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New South Wales

TREASURY

CROWN 2007-08 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.

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

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This is the third volume of NSW Treasury's Annual Report for 2007-08.

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

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

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

Crown Charter

The Crown Charter 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.

Highlights of 2007-08

- Unfunded superannuation liability increased by $3,085 million mainly due to negative 7.3 per cent investment return.
- Valuation of Crown reserves project commenced.

Statement of Financial Position ($m)		
	30 June 2008	**30 June 2007**
Total Liabilities	40,066	37,517
Total Assets	16,000	17,599
Net Liabilities	24,066	19,918

The increase in net liabilities between 30 June 2007 and 30 June 2008 is mainly explained by:

Superannuation

Unfunded superannuation liability increased mainly due to a reduction in asset balances because of a negative State Super investment return of 7.3 per cent. During the year the equity markets fell due to the global credit crisis, sub prime loan failures in the United States and higher oil price.

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

The discount rate increased from 6.4 per cent as at 30 June 2007 to 6.55 per cent as at 30 June 2008. Under the previous Australian Accounting Standard the valuation basis was the forecast long-term asset earning rate.

For funding purposes, NSW Treasury believes that the AASB 119 approach is inappropriate as it generally overstates the liability obligation when scheme assets are invested in growth portfolios and are available to offset the liability.

Long-term investment history shows that equity returns exceed bond rates due to the equity risk premium. In addition, the use of fluctuating bond rates distorts underlying comparisons from year to year.

Crown Reserves Valuation Project

There are approximately 33,000 Crown reserves in New South Wales. The NSW Government directly manages a number of these. Local governments and other reserve trusts manage others. A project is underway to identify and value Crown reserves that are controlled by the NSW Government and therefore should be recognised as assets of the NSW Government in the Crown and Total State Sector financial statements.

It has been estimated that the project will require the formal identification and valuation of more than 90,000 parcels of land. Since the last reporting date, over 27,000 parcels have been formally identified and converted to the State's Integrated Titling System.

Officers from Lands' Valuation Service have commenced classifying these parcels into categories to facilitate valuations being undertaken. Valuations will commence in the first quarter of the 2008-09 and it is expected that valuations will be largely completed by June 2010.

Highlights of 2007-08

- Negative State Super superannuation and SICorp investment returns caused an operating deficit.
- Crown provided additional grant funding of $390 million to the Transport Infrastructure Corporation to repay project borrowings for the new Epping to Chatswood rail link.

Statement of Financial Performance ($m)		
	2007-08	**2006-07**
Total Revenues	42,479	41,521
Total Expenses	46,301	39,611
Loss on Disposal of Non-Current Assets	(44)	(85)
Loss from Financial Instruments	(32)	(56)
(Deficit)/Surplus	**(3,898)**	**1,769**

Crown deficit is mainly attributable to negative investment returns for superannuation, 7.3 per cent, which increases the net unfunded liability and related expenses.

The other major asset portfolio, SICorp, also recorded a negative return of 7.4 per cent which reduces revenue via investment income.

The Crown provided additional grant funding of $390 million to the Transport Infrastructure Corporation.

This was to repay project borrowings for the new Epping to Chatswood rail link.

Insurance Liability Management

NSW Self Insurance Corporation

The Treasury Managed Fund (TMF) self insurance scheme is owned and underwritten by the Government.

It covers workers compensation, public liability and other insurance liabilities for all general government sector budget dependent agencies. Other public sector agencies may apply to join the TMF on a voluntary basis.

The scheme's overall purpose is to assist member agencies reduce risk exposures and thereby maximise resources available to support their core business activities.

Workers compensation claims management of the TMF is distributed between three claims managers, Employers Mutual Limited, Allianz Insurance Limited and GIO General Limited. The claims management for all other general insurance is provided by GIO.

There are also separate long term contracts for risk management (Suncorp), reinsurance (Benfield) and actuarial services (PricewaterhouseCoopers and Taylor Fry).

Chart 1 (over the page) shows a general trend of stability or decline in outstanding claims liabilities in recent years for both workers compensation and public liability. This situation is a result of continued favourable impact of the workers compensation and tort reform legislative changes, the multi provider claims management model, and improved internal risk and claims management practice of public sector agencies.

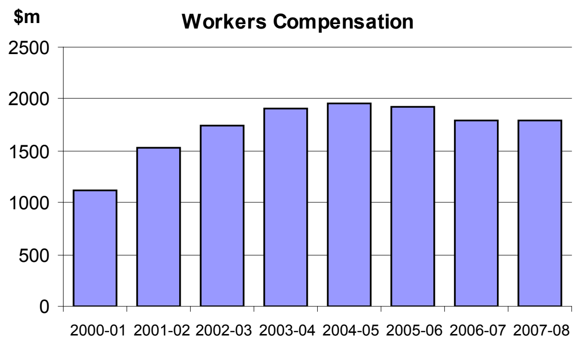
Key SICorp functions are outsourced to the Crown Assets and Liabilities Management (CALM) branch of NSW Treasury.

Services provided by CALM are:

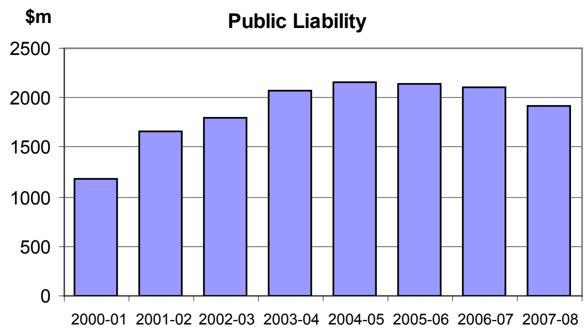
- administration
- cash management
- banking
- accounting
- budgeting

Chart 1: Outstanding Claims

a) Workers Compensation



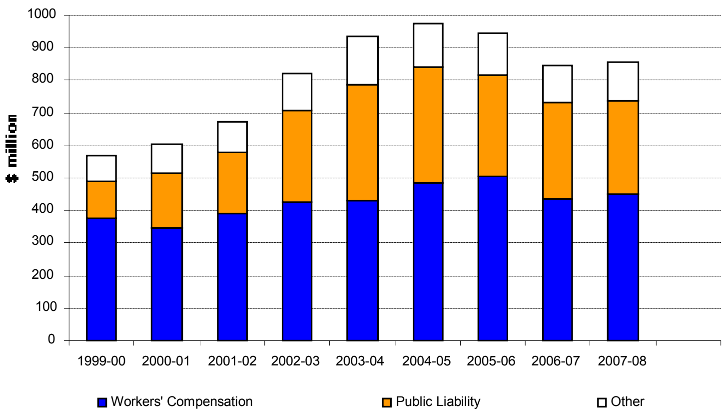
b) Public Liability



The TMF target premium for 2008-09 has been reduced by 1.9 per cent from 2007-08 levels. Compared to 2007-08, workers compensation premiums have fallen by 3.3 per cent ($14.7 million) and public liability premiums have fallen by 3.5 per cent ($10.2 million).

Reduced workers compensation premiums follow reduced ongoing claims and payment experience plus prospective changes in rehabilitation management practices. Reduced public liability premiums reflect significant reductions in Visiting Medical Officer premiums, after some years of good claims experience.

Chart 2: Total TMF premiums by line of business



Public liability premiums have been reduced on an ongoing basis with a 3.4 per cent fall in 2007-08, a 4.2 per cent fall in 2006-07, a 12.6 per cent fall in 2005-06 and a 0.2 per cent fall in 2004-05. Chart 2 shows the trend in premiums by the major lines of business.

Net Assets Holding Level Policy

In March 2006, Treasury established the *Net Assets Holding Level Policy* (previously referred to as the *Insurance Reserve Policy)* that dictates an appropriate level of surplus assets held for the TMF. This policy sets TMF's surplus assets at 10 per cent above outstanding claims liabilities, plus the amount of reinsurance retention that the Fund would incur for a single loss. The surplus is reviewed based on the financial results as at 31 December each year.

Consistent with the superannuation funding plan, the *Net Assets Holding Level Policy* uses a forecast Treasury Managed Fund investment earning rate to estimate future liabilities as well as forecast assets.

Following the review of the fund as at 31 December 2007, a surplus above the requirement level was identified and $300 million was transferred to the Consolidated Fund. Previous surplus payments were $910 million to the Consolidated Fund in 2007 and $1 billion to the General Government Liability Management Fund in 2006. These contributions reflect reductions in claims incurred and overall higher than expected investment returns during the period.

Despite recent negative equity returns SICorp remains in a sound financial position and is fully-funded with total assets exceeding total liabilities by $330 million as at 30 June 2008.

