534,317)**	**(3,465,365)**

28. TRUST FUNDS

Accounts	Olympic Coordination Authority payables $'000	State Rail Authority wind-up $'000	Land Acquisition Fund - compensation deposits $'000	Consumer Affairs Trust $'000	Funeral Fees $'000
Balance 1.7.2008	6,098	915	758	112	16
Plus receipts	-	-	-	-	87
Less payments	-	-	-	-	-
Balance 30.6.2009	**6,098**	**915**	**758**	**112**	**103**
Plus receipts	-	641	-	-	-
Less payments	(6,098)	(641)	-	-	-
Balance 30.6.2010	**-**	**915**	**758**	**112**	**103**

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. These trust funds are included in other liabilities of the Crown Entity.

Olympic Coordination Authority

The funds held in this account were provisions for residual payments in the wind-up of the Olympic Co-Ordination Committee. The statutory limitation was over; therefore, the $6 million were recognised as other income.

State Rail Authority

This account was established to hold money vested to the Crown by the previous State Rail Authority of NSW for the payment of fine and legal costs relating to the Waterfall train accident.

Land Acquisition Fund

This trust account holds the funds vested in the regards to payments of compensation on land resumptions.

Consumer Affairs Trust

The Consumer Affairs Trust receives repayment money from the Rural Assistance Authority regarding the loans under the Rural Adjustment Scheme. The Scheme was a joint State and Commonwealth scheme. Loans under this scheme are all finalised. The balances in the account are residual amounts which will be paid to the Consolidated Fund in 2010-11.

Funeral Fees

This account was set up to meet the claims of people whom have prepaid their funeral fees to Russell Kinsella Pty Ltd. The company was unable to provide the service due to receivership. The Department of Fair Trading was the original holder of the trust and may from time to time, receive claims for compensation.

29. SPECIAL DEPOSIT ACCOUNTS

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

NSW Policyholders Protection Fund

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

Non-budget long service leave pool

This account holds long service leave funds for certain selected non-budget dependent agencies.

Structured finance activities

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

Confiscated proceeds account

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

Workers compensation (bushfire, emergency and rescue services)

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

Builders warranty insurance

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

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.

Royal North Shore Hospital (RNSH) interest adjustment account

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

State Infrastructure Fund

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

29. SPECIAL DEPOSIT ACCOUNTS (continued)

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

Accounts	NSW Policyholders Protection Fund $'000	Non Budget Long Service Leave Pool $'000	Structured Finance Activities $'000	Confiscated Proceeds Account $'000	Workers Compensation $'000
Balance 1.7.2008	77,313	22,339	709	50,828	6,593
Plus receipts	67,303	9,394	185	19,075	4,500
Less payments	(37,734)	(11,184)	(450)	(786)	(6,125)
Balance 30.6.2009	**106,882**	**20,549**	**444**	**69,117**	**4,968**
Plus receipts	66,576	11,876	4,694	23,015	8,000
Less payments	(26,820)	(13,547)	(3,525)	(17,651)	(6,991)
Balance 30.6.2010	**146,638**	**18,878**	**1,613**	**74,481**	**5,977**

Accounts	Builders Warranty Insurance $'000	NSW Self Insurance Corporation $'000	RNSH Interest Adjustment $'000	State Infrastructure Fund $'000
Balance 1.7.2008	21,840	150,321	-	-
Plus receipts	1,362	2,561,432	2,444	1,338
Less payments	(2,572)	(2,178,996)	-	-
Balance 30.6.2009	**20,630**	**532,757**	**2,444**	**1,338**
Plus receipts	1,887	3,508,093	109	40
Less payments	(2,217)	(3,883,003)	-	(689)
Balance 30.6.2010	**20,300**	**157,847**	**2,553**	**689**

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

30. OTHER LIABILITIES

	2010 $'000	2009 $'000
Current:		
Builders warranty insurance	20,300	20,630
Confiscated proceeds	74,481	69,117
Premium received in advance	918	5,458
Management, incentive and other fees	26,849	26,239
Special deposit and trust accounts	11,107	16,737
Deferred income	198,089	191,215
Unclaimed prizes	1,000	-
Financial guarantees	2,200	3,100
Other	24	-
	334,968	**332,496**
Non-current:		
Provision for restoration costs	63	60
Deferred income	562,288	313,963
Financial guarantees	16,100	17,800
Unclaimed prizes	5,000	-
Other	-	236
	583,451	**332,059**
Total	**918,419**	**664,555**

(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 29.

(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 29.

(c) Provision for restoration costs

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

Non-current:		
Balance at the beginning of year	60	56
Unwinding of discounts	3	4
Balance at the end of year	**63**	**60**

30. OTHER LIABILITIES (continued)

(d) Deferred income

	2010 $'000	2009 $'000
Current	198,089	191,215
Non-current	562,288	313,963
	760,377	**505,178**

(d)(i) Licence fees

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

Opening balance at beginning of year	488,950	268,012
Add: licence fees deferred	447,977	403,386
Less: amortisation	(176,550)	(182,448)
	760,377	**488,950**

(d)(ii) Other

Deferred income in 2008-09 also includes revenue received in advance by the Crown Leaseholds Entity of $16.2m which represents invoices raised and payments received in the current financial period in respect of the future financial periods.

(e) Financial guarantees

Balance at the beginning of year	20,900	-
Additions	-	25,900
Amortisation	(2,600)	(5,000)
Balance at the end of year	**18,300**	**20,900**
Current liability	2,200	3,100
Non-current liability	16,100	17,800
	18,300	**20,900**

(e)(i) Structured finance activities

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

A representative sample of approximately one-third of the guarantees was valued by Ernst & Young during 2007-08. The remainder were estimated based on Ernst & Young methodology. The guarantees have a current amortised valued of $10.7 million (2009: $12.1 million).

30. OTHER LIABILITIES (continued)

(e)(ii) Government Insurance Act 1927

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

Actuarial assessment of the GIO liabilities is:

	31 Dec 2009 $m	31 Dec 2008 $m
General insurance	167	185
Life insurance	62	66
Inward reinsurance	42	38
	271	**289**

The decrease in general insurance liabilities is due to changes in discount rates on the Workers' Compensation liability, which resulted in the central estimate of liability being reduced by $11.2 million. Also the risk margin for Workers' Compensation liabilities fell by $5.5 million.

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

The guarantees have a current amortised valued of $7.6 million (2009: $8.8 million).

(e)(iii) Public private partnerships

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

The current outstanding guarantees relate to:

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

The guarantees have been valued at $Nil (2009: $Nil). This is due to the likelihood of any of these guarantees being called upon being remote. The arrangements of government minimise the risk of default.

31. SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES

	Appropriation 2010	Expenditure 2010	Appropriation 2009	Expenditure 2009
Recurrent appropriations	**$'000**	**$'000**	**$'000**	**$'000**
Appropriation Act	4,566,444	3,966,526	3,901,569	3,257,380
Sec 21 - Budget Variation Acts (additional appropriation)	510,000	510,000	40,000	40,000
Sec 22 - expenditure for certain works and services	125,000	108,112	70,000	62,957
Section 26 - increase in Commonwealth SPP	-	-	319,000	310,095
Treasurer's advance	-	-	-	-
Transfers to another agency (section 28 of the Appropriation Act)	(338,093)	-	(161,752)	-
Section 24 - transfer of functions between Departments	(3,071)	-	-	-
Other	-	-	(708)	-
Sec 16C - Insurance Protection Tax Act 2001	66,576	58,239	67,303	67,303
Total appropriations/expenditure (includes transfer payments)	**4,926,856**	**4,642,877**	**4,235,412**	**3,737,735**
Less: drawdowns from Treasury		4,657,504		3,729,668
Total unspent appropriations		(14,627)		8,067
Capital appropriations				
Appropriation Act	344,503	289,822	185,642	159,019
Sec 21 - Budget Variation Acts (additional appropriation)	85,000	85,000	-	-
Total appropriations/expenditure (includes transfer payments)	**429,503**	**374,822**	**185,642**	**159,019**
Less: drawdowns from Treasury		374,822		159,019
Total unspent appropriations		-		-