HIH Liabilities

The NSW Government assumed liability for outstanding compulsory third party claims under policies in force with HIH prior to 31 December 2000.

In 2007-08 about $24 million in claim payments were made to holders of former HIH compulsory third party policies. After payments and an actuarial revaluation, outstanding claims have increased by $7 million to $77 million.

Assistance to Local Councils affected by HIH Collapse

The HIH collapse also had an adverse impact on a number of local councils insured with HIH. The NSW Government negotiated a 50/50 funding arrangement with the Commonwealth to provide financial assistance to local councils which had a judgement against them that would have been met by HIH policies.

The NSW Government has provided assistance to Evans Shire Council, Balranald Shire Council, Ballina Shire Council, Berrigan Shire Council, Clarence Valley Council and Nundle Shire Council. By 30 June 2008, the NSW Government had paid $15 million, representing the State's 50 per cent share, to local councils who suffered financial difficulty meeting HIH debts.

Superannuation Liability Management

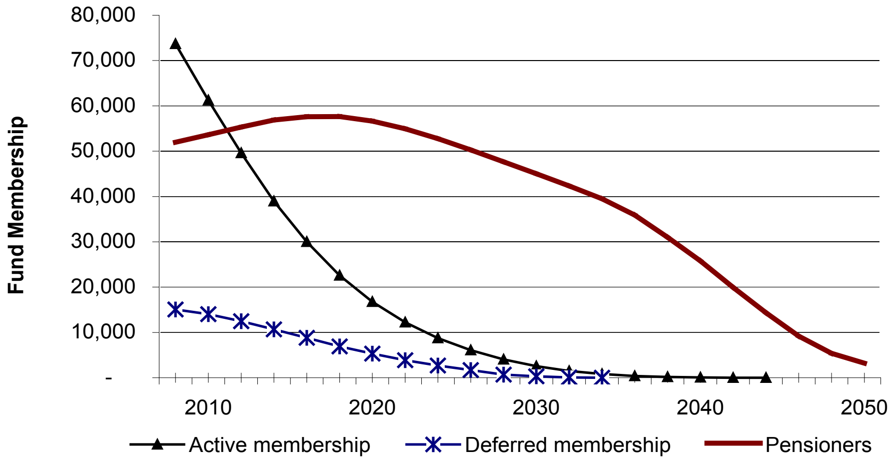
Superannuation Liabilities

Approximately 73 per cent of the NSW public sector workforce are members of accumulation schemes, primarily First State Super (FSS), where employers contribute the 9 per cent Superannuation Guarantee Charge (SGC).

The balance of the NSW public sector workforce are members of closed defined benefit schemes: the pension based State Superannuation Scheme (SSS) and Police Superannuation Scheme (PSS); and the lump sum based State Authorities Superannuation Scheme (SASS) and State Authorities Non-Contributory Superannuation Scheme (SANCS). The administration and investment functions for the schemes are the responsibility of the State Authorities Superannuation Trustee Corporation (STC).

As shown in Chart 3, there will be a pronounced decline in active STC scheme members and an increasing number of pensioners over the next twenty years. Pensioner numbers are expected to peak at approximately 58,000 in 2017 and then decline slowly over the following thirty years.

Chart 3: General government sector net debt as a percentage of gross state product, as at 30 June



Superannuation Funding Plan

The objective of the Government's funding plan is to ensure that sufficient, but not excessive Crown cash employer contributions are made to the defined benefit schemes to ensure full funding by 2030, as required by the Fiscal Responsibility Act 2005. This funding approach ensures that scarce Government financial resources are not diverted unnecessarily to the superannuation funds but are available to meet core government services such as health, education and transport. The cash funding plan is based on forecast scheme investment earnings.

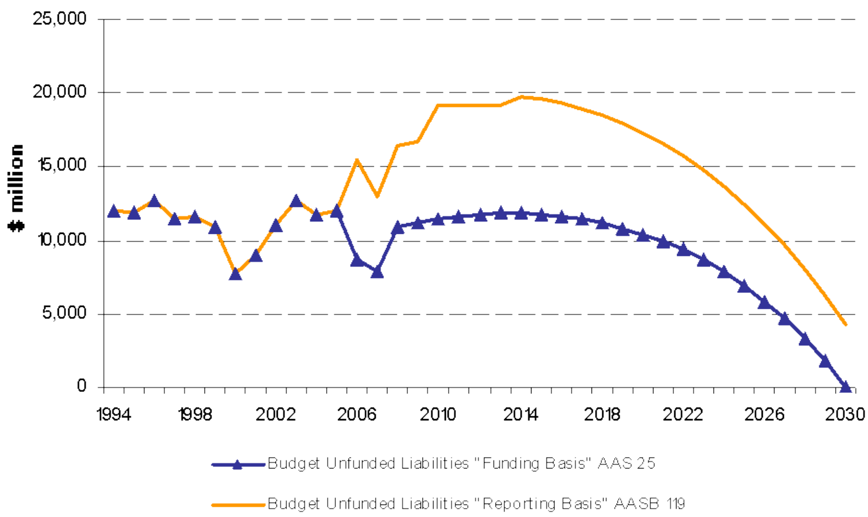
Until 2005, the scheme investment earning rate was used for financial reporting purposes under the Australian Accounting Standard AAS 25, Financial Reporting by Superannuation Plans. Although AAS 25 has now been replaced by AASB 119 for statutory employer reporting purposes, Treasury believes AAS 25 remains an appropriate basis for funding as it provides a better indication of the level of unfunded liabilities and therefore the amount of Crown employer funding required over the long-term to meet future member benefits obligations.

The trustees of public sector defined benefit schemes still use AAS 25 to report the financial position of their superannuation funds.

Chart 4 shows the forecast reduction in unfunded liabilities resulting from the State's long-term superannuation funding plan for the four defined benefit superannuation schemes that make up the State Super Fund (also known as the Pooled Fund).

The chart also shows the liability over time as estimated by AASB 119 and illustrates that AASB 119 overestimates the unfunded liability position and leads to a reported unfunded liability in 2030, despite the schemes being fully funded under AAS 25 with no further Crown contributions being required.

Chart 4: Comparison of STC pooled fund general government unfunded liabilities (funding basis) and AASB 119 (reporting basis)



For funding purposes, and with the help of the (STC) fund actuary, Mercer, planned employer cash contributions are periodically reviewed to ensure they are at a level where general government sector net unfunded superannuation liabilities should peak in 2013 and be fully funded by 2030.

Forecast employer contributions are based on an earning rate assumption of 7.9 per cent over time, following advice from Mercer Investment Consulting. As shown in Table 1, actual State Super investment earnings over the last 50 years have averaged 8.2 per cent.

Table 1: State Super Long-Term Investment Returns	
Average for Last 50 years	8.2%
Average for Last 40 years	8.9%
Average for Last 30 years	9.5%
Average for Last 20 years	8.0%
Average for Last 10 years	6.6%
Average for Last 5 years	9.7%

The funding plan also makes allowance for certain tax concessions available to public sector superannuation funds, in particular, that asset earnings available to meet current pension liabilities are tax free. The availability of Australian share franking credits ensures that STC schemes are generally eligible for a tax refund in most tax years.

Forecast assets from ongoing funding, plus future expected investment returns, should ensure no further Crown employer contributions will be required past 2030.

Debt Management

Crown Finance Debt Portfolio

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

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

The Crown debt portfolio comprises core, strategic and tactical portfolios. TCorp, as debt manager, adopts a passive approach except for the tactical portfolio where an active management style aims to add value relative to a benchmark portfolio. The memorandum of understanding between Treasury and TCorp governs the management of the portfolios. It includes a requirement to adhere to finance expense budget allocations, which are agreed at the beginning of each financial year.

The General Government Debt Management Committee consisting of representatives of TCorp, Treasury and the Roads and Traffic Authority meets quarterly to monitor debt strategy.

Public Authorities (Financial Arrangements) Act 1987

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

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

NSW Treasury, is responsible for administration of the PAFA Act.

NSW Treasury and its PAFA risk management advisor, Deloitte, reviews the risk management policies and procedures of selected agencies based on an assessment of their risk levels.

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

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

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

Financial Asset Management

The Role of Assets in Financial Management

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

SICorp holds assets to ensure that the Government's self-insured liabilities can be met as claims are made.

State superannuation employer contributions are held in the State Super Fund to enable the Government to meet future State Super pension and lump sum superannuation entitlements.

The accumulation of financial assets ensures that taxpayers at the time the liability is incurred meet the cost of the liability, rather than place undue burden on future generations.