CROWN ENTITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

32. CONSOLIDATED FUND TRANSACTIONS

	2010 $'000	2009 $'000
Cash flows from operating activities		
Receipts		
Retained taxes, fees and fines	19,166,352	18,445,145
Commonwealth grants	26,072,281	21,430,636
Financial distributions	1,847,701	1,989,054
Proceeds from sale of NSW Lotteries	845,708	-
Other	1,467,574	1,769,302
Total receipts	**49,399,616**	**43,634,137**
Payments		
Recurrent appropriations paid to other agencies	(41,271,453)	(38,341,767)
Recurrent appropriations paid to Crown Finance Entity	(4,657,504)	(3,729,668)
Capital appropriations paid to other agencies	(5,826,041)	(3,854,111)
Capital appropriations paid to Crown Finance Entity	(374,822)	(159,018)
Total payments	**(52,129,820)**	**(46,084,564)**
Net cash flows used in operating activities	**(2,730,204)**	**(2,450,427)**
Other cash flows		
Proceeds from borrowing transferred	1,919,477	2,240,986
Investment income transferred	52,200	34,800
Interest receipts transferred	100,956	70,893
Advance repayments transferred	72,811	74,222
Other receipts transferred*	148,818	139,293
	2,294,262	**2,560,194**
Net (decrease)/increase in cash and cash equivalents	**(435,942)**	**109,767**
Opening cash and cash equivalents	**(1,849,073)**	**(1,958,840)**
Cash transferred in as a result of restructuring	123,366	-
Closing cash and cash equivalents	**(2,161,649)**	**(1,849,073)**
Cash and cash equivalents		
Bank overdraft	(2,161,649)	(1,849,073)
	(2,161,649)	**(1,849,073)**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

33. SERVICE GROUP STATEMENTS

EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Debt Liability Management $'000	Superannuation Liability Management $'000	Central Financial Services $'000	Not Attributable * $'000	Total Crown Finance Entity $'000
Revenue					
Investment income	-	-	138,715	-	**138,715**
Share of profit of associate	-	-	154,326	-	**154,326**
Revenue from Government	(1,919,477)	-	(389,411)	5,032,326	**2,723,438**
Other	-	3,801	197,906	-	**201,707**
Total revenue	**(1,919,477)**	**3,801**	**101,536**	**5,032,326**	**3,218,186**
Expense					
Superannuation	-	1,629,428	-	-	**1,629,428**
Long service leave	-	-	583,917	-	**583,917**
Depreciation/amortisation	-	-	47	-	**47**
Grant and subsidies	-	-	1,000,580	-	**1,000,580**
Finance costs	1,048,752	-	5,572	-	**1,054,324**
Insurance claims	-	-	88,892	-	**88,892**
Other	-	36,787	418,676	-	**455,463**
Total expenses	**1,048,752**	**1,666,215**	**2,097,684**	**-**	**4,812,651**
Gain on disposal of non-current assets	-	-	43,012	-	**43,012**
Loss from financial instruments	(2,652)	-	-	-	**(2,652)**
Surplus/(deficit) for the year	**(2,970,881)**	**(1,662,414)**	**(1,953,136)**	**5,032,326**	**(1,554,105)**
Other comprehensive income					
Actuarial loss on defined benefit plans	-	(2,908,004)	-	-	**(2,908,004)**
Total other comprehensive income for the year	-	**(2,908,004)**	-	-	**(2,908,004)**
Total comprehensive result for the year	**(2,970,881)**	**(4,570,418)**	**(1,953,136)**	**5,032,326**	**(4,462,109)**

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

33. SERVICE GROUP STATEMENTS (continued)

EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Total Crown Finance Entity * $'000	Consolidated Fund * $'000	Electricity Tariff Equalisation* $'000	NSW Self Insurance Corporation* $'000	Elimination Entity $'000	Consolidated Total $'000
Revenue						
Retained taxes, fees and fines	-	19,710,481	-	-	(36,787)	**19,673,694**
Commonwealth grants	-	26,072,257	-	-	-	**26,072,257**
Financial distributions	-	1,983,857	-	-	-	**1,983,857**
Sales of goods and services	-	-	-	825,268	(66,711)	**758,557**
Investment income	138,715	95	2,789	476,711	(701)	**617,609**
Share of profit of associate	154,326	-	-	-	-	**154,326**
Revenue from Government	2,723,438	-	-	-	(2,723,438)	**-**
Other	201,707	3,778,085	491,431	4	(2,352,283)	**2,118,944**
Total revenue	**3,218,186**	**51,544,775**	**494,220**	**1,301,983**	**(5,179,920)**	**51,379,244**
Expense						
Superannuation	1,629,428	-	-	-	-	**1,629,428**
Long service leave	583,917	-	-	-	(526)	**583,391**
Depreciation/amortisation	47	-	-	1,010	-	**1,057**
Grant and subsidies	1,000,580	-	-	-	(75,000)	**925,580**
Finance costs	1,054,324	-	-	269,599	(701)	**1,323,222**
Insurance claims	88,892	-	-	974,607	-	**1,063,499**
Recurrent appropriations	-	45,928,957	-	-	(4,657,504)	**41,271,453**
Capital appropriations	-	6,200,863	-	-	(374,822)	**5,826,041**
Other	455,463	4,730	438,215	104,738	(71,367)	**931,779**
Total expenses	**4,812,651**	**52,134,550**	**438,215**	**1,349,954**	**(5,179,920)**	**53,555,450**
Gain/ on disposal of non-current assets	43,012	595,708	-	-	-	**638,720**
Gain/(loss) from financial instruments	(2,652)	-	-	5,821	-	**3,169**
Surplus/(deficit) for the year	**(1,554,105)**	**5,933**	**56,005**	**(42,150)**	**-**	**(1,534,317)**
Other comprehensive income						
Actuarial gain/(loss) on defined benefit plans	(2,908,004)	-	-	-	-	**(2,908,004)**
Total other comprehensive income for the year	**(2,908,004)**	**-**	**-**	**-**	**-**	**(2,908,004)**
Total comprehensive result for the year	**(4,462,109)**	**5,933**	**56,005**	**(42,150)**	**-**	**(4,442,321)**

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

33. SERVICE GROUP STATEMENTS (continued)

ASSETS AND LIABILITIES AS AT 30 JUNE 2010

	Debt Liability Management $'000	Superannuation Liability Management $'000	Central Financial Services $'000	Total Crown Finance Entity $'000
Assets				
Current assets				
Cash and cash equivalents	-	-	404,410	**404,410**
Financial assets at fair value	-	-	13,312	**13,312**
Derivative financial instruments	37	-	-	**37**
Advances repayable to the Crown	-	-	59,820	**59,820**
Receivables	-	-	20,356	**20,356**
Total current assets	**37**	**-**	**497,898**	**497,935**
Non-current assets				
Property, plant and equipment	-	-	152	152
Investment in a joint venture	-	-	20,776	20,776
Investment in an associate	-	-	996,150	996,150
Financial assets at fair value	-	-	19,620	19,620
Advances repayable to the Crown	-	-	1,072,742	1,072,742
Receivables	-	-	67,633	67,633
Intangible assets	-	-	101	101
Total non-current assets	**-**	**-**	**2,177,174**	**2,177,174**
Total assets	**37**	**-**	**2,675,072**	**2,675,109**
Liabilities				
Current liabilities				
Payables	253,650	-	66,204	319,854
Borrowings	380,513	-	-	380,513
Unfunded superannuation	-	1,329,700	-	1,329,700
Employee benefits and other provisions	-	-	3,370,771	3,370,771
Provision for outstanding insurance claims	-	-	36,950	36,950
Other	-	-	123,739	123,739
Total current liabilities	**634,163**	**1,329,700**	**3,597,664**	**5,561,527**
Non-current liabilities				
Payables	-	-	36,496	36,496
Borrowings	15,652,082	-	-	15,652,082
Unfunded superannuation	-	30,129,062	-	30,129,062
Employee benefits and other provisions	-	-	177,409	177,409
Provision for outstanding insurance claims	-	-	110,976	110,976
Other	-	-	88,733	88,733
Total non-current liabilties	**15,652,082**	**30,129,062**	**413,614**	**46,194,758**
Total liabilities	**16,286,245**	**31,458,762**	**4,011,278**	**51,756,285**
Net liabilities	**(16,286,208)**	**(31,458,762)**	**(1,336,206)**	**(49,081,176)**

33. SERVICE GROUP STATEMENTS (continued)

ASSETS AND LIABILITIES AS AT 30 JUNE 2010

	Total Crown Finance Entity * $'000	Consolidated Fund * $'000	Electricity Tariff Equalisation* $'000	NSW Self Insurance Corporation* $'000	Elimination Entity $'000	Consolidated Total $'000
Assets						
Current assets						
Cash and cash equivalents	404,410	-	66,624	157,847	-	**628,881**
Financial assets at fair value	13,312	-	-	-	-	**13,312**
Derivative financial instruments	37	-	-	-	-	**37**
Advances repayable to the Crown	59,820	-	-	-	-	**59,820**
Receivables	20,356	3,468,576	41,161	188,217	(52,656)	**3,665,654**
Total current assets	**497,935**	**3,468,576**	**107,785**	**346,064**	**(52,656)**	**4,367,704**
Non-current assets						
Property, plant and equipment	152	-	-	247	-	**399**
Investment in a joint venture	20,776	-	-	-	-	**20,776**
Investment in an associate	996,150	-	-	-	-	**996,150**
Financial assets at fair value	19,620	-	-	4,986,979	-	**5,006,599**
Advances repayable to the Crown	1,072,742	-	-	-	-	**1,072,742**
Receivables	67,633	6,900	-	201,269	(67,633)	**208,169**
Intangible assets	101	-	-	884	-	**985**
Other	-	-	-	25	-	**25**
Total non-current assets	**2,177,174**	**6,900**	**-**	**5,189,404**	**(67,633)**	**7,305,845**
Total assets	**2,675,109**	**3,475,476**	**107,785**	**5,535,468**	**(120,289)**	**11,673,549**
Liabilities						
Current liabilities						
Payables	319,854	24	2,909	118,744	(38,029)	**403,502**
Bank overdraft	-	2,161,649	-	-	-	**2,161,649**
Borrowings	380,513	-	-	-	-	**380,513**
Unfunded superannuation	1,329,700	-	-	-	-	**1,329,700**
Employee benefits and other provisions	3,370,771	-	-	-	-	**3,370,771**
Provision for outstanding insurance claims	36,950	-	-	736,713	-	**773,663**
Other	123,739	198,089	-	27,767	(14,627)	**334,968**
Total current liabilities	**5,561,527**	**2,359,762**	**2,909**	**883,224**	**(52,656)**	**8,754,766**
Non-current liabilities						
Payables	36,496	-	-	-	-	**36,496**
Borrowings	15,652,082	-	-	-	-	**15,652,082**
Unfunded superannuation	30,129,062	-	-	-	-	**30,129,062**
Employee benefits and other provisions	177,409	-	-	-	-	**177,409**
Provision for outstanding insurance claims	110,976	-	-	4,586,389	-	**4,697,365**
Other	88,733	562,288	-	63	(67,633)	**583,451**
Total non-current liabilties	**46,194,758**	**562,288**	**-**	**4,586,452**	**(67,633)**	**51,275,865**
Total liabilities	**51,756,285**	**2,922,050**	**2,909**	**5,469,676**	**(120,289)**	**60,030,631**
Net assets/(liabilities)	**(49,081,176)**	**553,426**	**104,876**	**65,792**	**-**	**(48,357,082)**

33. SERVICE GROUP STATEMENTS (continued)

EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2009

	Debt Liability Management $000	Superannuation Liability Management $000	Central Financial Services $000	Not Attributable * $000	Total Crown Finance Entity $000
Revenue					
Investment income	-	-	102,412	-	**102,412**
Share of profit of associate	-	-	122,931	-	**122,931**
Revenue from Government	(2,240,987)	-	(327,275)	3,888,687	**1,320,425**
Other	-	4,005	110,004	-	**114,009**
Total revenue	**(2,240,987)**	**4,005**	**8,072**	**3,888,687**	**1,659,777**
Expense					
Superannuation	-	1,336,845	-	-	**1,336,845**
Long service leave	-	-	661,013	-	**661,013**
Depreciation/amortisation	-	-	671	-	**671**
Grant and subsidies	-	-	1,308,050	-	**1,308,050**
Finance costs	1,025,557	-	142	-	**1,025,699**
Insurance claims	-	-	78,181	-	**78,181**
Other	-	35,008	365,895	-	**400,903**
Total expenses	**1,025,557**	**1,371,853**	**2,413,952**	**-**	**4,811,362**
Loss on disposal of non-current assets	-	-	(87)	-	**(87)**
Gain from financial instruments	60,056	-	-	-	**60,056**
Surplus/(deficit) for the year	**(3,206,488)**	**(1,367,848)**	**(2,405,967)**	**3,888,687**	**(3,091,616)**
Other comprehensive income					
Actuarial loss on defined benefit plans	-	(10,593,763)	-	-	**(10,593,763)**
Total other comprehensive income for the year	**-**	**(10,593,763)**	**-**	**-**	**(10,593,763)**
Total comprehensive result for the year	**(3,206,488)**	**(11,961,611)**	**(2,405,967)**	**3,888,687**	**(13,685,379)**

33. SERVICE GROUP STATEMENTS (continued) - EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2009

	Total Crown Finance Entity $000	Consolidated Fund $000	Tariff Equalisation Ministerial Corporation $000	NSW Self Insurance Corporation $000	Crown Leaseholds Entity $000	Crown Lands Homesites Program $000	SRA Residual Holding Corporation $000	Land Development Working Account $000	Elimination Entity $000	Consolidated Total $000
Revenue										
Retained taxes, fees and fines	-	18,328,263	-	-	-	-	-	-	(35,008)	**18,293,255**
Commonwealth Grants	-	21,435,753	-	-	-	-	-	-	-	**21,435,753**
Financial Distributions	-	1,856,651	-	-	-	-	-	-	(4,580)	**1,852,071**
Sales of Goods and Services	-	-	-	1,420,073	-	-	-	-	(406,559)	**1,013,514**
Investment Income	102,412	-	42	(249,825)	2,208	-	-	-	(1,034)	**(146,197)**
Share of Profit of Associate	122,931	-	-	-	-	-	-	-	-	**122,931**
Revenue From Government	1,320,425	-	-	-	(69,058)	-	-	(4,580)	(1,247,203)	**(416)**
Other	114,009	4,304,213	398,045	22	73,872	338		-	(2,660,702)	**2,229,797**
Total Revenue	**1,659,777**	**45,924,880**	**398,087**	**1,170,270**	**7,022**	**338**	**-**	**(4,580)**	**(4,355,086)**	**44,800,708**
Expense										
Superannuation	1,336,845	-	-	-	-	-	-	-	-	**1,336,845**
Long Service Leave	661,013	-	-	-	-	-	-	-	(282)	**660,731**
Depreciation/Amortisation	671	-	-	1,108	-	-	-	3	-	**1,782**
Grant and Subsidies	1,308,050	-	-	-	-	-	-	-	(430,000)	**878,050**
Finance Costs	1,025,699	-	-	264,078	-	-	-	-	(1,034)	**1,288,743**
Insurance Claims	78,181	-	-	1,147,436	-	-	-	-	-	**1,225,617**
Recurrent Appropriations	-	42,071,435	-	-	-	-	-	-	(3,729,668)	**38,341,767**
Capital Appropriations	-	4,013,130	-	-	-	-	-	-	(159,019)	**3,854,111**
Other	400,903	13,555	349,300	71,830	32,215	2,062	-	(1,157)	(35,083)	**833,625**
Total Expenses	**4,811,362**	**46,098,120**	**349,300**	**1,484,452**	**32,215**	**2,062**	**-**	**(1,154)**	**(4,355,086)**	**48,421,271**
Gain/(Loss) on Disposal of Non-Current Assets	(87)	-	-	-	(41,051)	2,323	-	6,851	-	**(31,964)**
Gain/(Loss) from Financial Instruments	60,056	-	-	127,106	-	-	-	-	-	**187,162**
Surplus/(Deficit) for the year	**(3,091,616)**	**(173,240)**	**48,787**	**(187,076)**	**(66,244)**	**599**	**-**	**3,425**	**-**	**(3,465,365)**
Other comprehensive income										
Net increase in property, plant and equipment asset revaluation surplus					2,889					**2,889**
Actuarial gain/(loss) on defined benefit plans	(10,593,763)									**(10,593,763)**
Other net decrease in equity							(356)			**(356)**
Total other comprehensive income for the year	**(10,593,763)**	**-**	**-**	**-**	**2,889**	**-**	**(356)**	**-**	**-**	**(10,591,230)**
Total comprehensive result for the year	**(13,685,379)**	**(173,240)**	**48,787**	**(187,076)**	**(63,355)**	**599**	**(356)**	**3,425**	**-**	**(14,056,595)**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