Investment Returns – SICorp and State Super

As at 30 June 2008, SICorp's investments (inclusive of cash and cash equivalents) total about $4.3 billion.

The investments of SICorp are held by the NSW Treasury Corporation (TCorp) in its TCorp Hour-Glass facilities or directly in a managed bond portfolio.

A memorandum of understanding between TCorp and SICorp details investment policies and procedures and sets benchmarks for each asset class.

SICorp Investment performance is monitored by the Crown Asset Management Committee, for the purpose of co-ordinating the management of the large amount of funds held centrally by the State.

The Committee has representatives from both Treasury and TCorp.

Table 2: SICorp Investment Returns

Year Ended 30 June	Investment Return (% p.a.)
2004	9.7
2005	9.4
2006	10.9
2007	9.5
2008	-7.4
Average 2 Years	1.1
Average 3 Years	4.3
Average 5 Years	6.4

An independent trustee corporation SAS Trustee Corporation, is responsible for State Super asset portfolio management. Board representation comprises four employee and four employer representatives with an independent Chair.

Table 3: State Super Investment Returns

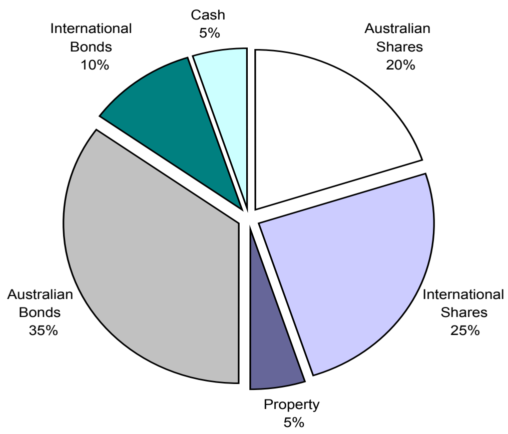
Year Ended 30 June	Investment Return (% p.a.)
2004	13.5
2005	13.0
2006	16.1
2007	15.1
2008	-7.3
Average 2 Years	3.9
Average 3 Years	8.0
Average 5 Years	10.1

Strategic Asset Allocations

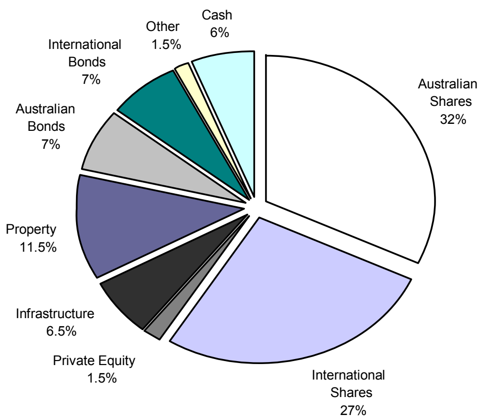
Both portfolio asset allocations are reviewed formally at least once a year and are constantly monitored during the year.

The target strategic asset allocation of SICorp and State Super are shown in the Pie Charts below.

SICorp



State Super



Crown Programs

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

Crown Undertakings

Consolidated Fund

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

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

Crown Finance

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

NSW Self Insurance Corporation

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

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

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

Liability Management Ministerial Corporation

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

Electricity Tariff Equalisation Ministerial Corporation

The Fund manages purchase cost risk for electricity retail suppliers of small retail customers in New South Wales. The Government has decided to phase out the Corporation's activities with the Fund to close by 30 June 2010.

Crown Lands Homesites Program

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

Land Development Working Account

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

Crown Leaseholds

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

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

State Rail Authority

Residual Holding Corporation holds certain former State Rail Authority international rolling stock leases.

New South Wales
TREASURY

Crown Entity

Consolidated Financial Report for the year ended 30 June 2008

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 report of the Crown Entity, which comprises the consolidated balance sheet as at 30 June 2008, the consolidated operating statement, statement of recognised income and expense, consolidated cash flow statement and summary of significant accounting policies and other explanatory notes.

Qualified Auditor's Opinion

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

- presents fairly, in all material respects, the financial position of the Crown Entity as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

Basis for Qualified Auditor's Opinion

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

My audit report for the year ended 30 June 2007 referred to the same matter.

Secretary of the Treasury's Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

Peter Achterstraat
Auditor-General

27 October 2008
SYDNEY

Crown Entity

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

(a) The accompanying consolidated financial report exhibits a true and fair view of the financial position of the Crown Entity as at 30 June 2008 and the transactions for the year then ended; and

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

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

John Pierce
Secretary
21 October 2008

Crown Entity

Consolidated Operating Statement
for the year ended 30 June 2008

	Notes	2008 $000	2007 $000
Income			
Taxation, Fines and Regulatory Fees	3(a)	19,142,664	18,790,012
Commonwealth Grants	3(b)	19,228,643	17,566,147
Financial Distributions	3(c)	2,097,322	1,870,785
Sale of Goods and Services	3(d)	850,036	1,012,346
Investment Income	3(e)	(213,237)	1,010,370
Share of Profit of an Associate	7	55,390	23,765
Other	3(f)	1,318,645	1,247,192
Total Income		**42,479,463**	**41,520,617**
Expenses Excluding Losses			
Superannuation - Defined Benefit Plans		4,012,970	(1,694,822)
Long Service Leave		422,038	392,811
Maintenance		-	21,056
Depreciation and Amortisation		6,659	25,421
Grants and Subsidies	4(a)	579,646	1,184,082
Finance Costs	4(b)	1,144,847	1,073,602
Insurance Claims	4(c)	412,790	259,764
Recurrent Appropriations	36	35,818,657	34,125,462
Capital Appropriations	36	3,267,682	3,082,424
Other	4(d)	635,506	1,141,535
Total Expenses		**46,300,795**	**39,611,335**
Loss on Disposal of Non-Current Assets	5	(44,368)	(84,587)
Loss from Financial Instruments	6	(32,488)	(55,894)
(DEFICIT) / SURPLUS FOR THE YEAR		**(3,898,188)**	**1,768,801**

The accompanying notes form part of these financial statements.

Crown Entity

Consolidated Balance Sheet
as at 30 June 2008

	Notes	2008 $000	2007 $000
ASSETS			
Current Assets			
Cash and Cash Equivalents	30	462,490	739,584
Financial Assets at Fair Value	8	81,821	123
Derivative Financial Instruments	9	8,817	4,537
Advances Repayable to the Crown	10	57,422	46,869
Inventories	11	16,210	12,944
Receivables	12	3,108,393	3,193,748
Assets Held for Sale	14	-	30,641
Other		15	30
Total Current Assets		**3,735,168**	**4,028,476**
Non-Current Assets			
Property, Plant and Equipment	13	6,311,117	6,824,399
Investment in an Associate	7	805,894	749,390
Financial Assets at Fair Value	8	4,054,485	4,871,830
Advances Repayable to the Crown	10	893,067	908,144
Inventories	11	20,588	4,962
Receivables	12	176,980	193,089
Investment Property	15	-	15,718
Intangible Assets	16	2,432	3,016
Other		43	52
Total Non-Current Assets		**12,264,606**	**13,570,600**
Total Assets		**15,999,774**	**17,599,076**
LIABILITIES			
Current Liabilities			
Payables	18	322,617	780,718
Bank Overdraft	31	3,297,782	2,919,691
Borrowings	19	493,739	2,260,901
Unfunded Superannuation	21	978,300	902,000
Employee Benefits and Other Provisions	22	2,870,332	2,803,334
Provision for Outstanding Insurance Claims	23	676,253	651,062
Other	34	182,214	185,252
Total Current Liabilities		**8,821,237**	**10,502,958**
Non-Current Liabilities			
Payables	18	35,435	42,407
Borrowings	19	9,817,480	8,132,266
Unfunded Superannuation	21	16,528,984	13,520,460
Employee Benefits and Other Provisions	22	151,070	147,544
Provision for Outstanding Insurance Claims	23	3,668,602	3,880,172
Other	34	1,042,874	1,290,936
Total Non-Current Liabilties		**31,244,445**	**27,013,785**
Total Liabilities		**40,065,682**	**37,516,743**
Net Liabilities		**(24,065,908)**	**(19,917,667)**
EQUITY			
Reserves	24	2,765,801	2,873,463
Retained Deficit	24	(26,831,709)	(22,791,130)
Total Equity		**(24,065,908)**	**(19,917,667)**

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Recognised Income and Expense
for the year ended 30 June 2008

	Notes	2008 $000	2007 $000
CHANGES IN EQUITY - OTHER THAN TRANSACTIONS WITH OWNERS AS OWNERS			
Net Increase in Property, Plant and Equipment Asset Revaluation Reserve	24	150,863	487,855
Transfer of Asset Revaluation Reserve for Assets Held for Sale	24	-	(40)
Other Net Decrease in Equity	24	512	(1,335)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		**151,375**	**486,480**
(Deficit) / Surplus for the Year		(3,898,188)	1,768,801
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR		**(3,746,813)**	**2,255,281**

The accompanying notes form part of these financial statements.