33. SERVICE GROUP STATEMENTS (continued)

ASSETS AND LIABILITIES AS AT 30 JUNE 2009

	Debt Liability Management $'000	Superannuation Liability Management $'000	Central Financial Services $'000	Total Crown Finance Entity $'000
Assets				
Current assets				
Cash and cash equivalents	-	-	271,437	**271,437**
Financial assets at fair value	-	-	101	**101**
Derivative financial instruments	37	-	-	**37**
Advances repayable to the Crown	-	-	46,464	**46,464**
Receivables	-	-	20,102	**20,102**
Total current assets	**37**	**-**	**338,104**	**338,141**
Non-current assets				
Property, plant and equipment	-	-	132	**132**
Investment in an associate	-	-	894,024	**894,024**
Financial assets at fair value	-	-	2,827	**2,827**
Advances repayable to the Crown	-	-	887,831	**887,831**
Receivables	-	-	77,903	**77,903**
Intangible assets	-	-	121	**121**
Total non-current assets	**-**	**-**	**1,862,838**	**1,862,838**
Total assets	**37**	**-**	**2,200,942**	**2,200,979**
Liabilities				
Current liabilities				
Payables	187,247	-	406,771	**594,018**
Bank overdraft	551,227	-	-	**551,227**
Borrowings	414,943	-	-	**414,943**
Unfunded superannuation		1,057,400	-	**1,057,400**
Employee benefits and other provisions	-	-	3,163,242	**3,163,242**
Provision for outstanding insurance claims	-	-	27,892	**27,892**
Other	-	-	117,651	**117,651**
Total current liabilities	**1,153,417**	**1,057,400**	**3,715,556**	**5,926,373**
Non-current liabilities				
Payables	-	-	25,153	**25,153**
Borrowings	12,924,943	-	-	**12,924,943**
Unfunded superannuation	-	27,374,282	-	**27,374,282**
Employee benefits and other provisions	-	-	166,487	**166,487**
Provision for outstanding insurance claims	-	-	83,698	**83,698**
Other	-	-	95,703	**95,703**
Total non-current liabilties	**12,924,943**	**27,374,282**	**371,041**	**40,670,266**
Total liabilities	**14,078,360**	**28,431,682**	**4,086,597**	**46,596,639**
Net liabilities	**(14,078,323)**	**(28,431,682)**	**(1,885,655)**	**(44,395,660)**

33. SERVICE GROUP STATEMENTS (continued)

ASSETS AND LIABILITIES AS AT 30 JUNE 2009

	Total Crown Finance Entity * $'000	Consolidated Fund * $'000	Electricity Tariff Equalisation* $'000	NSW Self Insurance Corporation* $'000	Crown Leaseholds * $'000
Assets					
Current assets					
Cash and cash equivalents	252,620	-	28,303	308,234	8,729
Financial assets at fair value	101	-	-	79,886	-
Derivative financial instruments	37	-	-	1,519	-
Advances repayable to the Crown	46,464	-	-	-	-
Inventories	-	-	-	-	-
Receivables	20,102	2,756,476	31,167	568,484	11,200
Other	-	-	-	1	-
Total current assets	**319,324**	**2,756,476**	**59,470**	**958,124**	**19,929**
Non-current assets					
Property, plant and equipment	132	-	-	212	6,225,225
Investment in a joint venture	18,817	-	-	-	-
Investment in an associate	894,024	-	-	-	-
Financial assets at fair value	2,827	-	-	3,943,574	-
Advances repayable to the Crown	887,831	-	-	-	-
Inventories	-	-	-	-	-
Receivables	77,903	5,674	-	295,786	21,881
Investment Property	-	-	-	-	-
Other	-	-	-	34	-
Total non-current assets	**1,881,655**	**5,674**	**-**	**4,241,244**	**6,247,106**
Total assets	**2,200,979**	**2,762,150**	**59,470**	**5,199,368**	**6,267,035**
Liabilities					
Current liabilities					
Payables	594,018	-	10,600	88,979	4,675
Bank overdraft	551,227	1,849,073	-	-	-
Borrowings	414,943	-	-	-	-
Unfunded superannuation	1,057,400	-	-	-	-
Employee benefits and other provisions	3,163,242	-	-	-	-
Provision for outstanding insurance claims	27,892	-	-	723,321	-
Aboriginal land council claim	-	-	-	-	992,271
Other	117,651	174,985	-	29,715	16,229
Total current liabilities	**5,926,373**	**2,024,058**	**10,600**	**842,015**	**1,013,175**
Non-current liabilities					
Payables	25,153	-	-	-	-
Borrowings	12,924,943	-	-	-	-
Unfunded superannuation	27,374,282	-	-	-	-
Employee benefits and other provisions	166,487	-	-	-	-
Provision for outstanding insurance claims	83,698	-	-	4,249,351	-
Other	95,703	313,963	-	60	-
Total non-current liabilties	**40,670,266**	**313,963**	**-**	**4,249,411**	**-**
Total liabilities	**46,596,639**	**2,338,021**	**10,600**	**5,091,426**	**1,013,175**
Net assets/(liabilities)	**(44,395,660)**	**424,129**	**48,870**	**107,942**	**5,253,860**

33. SERVICE GROUP STATEMENTS (continued)

ASSETS AND LIABILITIES AS AT 30 JUNE 2009

	Crown Lands Homesites Program * $'000	Land Development Working Account * $'000	Elimination Entity $'000	Consolidated Total $'000
ASSETS				
Current Assets				
Cash and Cash Equivalents	3,347	12,377	-	**613,610**
Financial Assets at Fair Value	-	-	-	**79,987**
Derivative Financial Instruments	-	-	-	**1,556**
Advances Repayable to the Crown	-	-	-	**46,464**
Inventories	18,259	251	-	**18,510**
Receivables	173	2,309	(407,315)	**2,982,596**
Other	-	-	-	**1**
Total Current Assets	**21,779**	**14,937**	**(407,315)**	**3,742,724**
Non-Current Assets				
Property, Plant and Equipment	-	5	-	**6,225,574**
Investment in a joint venture	-	-	-	**18,817**
Investment in an Associate	-	-	-	**894,024**
Financial Assets at Fair Value	-	-	-	**3,946,401**
Advances Repayable to the Crown	-	-	-	**887,831**
Inventories	15,594	5,754	-	**21,348**
Receivables	88	-	(83,577)	**317,755**
Investment Property	-	-	-	**-**
Other	-	-	-	**34**
Total Non-Current Assets	**15,682**	**5,759**	**(83,577)**	**12,313,543**
Total Assets	**37,461**	**20,696**	**(490,892)**	**16,056,267**
LIABILITIES				
Current Liabilities				
Payables	5,682	9,513	(399,248)	**314,219**
Bank Overdraft	-	-	-	**2,400,300**
Borrowings	-	-	-	**414,943**
Unfunded Superannuation	-	-	-	**1,057,400**
Employee Benefits and Other Provisions	-	-	-	**3,163,242**
Provision for Outstanding Insurance Claims	-	-	-	**751,213**
Aboriginal Land Council Claim	-	-	-	**992,271**
Other	1,983	-	(8,067)	**332,496**
Total Current Liabilities	**7,665**	**9,513**	**(407,315)**	**9,426,084**
Non-Current Liabilities				
Payables	-	-	-	**25,153**
Borrowings	-	-	-	**12,924,943**
Unfunded Superannuation	-	-	-	**27,374,282**
Employee Benefits and Other Provisions	-	-	-	**166,487**
Provision for Outstanding Insurance Claims	-	-	-	**4,333,049**
Other	5,910	-	(83,577)	**332,059**
Total Non-Current Liabilties	**5,910**	**-**	**(83,577)**	**45,155,973**
Total Liabilities	**13,575**	**9,513**	**(490,892)**	**54,582,057**
Net assets/(liabilities)	**23,886**	**11,183**	**-**	**(38,525,790)**

34. TRANSFER PAYMENTS

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

	2010 $'000	2009 $'000
Payments		
Non-Government schools - recurrent	(2,084,779)	(1,951,262)
Non-Government schools - targeted programs	(1,131,412)	(320,411)
Non-Government schools - capital	(19,149)	(44,826)
Local Government - financial assistance	(440,106)	(536,574)
Local Government - roads	(174,291)	(211,414)
	(3,849,737)	**(3,064,487)**
Receipts		
Non-Government schools - recurrent	2,084,779	1,951,262
Non-Government schools - targeted programs	1,131,412	320,411
Non-Government schools - capital	19,149	44,826
Local Government - financial assistance	440,106	536,574
Local Government - roads	174,291	211,414
	3,849,737	**3,064,487**

35. RECLASSIFICATIONS

Comparative figures have been reclassified and repositioned in the financial statements, where necessary, to conform to the basis of presentation and classification used in the current year. The following changes to comparative were made:

Statement of Comprehensive Income

- Reclassification of $156.5 million from financial distributions to other income to separate contributions from other General Government agencies from the financial distributions made by Public Trading Enterprises and State Owned Corporations.

Statement of Financial Position

- Reclassification of $224.5 million from cash and cash equivalents to financial assets at fair value to better reflect the nature of the investment held in TCorp investment facilities.
- Investment in the Joint Government Enterprise of $18.8 million was reclassed from cash and cash equivalents to disclose separately as an investment in a joint venture to reflect the equity accounting treatment of the arrangement.

Statement of Cash Flows

- A reclassification of $931.5 million from other receipts to sales of goods and services received in operating activities.
- Purchase of investments was increased by $243.3 million as a result of the reclassifications made to cash and cash equivalents (above).

36. EQUITY TRANSFERS

The following is a summary of assets and liabilities transferred to/from the Crown Entity during the year.

a) The Crown Leaseholds Entity (CLE), Land Development Working Account (LDWA) and Crown Land Homesites Program (CLHP) were transferred to the Land and Property Management Authority (LPMA) as a result of the restructuring of administrative arrangements in July 2009.

	CLE $'000	LDWA $'000	CLHP $'000	TOTAL $'000
Assets				
Cash and receivables	8,729	12,377	3,347	24,453
Receivables	33,081	2,309	261	35,651
Inventories	-	6,005	33,853	39,858
PPE	6,225,225	5	-	6,225,230
Total assets	**6,267,035**	**20,696**	**37,461**	**6,325,192**
Liabilities				
Payables and other liabilities	20,903	9,513	7,665	38,081
Aboriginal Land Council Granted	992,271	-	-	992,271
Other	-	-	5,910	5,910
Total liabilities	**1,013,174**	**9,513**	**13,575**	**1,036,262**
Net assets	**5,253,861**	**11,183**	**23,886**	**5,288,930**
Reserves	2,751,757	-	-	2,751,757
Accumulated funds transferred out	**2,502,104**	**11,183**	**23,886**	**2,537,173**

b) Other equity transfers.

	$'000
Sale of NSW Lotteries	105,023
Rail Infrastructure Corporation - superannuation liabilities	(111,059)
Sydney Ferries - borrowings	(94,882)
2009 Sydney World Master Games - windup	877
	(100,041)

37. EVENTS AFTER THE REPORTING DATE

On 1 July 2010 the NSW Government began the due diligence process on the Government's retail electricity businesses and Gentrader contracts. The Government will require binding bids from potential acquirers by November 1 with the transactions to be executed by the end of the year.

The energy reform transactions include the sale of three Government owned retail electricity businesses and the sale of generation trading rights (Gentrading contracts) covering the output of its three generating companies. The retail electricity businesses are Energy Australia, Integral Energy and Country Energy and the three generating companies are Macquarie Generation, Delta Electricity and Eraring Energy. In addition the transactions include the sale of potential power station development sites.

It is expected that the proceeds of this sale will be paid to the Crown Entity.

Also from 1 July, SiCorp will take over the management and underwriting of the Home Warranty Insurance Fund (HWIF) following the withdrawal of the commercial insurers in NSW. The *NSW Self Insurance Corporation Act 2004* has been amended which enable SiCorp to operate the Home Warranty Insurance scheme.

End of audited financial statements

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Electricity Tariff Equalisation Ministerial Corporation

Annual Report 2009-10

Electricity Tariff Equalisation Ministerial Corporation

Charter

The Electricity Tariff Equalisation Ministerial Corporation was constituted under the *Electricity Supply Amendment Act 2000* (amending the *Electricity Supply Act 1995*) for the purpose of administering the Electricity Tariff Equalisation Fund (ETEF), which was set up under the same amendment. It commenced operations on 1 January 2001.

The Fund manages the cost risk of electricity purchases by State owned electricity retail suppliers (Energy Australia, Integral Energy and Country Energy).

These suppliers are required to supply electricity to small retail customers in New South Wales at tariffs determined by the Independent Pricing and Regulatory Tribunal (IPART).

IPART determinations apply to residential and small business customers consuming less than 160 MWh per annum who have not elected to enter into a negotiated supply contract.

State owned retail suppliers are required to contribute to the Fund when wholesale prices are lower than the energy cost component charged to customers buying power under regulated tariffs. When wholesale prices are higher than the regulated tariff, the Fund makes payments to the retail suppliers ensuring a regulated return.

The Fund is designed to smooth the volatility in wholesale electricity prices for those State owned retailers that are required to sell at regulated tariffs. At the same time, the Fund ensures that the retailers do not face a commercial advantage or disadvantage from supplying regulated customers.

In the event there is a sustained rise in pool prices and the ETEF has insufficient funds, New South Wales State owned electricity generators are required to top up the ETEF from funds generated by high wholesale electricity prices. Generator payments to the Fund are repaid whenever retail suppliers make a payment into the Fund. The involvement of generators ensures that the Fund can never be in deficit.

Strategic Directions

The Government has decided to phase out the Fund. Section 121A of the Electricity Supply (General) Regulation 2001 was amended to provide that ETEF will cease to operate on 30 June 2011.

The ETEF arrangement is aimed at managing the electricity purchase risk of State owned retail suppliers. Phasing out the Fund by June 2011 will allow adequate time for adjustments to occur in the energy trading market. There will be no impact on retail customers supplied under regulated contracts with prices determined by IPART.

The Treasurer has initiated a regular audit of the retail suppliers. The focus of the audit is a review of the data provided by the retail suppliers to the Fund administrator.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury's Office of Financial Management. The Corporation has no staff of its own.

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Electricity Tariff Equalisation Ministerial Corporation

To Members of the New South Wales Parliament,

I have audited the accompanying financial statements of Electricity Tariff Equalisation Ministerial Corporation (the Corporation), which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial statements:

- present fairly, in all material respects, the financial position of the Corporation as at 30 June 2010, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010

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

The Fund Administrator's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

David Nolan
Director, Financial Audit Services

1 October 2010
SYDNEY

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the Electricity Tariff Equalisation Ministerial Corporation for the year ended 30 June 2010 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 2010* and the Treasurer's Directions.

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

Mark Ronsisvalle
Fund Administrator
27 September 2010

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

	Note	2010 $'000	2009 $'000
Revenue			
Tariffs from retailers/generators		491,432	398,045
Investment income		2,788	43
Total revenue		**494,220**	**398,088**
Expenses			
Tariffs to retailers/generators		438,090	349,249
Other	3	125	51
Total expenses		**438,215**	**349,300**
Surplus for the year		**56,005**	**48,788**
Total other comprehensive income		**-**	**-**
Total comprehensive income for the year		**56,005**	**48,788**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Note	2010 $'000	2009 $'000
Assets			
Current assets			
Cash and cash equivalents	4	66,624	28,303
Receivables	5	41,164	31,170
Total current assets		**107,788**	**59,473**
Total assets		**107,788**	**59,473**
Liabilities			
Current liabilities			
Payables	6	2,913	10,603
Total current liabilities		**2,913**	**10,603**
Total liabilities		**2,913**	**10,603**
Net assets		**104,875**	**48,870**
Equity			
Accumulated funds		104,875	48,870
Total equity		**104,875**	**48,870**

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 2010

	Note	2010 $'000	2009 $'000
Balance at 1 July		48,870	82
Surplus for the year		56,005	48,788
Total other comprehensive income		-	-
Total comprehensive income for the year		56,005	48,788
Balance at 30 June		**104,875**	**48,870**

The accompanying notes form part of these financial statements.