Crown Entity

Consolidated Cash Flow Statement
for the year ended 30 June 2008

	Notes	2008 $000	2007 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee Related		(1,271,995)	(7,590,520)
Grants and Subsidies		(675,540)	(1,232,357)
Borrowing Costs		(868,784)	(798,037)
Recurrent Appropriation	36	(35,818,657)	(34,125,462)
Capital Appropriation	36	(3,267,682)	(3,082,424)
Other		(2,134,796)	(1,587,788)
Total Payments		**(44,037,454)**	**(48,416,588)**
Receipts			
Taxation, Fines and Regulatory Fees		19,130,205	18,178,089
Sale of Goods and Services		1,075,035	1,111,716
Commonwealth Grants	36	19,233,760	17,491,172
Investment Income		329,538	1,376,259
Financial Distribution from Non-Budget Sector		2,036,161	1,810,973
Other		1,404,111	1,288,166
Total Receipts		**43,208,810**	**41,256,375**
NET CASH FLOWS USED IN OPERATING ACTIVITIES	31	**(828,644)**	**(7,160,213)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments		(1,264,947)	(2,365,340)
Purchase of Property, Plant & Equipment		(169)	(95,096)
Advances Made		(42,230)	(37,349)
Other		-	61
Proceeds from Sales of Investment		1,413,730	8,745,822
Proceeds from Sales of Property, Plant & Equipment		36,397	89,866
Advance Repayments Received		67,038	180,210
Dividend Received from Investment		-	29,000
Proceeds of Capital Restructure	36	73,400	184,000
NET CASH FLOWS FROM INVESTING ACTIVITIES		**283,219**	**6,731,174**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings and Advances		19,000	20,167
Repayment of Borrowings and Advances		(108,374)	(177,608)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(89,374)**	**(157,441)**
CASH FLOWS TO GOVERNMENT			
Transfer of Funds to State Property Authority		(20,386)	(112,657)
NET CASHFLOW TO GOVERNMENT		(20,386)	(112,657)
NET DECREASE IN CASH		**(655,185)**	**(699,137)**
Opening Cash and Cash Equivalents		(2,180,107)	(1,480,970)
CLOSING CASH AND CASH EQUIVALENTS	31	**(2,835,292)**	**(2,180,107)**

The accompanying notes form part of these financial statements.

Crown Entity

Notes to the Financial Statements
for the year ended 30 June 2008

Notes Index

Crown Entity

Notes to the Financial Statements
for the year ended 30 June 2008

1. CROWN ENTITY INFORMATION

Reporting Entity

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

Crown Finance Entity

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

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

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

Consolidated Fund

The Consolidated Fund collects state taxation, Commonwealth grants and financial distributions from the non-budget dependent agencies. Payments comprise recurrent and capital appropriation payments to budget dependent agencies. Note 36 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)

Crown Lands Homesites Program

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

Land Development Working Account

This entity develops and sells Crown land for residences in country NSW and for commercial purposes state-wide.

1. CROWN ENTITY INFORMATION (continued)

Crown Property Portfolio

This entity manages the subleasing of multiple occupancy buildings to public sector agencies, heritage properties and industrial sites. On 1 July 2007, the Crown Property Portfolio's remaining assets and liabilities were transferred to the State Property Authority and from this date it ceased financial activities.

Electricity Tariff Equalisation Ministerial Corporation

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

Crown Leaseholds Entity

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

Liability Management Ministerial Corporation (LMMC)

This corporation manages the General Government Liability Management Fund (GGLMF). The Fund invests accumulated Crown funds pending the payment of Crown employer contributions to the SAS Trustee Corporation superannuation fund. The LMMC was inactive during 2007-08.

State Rail Authority Residual Holding Corporation

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

Crown Entity

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

Notes 27, 28 and 29 detail the contingent liabilities and assets and/or guarantees for specific activities. The Report on State Finances lists State sector contingencies/guarantees.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

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

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

- investment property
- land and buildings
- financial assets at fair value
- derivative financial instruments

These assets are measured at fair value. Superannuation and insurance are valued at net present value and 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 are initially recorded at fair value. Each vehicle is then reduced on a straight line basis to its residual value over the life of the lease.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STATEMENT OF COMPLIANCE

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2008. These are listed as follows:-

- AASB 3, AASB 127 and AASB 2008-3 (Mar 2008) regarding business combinations and consolidations (1 Jul 2009)
- AASB 8 and AASB 2007-3 (Feb 2007) regarding operating segments (1 Jan 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 1004 (Dec 2007) regarding contributions (1 Jul 2008)
- AASB 1049 (Oct 2007) regarding the whole of government and general government sector financial reporting (1 Jul 2008)
- AASB 1050 (Dec 2007) regarding administered items (1 Jul 2008)
- AASB 1052 (Dec 2007) regarding disaggregated disclosures only (1 Jul 2008)
- AASB 2007-9 (Dec 2007) regarding amendments arising from the review of AASs 27, 29 and 31 (1 Jul 2008)
- AASB 2008-1 (Feb 2008) regarding vesting conditions (1 Jan 2009)
- AASB 2008-2 (Mar 2008) regarding puttable financial instruments (1 Jan 2009)
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease (1 Jan 2008)
- Interpretation 12 (Jun 2007) and AASB 2007-2 (Feb 2007) regarding service concession arrangements
  - applicable from 1 Jan 2009 and 1 Jan 2008 respectively.
- Interpretation 14 (Aug 2007) regarding the limit on a defined benefit asset (1 Jan 2008)
- Interpretation 129 (Feb 2007) regarding service concession disclosures (1 Jan 2008)
- Interpretation 1038 (Dec 2007) regarding contributions by owners (1 Jul 2008)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF CONSOLIDATION

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

Consolidation occurs on the date when the Crown Entity or its entities are given control. Consolidation stops on the date when control is transferred elsewhere. As at 1 July 2007, the Crown Property Portfolio was deconsolidated from the Crown Entity. Also from this date, the State Rail Authority Residual Holding Corporation became part of the Crown Entity.

INCOME

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

Taxation, Fines and Regulation Fees

The Crown Entity recognises state taxation by:

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

Commonwealth Grants

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

Financial Distributions

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

Insurance Premiums

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Rentals

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

Investment Revenue

Income is recognised as interest accrued by using the effective interest method. The Crown Entity calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate method discounts estimated future cash receipts through the expected life of the financial asset.

Income from Associate

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

EXPENSES

Employee Benefits and Other Provisions

Wages, Salaries, Annual Leave and Sick Leave

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Superannuation

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

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

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

In calculating the liability, forecasts are made for:

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

It is calculated based on the latest Triennial Review actuarial economic assumptions, except for the discount rate, which is based on the long term Commonwealth government bond rate which is adjusted annually, if appropriate, to recognise the extra long term nature of superannuation liabilities at the reporting date. AASB 119 Employee Benefits requires the discount rate to be revised each year and tied to the actual long term Commonwealth government bond rate.

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

Long Service Leave

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

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

All other liabilities are classified as non-current.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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	
	2007-08	2006-07
Buildings	2.5 %	2.5 %
Motor Vehicles	12.5 %	12.5 %
Computer Equipment	33.3 %	33.3 %
Furniture and Fittings	20.0%	n/a

Land is not depreciated.

Amortisation of Physical Non-Current Assets

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

Grants and Subsidies

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

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

Finance Costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goods and Services Tax

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

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

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

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

Contingencies and liabilities are inclusive of GST.

Recurrent and Capital Appropriations and Contributions from Other Bodies

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

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

ASSETS

Cash and Cash Equivalents

Cash and cash equivalents in the Consolidated Balance Sheet comprise:

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

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

Financial Assets

AASB 139 gives the scope for classifying financial assets at:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Financial Assets at Fair Value Through Profit or Loss

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

(ii) Loans and Receivables

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

Derecognition of Financial Assets

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

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

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

Derecognition of Financial Liabilities

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets

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

(i) Financial Assets Carried at Amortised Cost

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

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

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

(ii) Financial Assets Carried at Cost

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

Derivative Financial Instruments

Crown Entity uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

Assets Held for Sale

Where the Crown Entity has certain assets classified as held for sale, their carrying amount will be recovered principally through a sale transaction, not through continuing use.