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

STATEMENT OF CASH FLOWS
for the year ended 30 June 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Payments			
Payments to retailers/generators		445,784	350,784
Management fee		94	21
Consultant costs		6	-
Other		32	18
Total payments		**445,916**	**350,823**
Receipts			
Payments from retailers/generators		481,438	378,979
Interest received		2,788	42
GST recouped		11	5
Total receipts		**484,237**	**379,026**
Net cash flows from operating activities	9	**38,321**	**28,203**
Net increase in cash and cash equivalents		**38,321**	**28,203**
Opening cash and cash equivalents		28,303	100
Closing cash and cash equivalents		**66,624**	**28,303**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

1. INFORMATION

The Electricity Tariff Equalisation Ministerial Corporation (ETEMC) was established under section 43EM of the *Electricity Supply Act 1995* (the Act) and administers the Electricity Tariff Equalisation Fund (ETEF). The Fund manages the purchase-cost risks for electricity retail suppliers of small retail customers in New South Wales.

The Act sets outs rules for payment to and from the ETEF. The Fund pays and collects tariffs from retailers and/or generators based on usage figures from the retailers and/or generators.

ETEMC is a statutory body under the *Public Finance and Audit Act 1983*. Its main business address is 1 Farrer Place, Sydney NSW 2000, Australia.

The financial statements were authorised for issue by the Fund Administrator on the date the accompanying statement was signed by the Fund Administrator. The Fund will cease operation on 30 June 2011. Any surplus balance in the Fund, after payment of all moneys and the performance of all obligations under the Payment Rules, will be paid to the Consolidated Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards which include Australian Accounting Interpretations
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2010*
- NSW Treasury Accounting Policy Papers.

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars ($'000).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of judgements, estimates and assumptions

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

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

In particular, management have made the following judgements in applying ETEMC's accounting policies:

Amounts recognised as income and expenditure from/to retailers and generators consist of both final and revision settlements. Under the ETEF payment rules, final settlements are completed 20 business days after the conclusion of the trading week. Revisions are conducted 20-30 weeks after the trading week.

Due to the lag time between trading and settlement, an estimate is made of the receivable or payable based on the tariff settlements.

Statement of compliance

The financial statements comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

New standards and interpretations not yet effective

Certain new standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2010. It is considered that the impact of these new standards and interpretations will have no material impact on the financial statements of the ETEMC.

The ETEMC has not early adopted any new standards and interpretations.

New revised or amending standards and interpretations

The ETEMC has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting period.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the ETEMC. The following Standard is most relevant to the ETEMC:

- *AASB 101 Presentation of Financial Statements (June 2009) ('revised AASB 101')*
  The ETEMC has applied revised AASB 101 from 1 July 2009 and now presents a statement of comprehensive income, which incorporates the income statement and all non-owner changes in equity. As a result, the ETEMC now presents all owner changes in the statement of changes in equity. The standard also made changes to the terminology and naming of various statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

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

Tariff receipts from retailers/generators

Tariff receipts from retailers and generators are recognised in accordance with the ETEF payment rules when the right to receive the tariff is established.

Investment income

Investment income includes interest income.

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

EXPENSES

Tariff payments to retailers/generators

Tariff payments to retailers and generators are recognised in accordance with the ETEF payment rules when the right to pay the tariff has been established.

Employee entitlements

The ETEMC has no employees. Finance officers of the Crown Asset and Liability Management branch in the Office of Financial Management, NSW Treasury provide administration services, including the preparation of financial statements of the ETEMC. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

Goods and Services Tax (GST)

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

- for when the GST cannot be recovered from the Australian Taxation Office (ATO), then it is either part of the cost of acquiring an asset, or part of an item of expense.
- for receivables and payables which are recognised as including GST.

Cash flows are included in the Statement of Cash Flows on a gross basis. However, the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO are classified as operating cash flows.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS

Cash and cash equivalents

Cash and cash equivalents comprise short term deposits with an original maturity of three months or less, are recognised in the Statement of Financial Position and are reconciled to the Statement of Cash Flows.

Receivables

Receivables are recognised and carried at the original levied amount less an allowance for impairments. These are held with either the state owned generators and/or retailers and are settled on time by TCorp via Austraclear ensuring that receivables are not impaired.

Short-term receivables with no stated interest rate are measured at the original levied amount where the effect of discounting is immaterial.

Payables

Payables represent liabilities for goods and services provided but not paid for by the year's end. This occurs when the ETEMC must make future payments for the goods and services, even if it has not been billed for them.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at original levied amount where the effect of discounting is immaterial.

Taxation

The activities of the ETEMC are exempt from income tax as granted by the Australian Taxation Office.

Impairment of financial assets

The ETEMC assesses if a financial asset or group of financial assets is impaired at each reporting date. The assets held by the ETEMC include short term deposits with an original maturity of three months or less which are managed by TCorp as well as receivables from the state owned generators and retailers which are settled on time by TCorp via Austraclear.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	2010 $'000	2009 $'000

3. OTHER EXPENSES

	2010 $'000	2009 $'000
Audit fees	26	25
Consultants costs	5	-
Management fee	88	26
Other	6	-
	125	**51**

4. CASH AND CASH EQUIVALENTS

	2010 $'000	2009 $'000
Short term deposits	**66,624**	**28,303**

In 2007-08, the Governor approved a Crown Entity financial accommodation from TCorp for $300 million under the *Public Authorities (Financial Arrangements) Act 1987*. The financing facility is to cover temporary cash deficits which occur during the day of settlement between retailers and generators.

Short term deposits are made for varying periods. The modified duration of the portfolio is limited to no more than 3 months and depends on the immediate cash requirement of ETEMC. There are no restrictions on cash.

5. RECEIVABLES

	2010 $'000	2009 $'000
Payments from retailers/generators	41,160	31,167
GST receivable	4	3
	41,164	**31,170**

The payments from retailers/generators represent tariffs receivable from retailers/generators during the financial year and the settlements occur after the year end according to the Australian Energy Market Operator (AEMO) settlement timetable.

The payments from retailers/generators were non-interest bearing during the financial year since payments to and receipts from retailers and generators were settled simultaneously on a predetermined date via Austraclear.

An allowance of impairment loss is recognised when there is objective evidence that the receivable is impaired. All receivables were tested for impairment at 30 June 2010. No indication of impairment was found and no allowance for impairment loss has been made in the Statement of Comprehensive Income for 2010 (2009: $Nil).

	2010 $'000	2009 $'000

6. PAYABLES

	2010 $'000	2009 $'000
Payments to retailers/generators	2,874	10,568
Audit fees	29	27
Management fee	10	8
	2,913	**10,603**

The payments to retailers/generators represent tariffs payable to retailers/generators during the financial year and the settlements occur after the year end according to the AEMO settlement timetable. The payments to retailers/generators are non-interest bearing.

7. CONTINGENT LIABILITIES

There are no known contingent liabilities as at the reporting date (2009: Nil).

8. CONTINGENT ASSETS

There are no known contingent assets as at the reporting date (2009: Nil).

9. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITES TO SURPLUS FOR THE YEAR

	2010 $'000	2009 $'000
Net cash flows from operating activities	38,321	28,203
Change in assets and liabilities		
Increase in receivables	9,994	19,065
Decrease in payables	7,690	1,520
Surplus for the year	**56,005**	**48,788**

10. FINANCIAL INSTRUMENTS

ETEMC's principal financial instruments are outlined in the table below.

The main purpose of these financial instruments is to maintain sufficient funds to fund operations. ETEMC has various other financial assets and liabilities such as payables and receivables from/to retailers and generators.

	Note	Category	Carrying amount 2010 $'000	Carrying amount 2009 $'000
Financial assets				
Cash and cash equivalents	4	N/A	66,624	28,303
Loans and Receivables[1]	5	Loans and Receivables (measured at amortised cost)	41,160	31,167
Financial liabilities measured at amortised cost	6		2,913	10,603

1) Excludes statutory receivables

Risk management

ETEMC has appointed NSW Treasury Corporation (TCorp), the State's central financing authority who has recognised expertise in the management of Treasury related risks, to advise on, and actively manage its asset portfolio. TCorp manages investment risk in line with the Risk and Compliance Framework. These are summarised as follows:

(a) Interest rate risk

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

ETEMC's exposure to interest rate risk is limited to the TCorp investment in the short term deposits. The receivables from and payables to retailers/generators are non-interest bearing, and the carrying amounts are not affected by changes in market interest rates.

ETEMC's exposure to interest rate risk on its holding of cash and cash equivalents is outlined in the following table. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

10. FINANCIAL INSTRUMENTS (continued)

Interest rate risk sensitivity analysis

	Carrying amount $'000	- 1% Profit $'000	- 1% Equity $'000	+ 1% Profit $'000	+ 1% Equity $'000
2010					
Financial assets					
Cash and cash equivalents	66,624	(666)	-	666	-
Cash and cash equivalents	28,303	(283)	-	283	-

(b) Currency risk

As at 30 June 2010, the ETEMC has no transactional or structural currency exposures.

(c) Credit risk

Credit risk is the risk of financial loss because another party to a contract or a financial position does not meet a financial obligation. The ETEMC's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments at each reporting date.

ETEMC's credit risk is confined to the state government owned standard retail suppliers and electricity generators and is considered to be insignificant. There is no collateral held on receivable balances.

Cash and cash equivalents

Cash comprises cash investment in floating rate notes, short term bank bills and commercial paper. Interest is earned on daily bank balances adjusted for a management fee to NSW Treasury.

Concentration of credit risk

By credit rating	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other ratings (1) $'000	Total $'000
2010								
Cash and cash equivalents	66,624	-	-	-	-	-	-	66,624
Loans and Receivables	-	-	-	-	-	-	41,160	41,160
2009								
Cash and cash equivalents	28,303	-	-	-	-	-	-	28,303
Loans and Receivables	-	-	-	-	-	-	31,167	31,167

1) Short term ratings of A-2 or better, when counterparty has no long term rating or the long term rating is A or lower

10. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk (continued)

By classification of counterparty	Governments	Bank	Other	Total
	$'000	$'000	$'000	$'000
2010				
Cash and cash equivalents	66,624	-	-	66,624
Loans and Receivables	41,160	-	-	41,160
2009				
Cash and cash equivalents	28,303	-	-	28,303
Loans and Receivables	31,167	-	-	31,167

(d) Liquidity risk

The table below summarises the maturity profile of ETEMC's financial liabilities.

			Interest Rate Exposure			Maturity Dates		
	Weighted average effective interest rate	Nominal amount	Fixed interest rate	Variable interest rate	Non-interest bearing	< 1 Year	1 - 5 years	> 5 years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2010								
Financial liabilities measured at amortised cost	-	-	-	-	2,913	2,913	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**2,913**	**2,913**	**-**	**-**
2009								
Financial liabilities measured at amortised cost	-	-	-	-	10,603	10,603	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**10,603**	**10,603**	**-**	**-**

According to the Payment Rules, the cash balance of the fund must never be in deficit meaning that if necessary additional funds are sourced from the generators in order to meet payments to retailers.

10. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk (continued)

The ETEMC has approved financial accommodation from TCorp for $300 million under the *Public Authorities (Financial Arrangements) Act 1987*. The financing facility is to cover temporary cash deficits which occur during the day of settlement between retailers and generators.

No assets have been pledged as collateral. The ETEMC's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

(e) Fair value

The financial assets and liabilities of ETEMC at the reporting date comprise mainly monetary financial assets and financial liabilities and their carrying values approximate their fair values.

(f) Market price risk

ETEMC is not subject to electricity price risk since any shortfall in cash needed to make payments to retailers as a result of significant fluctuations in energy prices will be met by the generators as per the payment rules.

11. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

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State Rail Authority Residual Holding Corporation

Annual Report 2009-10

State Rail Authority Residual Holding Corporation

Charter

The State Rail Authority Residual Holding Corporation was constituted under the *Transport Administration Act 1988*. It represents those parts of the former State Rail Authority which were not incorporated into the new Railcorp.

Objectives

The Corporation's objectives, as set out in the Transport Administration Act are to:

a) manage its assets, rights and liabilities effectively and responsibly

b) minimise the risk exposure of the State arising from its activities

c) achieve the efficient and timely winding up of residual business activities.

Performance in 2009-10

There were no 2009-10 transactions, however the Corporation remains in existence to assist in the administration of certain former State Rail Authority cross-border rolling stock leases.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury's Office of Financial Management and NSW Treasury Corporation (TCorp). The Corporation has no staff of its own.

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

State Rail Authority Residual Holding Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of State Rail Authority Residual Holding Corporation (the Corporation), which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial statements:

- present fairly, in all material respects, the financial position of the Corporation as at 30 June 2010, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

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

The Secretary of the Treasury's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

David Nolan
Director, Financial Audit Services

15 September 2010
SYDNEY

STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the State Rail Authority Residual Holding Corporation as at 30 June 2010 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 2010* and the Treasurer's Directions.

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

Michael Schur
Secretary
13 September 2010

STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Revenue			
Interest		-	-
Other		-	-
Total Revenue		**-**	**-**
Expenses			
Finance costs		-	-
Depreciation		-	-
Payment to Consolidated Fund		-	-
Total expenses		**-**	**-**
Surplus/(deficit) for the year		**-**	**-**
Total other comprehensive income		**-**	**-**
Total comprehensive result for the year		**-**	**-**

The accompanying notes form part of these financial statements.

STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION

STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Notes	2010 $'000	2009 $'000
Assets			
Current assets			
Cash and cash equivalents		-	-
Total current assets		**-**	**-**
Total assets		**-**	**-**
Liabilities			
Current liabilities			
Payables		-	-
Total current liabilities		**-**	**-**
Total liabilities		**-**	**-**
Net assets		**-**	**-**
Equity			
Accumulated funds		-	-
Total equity		**-**	**-**

The accompanying notes form part of these financial statements.

STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Balance at 1 July		-	-
Surplus/(deficit) for the year		-	-
Total other comprehensive income		-	-
Total comprehensive income for the year		-	-
Balance at 30 June		**-**	**-**

The accompanying notes form part of these financial statements.

STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION

STATEMENT OF CASH FLOWS
for the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts			
Government contributions received		-	-
Interest received		-	-
Total receipts		-	-
Payments			
Payments to suppliers, employees and others		-	-
Interest paid		-	-
Total payments		-	-
Net cash flows from/(used in) operating activities		-	-
Cash flows from investing activities			
Receipts			
Investments redeemed		-	-
Total receipts		-	-
Net cash flows from/(used in) investing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Opening cash and cash equivalents		-	-
Closing cash and cash equivalents		-	-

The accompanying notes form part of these financial statements

STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

1. STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION INFORMATION

The State Rail Authority of New South Wales (StateRail) was a statutory body representing the Crown in right of the State of New South Wales, as constituted by the *Transport Administration Act 1988 (TAA).* Since 1 January 2004, pursuant to amendments to the TAA that provided for the restructuring of the Rail Industry, StateRail's principal activities have been to manage the transfer of selected assets, rights and liabilities to Rail Corporation New South Wales (RailCorp), and to manage the disposal of the remainder in consultation with RailCorp. By 30 June 2008 all remaining functions, assets (including assets related to the cross border rolling stock leases), rights and liabilities of StateRail with the unique exception of its rights and liabilities relating to specified ongoing cross border rolling stock leases, were transferred to various agencies, including RailCorp, Rail Infrastructure Corporation and the Crown.

StateRail itself was subject to the enactment of an *Amendment of Transport Administration Act 1988 No 109,* presented as *Schedule 4 of the State Revenue and Other Legislation Amendment (Budget) Act 2007*, which was passed cognate to the *Appropriation Act 2007*. The commencement date for the Act is 1 July 2007. The effect of the amendment in Schedule 4 is to change the name of StateRail to "State Rail Authority Residual Holding Corporation" (SRA), remove it from the definition of NSW rail authorities and place it under the control of the Treasurer. The sole remaining purpose of the re-named SRA is to hold the cross border rolling stock leases that were excluded from the vesting of all other StateRail assets rights and liabilities.

The SRA is a statutory body under the *Public Finance and Audit Act 1983*. Its main business address is 1 Farrer Place, Sydney NSW 2000, Australia.