Held for sale assets are recognised at the lower of carrying amount and fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

An impairment loss is recognised in profit or loss for any write down from the carrying amount measured immediately before re-measurement to fair value less costs to sell.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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

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

Receivables

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

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

Property, Plant, and Equipment

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

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

Revaluations

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

The fair value of Crown land is determined using Treasury Policy TPP07-1 *Valuation of Physical Non-Current Assets at Fair Valu*e, which is in line with AASB 116 *Property, Plant and Equipment*. This fair value valuation method does not differ from the previous method used in the public sector.

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

It revalues vacant Crown land annually. A full revaluation was undertaken in 2006-07. In order to reduce costs, a revaluation based on movements in land holdings and land values in each local government area was undertaken in 2007-08. There will be annual assessment as to when the next full revaluation is required.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluation increments and decrements are offset against one another within a class of non-current assets. Where the Crown Entity revalues an asset, it restates the gross amount of the asset and the related accumulated depreciation of the class of the revalued assets.

When it disposes of an asset, it transfers any of the asset's revaluation reserve to retained earnings.

Derecognition and Disposal

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

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

Leased Assets

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

(i) Crown Entity as a Lessee

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

(ii) Crown Entity as a Lessor

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

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

Impairment of Assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Investment in an Associate

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

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

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

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

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

Jointly Controlled Assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Properties

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

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

The Crown Entity derecognises the properties when:

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

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

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

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

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

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

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

Crown Reserves

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

It has been estimated that the project will require the formal identification and valuation of more than 90,000 parcels of land. Since the last reporting date, over 27,000 parcels have been formally identified and converted to the State's Integrated Titling System. It is expected that this work should be completed late in the 2009 calendar year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Officers from Lands' Valuation Service have commenced to classify these parcels into categories to facilitate valuations being undertaken. Valuations will commence in the first quarter of the 2008-09 financial year and it is expected that valuations will be largely completed by June 2010.

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

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

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

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

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

Intangible Assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LIABILITIES

Payables

Payables are carried at fair value and represent liabilities for goods and services provided but not paid for by the year's end. The Crown Entity must make future payments for goods and services even if it has not been billed for them.

Borrowings

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

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

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

Provisions

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

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

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

Outstanding Insurance Claims

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

- outstanding claims
- estimated unreported claims
- settlement costs

The Crown Entity 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Financial Guarantee Contracts

Financial guarantee contracts are initially recognised 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.

COMPARATIVES

Comparative figures have been repositioned or reclassified in the financial statement to conform with the basis of presentation and classification used in the current year.

USE OF ESTIMATES AND JUDGEMENTS

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

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

Classification and Valuation of Investments

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

Valuation of Derivative Financial Instruments

The fair values of derivatives are determined by reference to the market value for similar instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for Outstanding Claims

The significant estimates and judgements used in determining the provision for outstanding claims are included in Note 23 to the financial statements.

Long Service Leave Liability

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

State Rail Authority (SRA) Workers Compensation Liability

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

Unfunded Superannuation Liability

The significant estimates and judgements used in determining the Unfunded Superannuation Liability are included in Note 21 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.

Notes to the Financial Statements
for the year ended 30 June 2008

3. INCOME

	2008 $000	2007 $000
Payroll Tax	6,979,330	6,377,087
Stamp Duties	5,521,469	5,956,442
Petroleum, Tobacco and Liquor Licences	949	1,990
Gambling and Betting	1,602,693	1,639,380
Land Tax	1,942,843	2,030,848
Motor Vehicle Taxes and Fees	1,581,370	1,510,886
Debits Tax	(187)	-
Fees and Fines	429,159	360,712
Fire Insurance Levy	373,849	343,635
Other	711,189	569,032
	19,142,664	**18,790,012**
(b) Commonwealth Grants		
National Competition Payments	26,304	-
Revenue Replacement	18,559	103,055
Specific Purpose - Recurrent	6,229,248	5,439,736
Specific Purpose - Capital	1,038,661	1,160,433
GST Revenue	11,915,871	10,862,923
	19,228,643	**17,566,147**
(c) Financial Distributions		
Dividends	1,432,753	1,232,112
Income Tax Equivalents	664,569	638,673
	2,097,322	**1,870,785**
Tax of Agencies in the Tax Equivalent Regime (TER)	893,491	859,126
Tax Effect of Permanent Differences	(228,922)	(220,453)
Tax Expense of Agencies in the TER	**664,569**	**638,673**
(d) Sales of Goods and Services		
Property Rental	-	151,183
Insurance Premium Revenue	820,569	809,427
Reinsurance and Other Recoveries Revenue	29,467	51,736
	850,036	**1,012,346**
(e) Investment Income		
Interest		
Advances	87,065	90,666
Short Term Money Market Deposit	212	6,962
Other	16,045	37,940
Financial Assets at Fair Value	(316,559)	874,802
	(213,237)	**1,010,370**

* Stamp Duties include an assessment of $461 million (2007: $424 million) which is currently subject to an objection by the taxpayer. The Chief Commissioner of State Revenue does not believe that consideration should be given to impairing the receivable until the outcome of the objection process is known.

3. INCOME (continued)

	2008 $000	2007 $000
(f) Other Income		
Royalty on Minerals	573,565	488,895
Electricity Tariff Equalisation Contributions from Retailers	161,283	168,942
Electricity Tariff Equalisation Contributions from Generators	91,611	120,984
Revenue from Crown Leasehold Assets	55,953	56,128
Contribution from Environmental Trust	7,613	11,482
Fire Brigade Levy from Local Government	64,256	58,252
Crown Share of Budget Agency Asset Sales	69,428	35,095
Builders Warranty Premium Revenue	415	545
Repayments of Previous Years Appropriation	39,415	32,803
Long Service Leave Contributions	31,561	41,287
Employers Superannuation Contribution	4,501	4,298
Unclaimed Monies	11,022	26,252
Bona Vacantia - Public Trustee	5,402	677
Motor Vehicle Rental Income	11,111	24,604
HIH Insurance Recoveries	79,278	94,648
Other	112,231	82,302
	1,318,645	**1,247,192**

Crown Entity

Notes to the Financial Statements
for the year ended 30 June 2008

4. EXPENSES

	2008 $000	2007 $000
(a) Grants and Subsidies		
Natural Disaster Relief	54,709	76,712
Snowy River Water Rights	31,000	22,720
Health Capital Grant	23,000	23,000
Australian Inland Energy - Operating Subsidy	-	5,300
WSN Environment Solutions	-	65,000
Transport Infrastructure Development Corporation	390,000	960,000
Advances	2,160	32,054
Other	78,777	(704)
	579,646	**1,184,082**
(b) Finance Costs		
Finance Charges Incurred to:		
NSW Treasury Corporation	672,743	640,787
Commonwealth Government	86,885	68,546
NSW Budget-Dependent Agencies	96,646	76,126
Other	19,393	16,985
Unwinding of Discounts	269,180	271,158
	1,144,847	**1,073,602**
(c) Insurance Claims		
Claims Paid	750,418	607,431
Movement in Outstanding Claims	(468,360)	(440,870)
Management Fees and Legal Expenses	86,294	89,040
Provision for HIH Insurance Claims	44,438	4,163
	412,790	**259,764**
(d) Other Expenses		
Asset Revaluation Adjustment	(13,628)	63,938
Head Leases	-	101,084
State Bank Post Sale Expenses	19	(64)
Remissions/Refunds Crown Revenue	67,884	71,950
Bad Debts Write Off	243	(3,147)
Outward Reinsurance Expense	28,884	30,317
Audit Fees - Financial Statements	806	991
Audit Fees - Performance Audits	4,000	1,600
Other Auditors - Review of Financial Report	-	203
Other Auditors - Taxation Services	-	5
Production of Auditor-General's Reports to Parliament	1,460	1,420
Electricity Tariff Equalisation Payments to Retailers	101,522	582,458
Electricity Tariff Equalisation Payments to Generators	151,354	-
GST Administration Costs	196,258	203,445
Actuarial Fees	4,613	3,648
Snowy Hydro Sale Costs	3	(399)
Statutory Fees - Workcover Levy	23,468	28,471
Other	68,620	55,615
	635,506	**1,141,535**

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

	2008 $000	2007 $000
Proceeds from Sale	81,939	124,980
Written Down Value of Property, Plant and Equipment Sold	(126,307)	(209,567)
Net Loss on Disposal of Property, Plant and Equipment	**(44,368)**	**(84,587)**