The financial statements were authorised for issue by the Secretary on the date on which the accompanying Statement by the Secretary was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards which include Australian Accounting Interpretations
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2010*
- NSW Treasury Accounting Policy Papers.

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

- property, plant and equipment
- certain provisions
- derivative financial instruments.

These are measured at fair value.

The accrual basis of accounting has been adopted in the preparation of the financial statements, except for cash flow information.

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars ($'000).

SRA is a not-for-profit entity for accounting purposes.

At 30 June 2007, SRA has achieved its statutory objective to wind up all its residual business activities and ceased all operations.

Use of judgements, estimates and assumptions

The preparation of the financial statements require management to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision effects both current and future period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance

The financial statements comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

New standards and interpretations not yet effective

Certain new standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2010. It is considered that the impact of these new standards and interpretations in future periods will have no material impact on the financial statements of the SRA.

The SRA has not early adopted any new standards and interpretations.

New revised or amending standards and interpretations

The SRA has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting period.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the SRA. The following Standard is most relevant to the SRA:

- *AASB 101 Presentation of Financial Statements (June 2009) ('revised AASB 101')*
  The SRA has applied revised AASB 101 from 1 July 2009 and now presents a statement of comprehensive income, which incorporates the income statement and all non-owner changes in equity. As a result, the SRA now presents all owner changes in the statement of changes in equity. The standard also made changes to the terminology and naming of various statements.

INCOME

Income is measured at the fair value of the consideration or contributions received or receivable. In most cases this is the value of the cash exchanged or exchangeable. Income is only recognised if its receipt is probable and the amount is reliably measurable.

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

EXPENSE

Finance officers of the Crown Asset and Liability Management branch in the Office of Financial Management, NSW Treasury provide management services, including the preparation of financial statements of the SRA. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

The Crown Entity also pays for the entity's audit fees inclusive of GST of $5,500 (2009: $5,500).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, at call deposits, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

LIABILITIES

Payables

Payables represent liabilities for goods and services provided but not paid for by the year's end. This occurs when the entity must make future payments for the goods and services, even if it has not been billed for them.

Payables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at original levied amount where the effect of discounting is immaterial.

TAXATION

Income tax equivalents

The Office of State Revenue has advised that StateRail is not subject to the Tax Equivalent Regime (TER) under which it was required to pay a taxation equivalent to the NSW Government based on the accounting result.

Goods and Services Tax

Revenues, expenses and assets are generally recognised net of the amount of goods and services tax (GST). However, receivables and payables are stated with the amount of GST included and GST that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the relevant asset or expense.

The net amount of GST recoverable from (or payable to) the ATO is recognised as part of receivables (or payables) in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of any cash flow that is recoverable from (or payable to) the ATO is classified as an operating cash flow.

3. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements

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Liability Management Ministerial Corporation

Annual Report 2009-10

Liability Management Ministerial Corporation

Charter

The Liability Management Ministerial Corporation was constituted under the *General Government Liability Management Fund Act 2002* to manage the the General Government Liability Management Fund.

The Fund was established to accumulate financial assets to improve the financial management of the general government sector's balance sheet and allow flexibility in the timing of superannuation contributions to the public sector defined benefit schemes.

Performance in 2009-10

There were no transactions in 2009-10, however the General Government Liability Management Fund remains in existence to assist in the future management of the State's assets and liabilities.

Staffing

Administration and accounting services are provided by staff of the NSW Treasury's Office of Financial Management. The Corporation has no staff of its own.

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Liability Management Ministerial Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Liability Management Ministerial Corporation (the Corporation), which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial statements:

- present fairly, in all material respects, the financial position of the Corporation as at 30 June 2010, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- are in accordance with section 41B of the *Public Fincnce and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

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

The Secretary of the Treasury's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

David Nolan
Director, Financial Audit Services

15 September 2010
SYDNEY

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(a) The accompanying financial statements exhibit a true and fair view of the financial position of the Liability Management Ministerial Corporation as at 30 June 2010 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 2010* and the Treasurer's Directions.

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

Michael Schur
Secretary
13 September 2010

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

	Note	2010 $000	2009 $000
Revenue			
Contributions from the Crown Finance Entity		-	-
Investment income		-	-
Total revenue		**-**	**-**
Expenses			
Management fee		-	-
Total expenses			
Surplus/(deficit) for the year		**-**	**-**
Total other comprehensive income		-	-
Total comprehensive result for the year		**-**	**-**

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Note	2010 $000	2009 $000
Assets			
Current assets			
Cash and cash equivalents		-	-
Financial assets at fair value		-	-
Total current assets		**-**	**-**
Total assets		**-**	**-**
Liabilities			
Current liabilities			
Payables		-	-
Total current liabilities		**-**	**-**
Total liabilities		**-**	**-**
Net assets		**-**	**-**
Equity			
Accumulated funds		-	-
Total equity		**-**	**-**

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

	Note	2010 $000	2009 $000
Balance at 1 July		**-**	**-**
Surplus/(deficit) for the year		-	-
Total other comprehensive income		-	-
Total comprehensive income for the year		**-**	**-**
Balance at 30 June		**-**	**-**

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 $000	2009 $000
Cash flows from operating activities			
Payments			
Management fee		-	-
Total payments		-	-
Receipts			
Contributions from the Crown Finance Entity		-	-
Investment income		-	-
Total receipts		-	-
Net cash flows from/(used in) operating activities		-	-
Cash flows from investing activities			
Payments for purchase of investments		-	-
Proceeds from sale of investments		-	-
Net cash flows from/(used in) investing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Opening cash and cash equivalents		-	-
Closing cash and cash equivalents		-	-

The accompanying notes form part of these financial statements.

LIABILITY MANAGEMENT MINISTERIAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

1. INFORMATION

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

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

The NSW Government has a fiscal target to fully fund superannuation liabilities by 2030. In accordance with this funding target, the balance of the General Government Liability Management Fund was transferred to the SAS Trustee Corporation via the Crown Finance Entity during 2006-07. There have been no activities in the LMMC since then.

These financial statements were authorised for issue by the Secretary on the date the accompanying statement was signed by the Secretary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards which include Australian Accounting Interpretations
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2010*
- NSW Treasury Accounting Policy Papers.

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

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

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars ($'000).

Use of judgements, estimates and assumptions

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

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

Major assumptions and judgements by management are detailed in the relevant notes to these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance

The financial statements comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

New standards and interpretations not yet effective

Certain new standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2010. It is considered that the impact of these new standards and interpretations will have no material impact on the financial statements of the LMMC.

The LMMC has not early adopted any new standards and interpretations.

New revised or amending standards and interpretations

The LMMC has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting period.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the LMMC. The following Standard is most relevant to the LMMC:

- *AASB 101 Presentation of Financial Statements (June 2009) ('revised AASB 101')*
  The LMMC has applied revised AASB 101 from 1 July 2009 and now presents a statement of comprehensive income, which incorporates the income statement and all non-owner changes in equity. As a result, the LMMC now presents all owner changes in the statement of changes in equity. The standard also made changes to the terminology and naming of various statements.

INCOME

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

Contributions from the Crown Finance Entity

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

Investment income

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EXPENSES

Finance officers of the Crown Asset and Liability Management branch in the Office of Financial Management, NSW Treasury provide administrative services, including the preparation of financial statements of the LMMC. Due to the irregular and varied nature of those services, their value cannot be calculated with any certainty and no charge is made to the entity for them.

The Crown Entity also pays the entity's audit fees, inclusive of GST, of $5,500 (2009: $5,280).

Management fees are recognised as an expense in the period in which they are incurred.

Goods and Services Tax

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

Contingencies and liabilities are inclusive of GST.

ASSETS

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise:
- cash at bank
- cash in hand
- other short term deposits with an original maturity of three months or less.

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

Financial assets

Financial assets can be classified as:

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

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

Financial assets at fair value

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

These financial assets are designated at fair value through profit and loss as they are managed and their performance is evaluated on a fair value basis. Gains or losses are recognised in the Statement of Comprehensive Income.

Payables

Payables are carried at amortised cost 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 short-term and are carried at original invoice amount as the effect of discounting is immaterial.

TAXATION

The activities of the LMMC are exempt from income tax as granted by the Australian Taxation Office.

3. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial statements