6. GAIN / (LOSS) FROM FINANCIAL INSTRUMENTS

Net Gain/(Loss) on Financial Assets Held for Trading		
Derivative Financial Instruments	698	(11,568)
Net Gain/(Loss) on Financial Assets Designated as at Fair Value Through Profit or Loss		
TCorp Bond Portfolio	(33,186)	(44,326)
Net Loss From Financial Instruments	**(32,488)**	**(55,894)**

7. INVESTMENT IN AN ASSOCIATE

Investment in an Associate	805,894	749,390
	805,894	**749,390**

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

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

7. INVESTMENT IN AN ASSOCIATE (continued)

	2008 $000	2007 $000
Share of Associate's Balance Sheet		
Current Assets	125,231	355,364
Non Current Assets	1,264,070	1,263,962
	1,389,301	1,619,326
Current Liability	197,246	433,161
Non Current Liability	386,161	436,775
	583,407	869,936
Net Assets	**805,894**	**749,390**
Share of Associate's Profit		
Revenue	380,635	347,976
Profit before Income Tax	75,661	37,793
Income Tax Expense	(20,271)	(14,028)
Profit after Income Tax	**55,390**	**23,765**
Commitment of Expenditure		
Share of Capital Expenditure Commitment Contracted For	14,535	29,469
Share of Other Expenditure and Operating Lease Commitment Contracted	44,145	44,813
	58,680	**74,282**

2007 balances have been restated, where applicable, to include changes in the comparative figures of the audited 2008 Financial Report of Snowy Hydro Limited.

8. FINANCIAL ASSETS AT FAIR VALUE

Current:		
Bond Portfolio	81,715	-
Other	106	123
	81,821	**123**
Non -Current:		
Hour-Glass Investments		
Australian Shares	677,646	798,262
Indexed Australian Shares	188,593	206,635
International Shares	754,062	736,184
Indexed International Shares	237,636	260,193
Listed Property	199,894	209,700
International Bonds	393,948	313,163
Medium-Term Growth	96,476	110,477
Long-Term Growth	95,573	110,061
Bond Portfolio	1,410,207	2,126,574
Other	450	581
	4,054,485	**4,871,830**

At 30 June 2008, 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 $1,973.6 million face value (2007: $280.5 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 Operating Statement.

Investment Portfolio

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

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

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

Fair value of the Crown Entity's derivative financial instruments

	2008 $000	2007 $000
Current Assets		
Interest Rate Futures	8,817	4,537
Amount Receivable under Derivative Financial Instruments	**8,817**	**4,537**

10. ADVANCES REPAYABLE TO THE CROWN

	2008 $000	2007 $000
Current	57,422	46,869
Non-Current	893,067	908,144
Total Advances	**950,489**	**955,013**
Represented By:		
Rural Assistance Authority	81,433	77,901
Sydney Water Corporation	33,143	36,237
Commonwealth Housing Advances	693,694	712,888
Administered Advances	37,287	24,427
Department of Primary Industries	23,109	25,852
NSW Health Department	9,781	11,855
Department of Environment and Conservation	38,487	31,725
Roads and Traffic Authority	15,330	16,837
Other	18,225	17,291
	950,489	**955,013**

Advances repayable to the Crown, with a face value of $1,447 million as at 30 June 2008 (2007: $1,468 million), have stated interest rates of 0.0 – 10.24 per cent and mature in 1-36 years. The advances are a mix of interest and non interest bearing advances.

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

	2008 $000	2007 $000
Current:		
Land Development Works in Progress	**16,210**	**12,944**
Non-Current:		
Developed Land Held for Sale	**20,588**	**4,962**

12. RECEIVABLES

	2008 $000	2007 $000
Current:		
Taxes, Fees and Fines	1,340,848	1,362,917
Less: Allowance for Doubtful Debts	(17,338)	(24,112)
Net -Taxes, Fees and Fines	1,323,510	1,338,805
Dividends	1,384,974	1,236,970
Tax Equivalents	195,035	281,893
Reinsurance and Other Recoveries Receivable	34,223	31,939
Unspent Appropriations	15,906	21,572
Insurance	92,879	116,062
ETEF Tariff	12,102	120,984
GST Receivable	4,353	5,589
Other	45,411	39,934
	3,108,393	**3,193,748**
Non-Current:		
Reinsurance and Other Recoveries Receivable	146,284	154,811
Motor Vehicle Lease Reserve	7,548	-
Conversions - Crown Leaseholds	23,148	22,708
Other	-	15,570
	176,980	**193,089**

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

The current receivables included assessments totalling $504.7 million (2007: $468.9 million) which were under objection or appeal.

13. PROPERTY, PLANT AND EQUIPMENT

	2008 $000	2007 $000
Finance Lease	8,242	53,673
Owned	6,302,875	6,770,726
	6,311,117	**6,824,399**

a) Property, Plant & Equipment – Finance Lease

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

	Leasehold Building $000	Motor Vehicles $000	Total $000
Fair Value			
Opening Balance 1 July 2006	8,516	175,034	183,550
Less: Asset Revaluation Decrement	(506)	-	(506)
Less: Disposals	-	(110,247)	(110,247)
Closing Balance 30 June 2007	**8,010**	**64,787**	**72,797**
Accumulated Depreciation			
Opening Balance 1 July 2006	250	35,240	35,490
Add: Charge for the Year	536	19,083	19,619
Less: Disposals	-	(35,199)	(35,199)
Less: Reversal Due to Asset Revaluation	(786)	-	(786)
Closing Balance 30 June 2007	**-**	**19,124**	**19,124**
Net Carrying Amount			
Balance 1 July 2006	8,266	139,794	148,060
Balance 30 June 2007	**8,010**	**45,663**	**53,673**

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Motor Vehicles

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

Leasehold Building

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

b) Property, Plant & Equipment - Owned

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Property, Plant & Equipment - Owned

	Land	Building	Leasehold Land	Plant & Equipment	Total
	$000	$000	$000	$000	$000
Fair Value					
Opening Balance 1 July 2006	5,133,220	445,063	881,198	696	6,460,177
Add: Acquisition	39,061	95,083	-	183	134,327
Add: Asset Revaluation Increment/(Decrement)	806,982	599	(347,153)	-	460,428
Less: Disposals	(79,382)	-	(16,074)	-	(95,456)
Add: Transfer from Other Government Agencies	(132,250)	-	(18,272)	-	(150,522)
Less: Transfer Between Classes	(51,879)	-	51,879	-	-
Less: Assets Transferred to Intangible	-	4,075	-	-	4,075
Add: Revaluation of Transferred Assets	150	-	-	-	150
Less: Decrement in Value	(35,716)	-	-	-	(35,716)
Closing Balance 30 June 2007	**5,680,186**	**544,820**	**551,578**	**879**	**6,777,463**
Accum Depreciation					
Opening Balance 1 July 2006	-	1,500	-	176	1,676
Add: Charge for the Year	-	4,887	-	174	5,061
Closing Balance 30 June 2007	**-**	**6,387**	**-**	**350**	**6,737**
Net Carrying Amount					
Balance 1 July 2006	5,133,220	443,563	881,198	520	6,458,501
Balance 30 June 2007	**5,680,186**	**538,433**	**551,578**	**529**	**6,770,726**

Leasehold Land

Leasehold land, which includes perpetual leases, term leases, licences, permissive occupancies and enclosure permits are re-valued annually by the Valuation Services Division within Land and Property Information NSW (LPI) at fair value. The revaluation was done as at 30 June 2008. The LPI valuers determined there were no material changes to the values when compared to the last revaluation undertaken in 2007.

The Crown Leaseholds Entity's interest in the leasehold land is limited by the existence of leases which in many cases will deny the Crown Leaseholds Entity (CLE) occupancy of the land for many years or even in perpetuity. The CLE's interest in these leases is generally limited to the right to receive the income stream from the rentals combined with (in the case of term leases) the present value of the market value of the land deferred for the term of the lease. Consequently, the basis of valuation is the capitalisation of the income stream from the different classifications of land within each local government area, appropriately taking into account the conditions attaching to the leases. The method of valuation utilised mass valuation techniques.

In prior years, the land was re-valued by capitalising rental revenue by an average rate of 4.97 per cent irrespective of the category of tenure or the location of the tenure within the State. Through enhancements to the Crown Lands Information Database, re-valuations are now more precise as the land value within each local government area (LGA) will be calculated at the appropriate LGA/Category figure which will be adjusted annually. The capitalisation rates for 2007 ranged from 2 per cent to 12 per cent.

The capitalisation rates for 2008 have remained unchanged whilst the valuations have increased in line with CPI increases.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Untenured Crown Land

Untenured Crown land represents all parcels of Crown land not classified as leasehold, permissive occupancies or enclosure permits. This land, which includes Crown reserves for which no formal trust has been established, certain Crown Roads and New South Wales land on the continental shelf within the 3 Nautical Mile Zone, was independently valued in March 2008 by the Valuation Services Division within LPI at fair value in accordance with the requirements of AASB 116 Property, Plant and Equipment. The revaluation was done as at 30 June 2008. As a result, the value of untenured crown land was adjusted to reflect the revaluation and the land value as at 30 June 2008.

The valuation method adopted in 2007 was the valuation of each land category on a rate per hectare basis for each land type with each LGA. The land was valued at the highest and best use taking into account zoning and other restrictions, access to services and infrastructure and property market demand.

These value elements were considered in a global way when formulating a value level to apply to the particular land type. The rates per hectare for each land type were determined following a consideration of sales of comparable land in the locality. Where significantly different classes of land were identified these were accounted for in compiling the overall rate per hectare for the land class.

The determination of global rates per hectare for a variety of land classifications for each LGA is considered the most appropriate approach to determine a value for untenured Crown land. This methodology has the advantages of being a practical way to cost effectively arrive at a market based value for lands for which the CLE holds the full interest. In revaluing the land in 2008, a single change factor, compared to the 2007 valuation, was struck for each LGA. This factor was applied to each crown land type within each respective LGA, to determine the 2008 valuation.

Aboriginal Land Councils

The Crown Leasehold Entity land holdings include land, valued at $1,010 million (2007: $1,042 million), which has been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. These parcels of land remain under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared. Once this action occurs, freehold title can be issued to the respective local Aboriginal Land Councils. At that point the care, control and management of the land will be transferred from the Crown.

Crown Property Portfolio

The land and buildings held by the Crown Property Portfolio of $597 million as at 30 June 2007 were stated at fair value. On 1 July 2007 all the properties were vested to the State Property Authority.

14. ASSETS HELD FOR SALE

	2008 $000	2007 $000
Land	**-**	**30,641**

The assets held for sale at 30 June 2007 related to the Crown Property Portfolio. This entity was de-consolidated from the Crown Entity with all its assets vested to the State Property Authority on 1 July 2007. As at 30 June 2008 the Crown Entity has no assets held for sale.

15. INVESTMENT PROPERTY

	2008	2007
Land	-	15,673
Building	-	45
	-	**15,718**
Reconciliations		
Land - Net Fair Value at Beginning of Year	15,673	15,673
Add: Transfer from Property, Plant & Equipment	-	-
Add: Initial Cost of New Operating Lease Arrangement	-	-
Less: Transfer to State Property Authority	(15,673)	-
Closing Balance	**-**	**15,673**
Building - Net Fair Value at Beginning of Year	45	45
Less: Transfer to State Property Authority	(45)	-
Closing Balance	**-**	**45**
Total Investment Property	**-**	**15,718**

The investment property balance at 30 June 2007 related to properties in the Crown Property Portfolio (CPP). These were seven properties leased out to non-government tenants on long term (over 50 years) operating leases.

On 1 July 2007, CPP was transferred from the Crown Entity and all of its assets and liabilities were vested to the State Property Authority.

As at 30 June 2008 the Crown Entity has no investment property.

16. INTANGIBLE ASSETS

	2008 $000	2007 $000
Intangible	4,544	4,245
Less : Accumulated Amortisation	(2,112)	(1,229)
	2,432	**3,016**

Year Ended 30 June 2008	Computer Software Costs $'000	Total $'000
At 1 July 2007		
Net of Accumulated Amortisation and Impairment	3,016	3,016
Acquisition	299	299
Transfer to Property, Plant and Equipment	-	-
Amortisation	(883)	(883)
At 30 June 2008		
Net of Accumulated Amortisation and Impairment	**2,432**	**2,432**

Year Ended 30 June 2007	Sydney Opera House Car Park Lease $'000	Computer Software Costs $'000	Total $'000
At 1 July 2006			
Net of Accumulated Amortisation and Impairment	4,023	2,537	6,560
Acquisition	-	1,221	1,221
Transfer to Property, Plant and Equipment	(4,023)	-	(4,023)
Amortisation	-	(742)	(742)
At 30 June 2007			
Net of Accumulated Amortisation and Impairment	**-**	**3,016**	**3,016**

Computer Software Costs represent the capitalisation of development costs for the SICorp's Data Warehouse and computer softwares.

At 30 June 2007, the value of Sydney Opera House car park land was recognised as an investment property and the emerging value of the structures recognised in property, plant and equipment. On 1 July 2007, this asset was vested to the State Property Authority as part of the transfer of the CPP.

17. JOINTLY CONTROLLED ASSETS

Joint Government Enterprise Limited (JGE) – Water for Rivers

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

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

To ensure that the JGE neither makes a taxable profit or loss, contribution paid by the parties are placed into a "Funding Account". JGE is only reimbursed from the funding account for expenditure incurred. The bank account is legally held in the name of, and on behalf of, the Members, the money in Funding account remains jointly controlled by the Members until such time as an expense reimbursement claim is received from JGE. The NSW's share in the bank balance is included in the financial statements under their respective asset categories:

	2008 $000	2007 $000
Current Assets		
Cash and Cash Equivalents	**41,073**	**53,594**

Commitments

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

Commitments	**41,073**	**53,594**

18. PAYABLES

Current:		
Creditors	10,269	39,301
Financial Charges	190,528	194,662
GST Payable to Commonwealth	81,639	85,525
Motor Accident Authority - HIH Liability to Nominated Claimants	13,236	17,419
Accrued ETEF Tariffs	12,103	434,800
Other	14,842	9,011
	322,617	**780,718**
Non-Current:		
Motor Accident Authority - HIH Liability to Nominated Claimants	35,435	42,407
	35,435	**42,407**

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.

19. BORROWINGS

	2008 $000	2007 $000
Current:	493,739	2,260,901
Non-Current:	9,817,480	8,132,266
	10,311,219	**10,393,167**
Analysed as:		
New South Wales Treasury Corporation (TCorp)	9,409,688	9,432,513
Commonwealth Financial Agreement	8,048	8,092
Commonwealth Specific Purpose Advances	847,154	873,662
Finance Leases	8,242	53,673
Administered Loans	37,287	24,427
Other	800	800
Total Borrowings at Amortised Cost	**10,311,219**	**10,393,167**

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

Borrowings from TCorp are interest bearing and average interest costs including the amortisation of bond premium or discount of Core Portfolio was 6.11 per cent (2007: 6.19 per cent). Modified duration of portfolio is 3.96 years (2007: 3.66 years). The fair value is estimated by using the market value of the equivalent TCorp bonds that underlie the borrowings. The Crown Entity measures its exposure to interest rate risk in terms of cash flows or notional cash flows generated by financial instruments as discussed in Note 20.

20. FINANCIAL INSTRUMENTS

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

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

The Audit and Risk Committee 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. Compliance with policies is reviewed by The Audit and Risk Committee periodically.

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

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

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

20. FINANCIAL INSTRUMENTS (CONTINUED)

Financial Instrument Categories

	Note	Category	Carrying Amount 2008 $'000	Carrying Amount 2007 $'000
Financial Assets				
Cash and Cash Equivalents	30	N/A	462,490	739,584
Financial Assets at Fair Value	8	At fair value through profit or loss (designated as such upon initial recognition)	4,136,306	4,871,954
Derivative Financial Instruments	9	At fair value through profit or loss (classified as held for trading)	8,817	4,537
Advances Repayable to the Crown	10	Loans and Receivables (at amortised cost)	950,489	955,013
Receivables[1]	12	Loans and Receivables (at amortised cost)	1,598,817	1,760,551
Financial Liabilities				
Payables[2]	18	Financial liabilities measured at fair value	271,412	737,600
Bank Overdrafts		N/A	3,297,782	2,919,691
Borrowings	19	Financial liabilities measured at amortised cost	10,311,219	10,393,167

1) Excludes statutory receivables and prepayments

2) Excludes statutory payables and unearned revenue

Risk Management

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

- market risk
    1. interest rate risk
    2. currency risk
    3. other price risk
- credit risk
- liquidity risk

20. FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

Market Risk

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

The effects on the Crown Entity's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which the Crown Entity operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the balance sheet date. The analysis is performed on the same basis for 2007. The analysis assumes that all other variables remain constant.

20. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

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

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

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

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

		$'000			
	Carrying Amount	-1%		+1%	
		Profit	Equity	Profit	Equity
2008					
Financial Assets					
Cash and Cash Equivalents[1]	414,147	(4,141)	(4,141)	4,141	4,141
Bond Portfolio	1,522,665	58,600	58,600	(58,600)	(58,600)
Financial Liabilities					
Bank Overdrafts	3,297,782	32,978	32,978	(32,978)	(32,978)
Borrowings managed by TCorp	9,418,536	485,000	485,000	(485,000)	(485,000)
2007					
Financial Assets					
Cash and Cash Equivalents[1]	695,912	(6,959)	(6,959)	6,959	6,959
Bond Portfolio	2,136,270	83,600	83,600	(83,600)	(83,600)
Financial Liabilities					
Bank Overdrafts	2,919,691	29,197	29,197	(29,197)	(29,197)
Borrowings managed by TCorp	9,441,405	337,000	337,000	(337,000)	(337,000)

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

20. FINANCIAL INSTRUMENTS (continued)

Currency Risk

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

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

During the year, some investments in the Bond Portfolio (for example, derivative instruments) may be denominated in currencies other than the Australian Dollars. The agreement between 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 2008, the Crown Entity has no transactional or structural currency exposures (2007: Nil).

Other Price Risk

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

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

Facility	**Investment Sectors**	**Investment Horizon**	**2008 $’000**	**2007 $’000**
Treasury Managed Fund Facility	Cash, money market instruments, International bonds, listed property, Australian & International shares	Long term	2,472,548	2,562,651
Medium Term Growth Facility	Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares	4 years to 7 years	96,476	110,477
Long Term Growth Facility	Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares	7 years and over	95,573	110,061

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.

20. FINANCIAL INSTRUMENTS (continued)

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

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

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

		Impact on Surplus/(Deficit)	
	Change in Unit Price	**2008 $'000**	**2007 $'000**
Treasury Managed Fund Facility	+/- 17.5%	432,696	448,464
Medium Term Growth Facility	+/- 7.5%	7,236	8,286
Long Term Growth Facility	+/- 15.0%	14,336	16,509

Credit Risk

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

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.

20. FINANCIAL INSTRUMENTS (continued)

Receivables

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

Trade Debtors

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

Reinsurance and Other Recoveries Receivable

Receivables from reinsurance and other recoveries are actuarially assessed.

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

Advances

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

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

The 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	
2008					
Receivables	11,367	3,666	1,480	6,221	805
2007					
Receivables	40,411	32,307	1,503	6,601	807

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.

20. 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
2008								
Advances	-	-	-	-	-	33,143	917,347	950,490
Receivables	36,768	-	-	-	-	67,346	1,494,703	1,598,817
Bond Portfolio	1,305,402	101,400	67,500	3,900	11,400	3,200	29,863	1,522,665
2007								
Advances	-	-	-	-	-	-	955,013	955,013
Receivables	33,800	-	-	-	34,738	245,038	1,446,975	1,760,551
Bond Portfolio	1,357,038	80,500	575,800	94,400	23,700	4,832	-	2,136,270

By classification of counterparty	Governments $'000	Banks $'000	Other $'000	Total $'000
2008				
Advances	910,438	-	40,052	950,490
Receivables	1,412,660	-	186,157	1,598,817
Bond Portfolio	1,145,365	77,800	299,500	1,522,665
2007				
Advances	927,972	-	27,041	955,013
Receivables	1,555,138	50	205,363	1,760,551
Bond Portfolio	879,370	753,700	503,200	2,136,270

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

20. FINANCIAL INSTRUMENTS (continued)

Financial Guarantees

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

1. Structured Finance Activities: The Crown has guaranteed certain payment and performance obligations under cross border leases. The Crown Entity has a third-party risk for money on deposit with a counterparty. TCorp regularly monitors the risk on behalf of the Crown. The counterparties have credit standings of from BBB+ to AAA. The credit risk for these activities is $283 million (2007: $443 million).

2. NSW Treasury Corporation – NEMMCO Guarantees: The Crown provides a guarantee over electricity related settlement payments made by State electricity agencies to the National Electricity Marketing Management Company (NEMMCO) and power generators. Settlement payments are normally four weeks in arrears. The stability and financial integrity of the National Electricity Market is underpinned by the regulatory framework set out in the National Electricity Code and supported by established risk management procedures administered by NEMMCO including strategies for the management of credit risk. The credit risk for these activities is $1,327 million (2007: $1,587 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 $255 million (2007: $314 million).

4. Public Private Partnership Guarantees: The Crown has guaranteed that five State agencies involved in public private partnerships will meet their obligations to pay for finance leases and services provided. These are long term agreements involving significant sums. It is very unlikely that the agencies would cease to pay the finance lease contracts on assets or meet payments for services they require for their operations. The credit risk for these activities is $4,322 million (2007: information unavailable).

Liquidity Risk

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

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

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

The Crown Entity outsources the management of its borrowings to TCorp, which manages them in accordance with established modified duration targets. The NSW Government's AAA credit rating provides a high degree of certainty over its ability to refinance maturing borrowings as needed.

20. FINANCIAL INSTRUMENTS (continued)

The Crown Entity has approved financial accommodation from TCorp for $3,300 million (2007: $3,000 million) under the *Public Authorities (Financial Arrangements) Act 1987*. The financing facility covered short term cash requirements caused by seasonal fluctuations in government receipts. At 30 June 2008, $1,339 million of this was drawn down (2007: $1,101 million)

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

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

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

			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
2008								
Payables	-	271,412	-	-	271,412	235,977	35,435	-
Bank Overdrafts	7.84	3,297,782	-	3,297,782	-	3,297,782	-	-
Finance Leases	5.49	8,447	8,447	-	-	8,447	-	-
TCorp Borrowings	6.11	14,564,163	14,564,163	-	-	925,934	5,389,069	8,249,160
Cwlth General Purpose Borrowings	3.00	8,048	8,048	-	-	8,048	-	-
Cwlth Specific Purpose Borrowings	4.59	1,393,937	1,393,937	-	-	5	1,822	1,392,110
Own Name Borrowings	6.82	800	800	-	-	-	300	500
Administered Borrowings	7.68	45,971	45,971	-	-	10,919	8,002	27,050
Total Financial Liabilities	**42**	**19,590,560**	**16,021,366**	**3,297,782**	**271,412**	**4,487,112**	**5,434,628**	**9,668,820**
2007								
Payables	-	737,600	-	-	737,600	695,193	42,407	-
Bank Overdrafts	6.48	2,919,691	-	2,919,691	-	2,919,691	-	-
Finance Leases	5.66	47,107	47,107	-	-	42,401	4,706	
TCorp Borrowings	6.19	12,245,528	12,245,528	-	-	2,709,722	5,232,924	4,302,882
Cwlth General Purpose Borrowings	3.00	8,092	8,092	-	-	8,092	-	-
Cwlth Specific Purpose Borrowings	4.60	1,440,731	1,440,731	-	-	5	9	1,440,717
Own Name Borrowings	6.82	800	800	-	-	-	300	500
Administered Borrowings	7.61	29,754	29,754	-	-	1,181	8,195	20,378
Total Financial Liabilities		**17,429,303**	**13,772,012**	**2,919,691**	**737,600**	**6,376,285**	**5,288,541**	**5,764,477**

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

20. FINANCIAL INSTRUMENTS (continued)

Fair Value

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

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

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

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

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

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

Derivatives, investments and payables are carried at fair value.

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

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

	2008		2007	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	$000	**$000**	**$000**	**$000**
Financial Assets				
Administered Borrowings	37,287	37,147	24,427	24,446
Unrecognised (Loss)/Profit	(140)	-	19	-
Total	**37,147**	**37,147**	**24,446**	**24,446**
Financial Liabilities				
TCorp Borrowings	9,409,689	8,980,505	9,432,513	9,351,884
Commonwealth General Purpose Borrowings	8,048	4,125	8,092	4,018
Administered Borrowings	37,287	37,147	24,427	24,446
Unrecognised Profit	(433,247)	-	(84,684)	-
Total	**9,021,777**	**9,021,777**	**9,380,348**	**9,380,348**

21. UNFUNDED SUPERANNUATION LIABILITY

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

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

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

In 2007-08, unfunded superannuation liabilities increased by $3,085 million.

Actuaries calculated unfunded superannuation liabilities at 30 June 2008 using:

- scheme membership data at 30 April 2008
- demographic assumptions of the 2006 Triennial Valuation of the State Super Fund Superannuation Schemes.

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2008 actual

Member Numbers

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

Superannuation position for AASB 119

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

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

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

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Present Value at 1/7/07	8,814,246	1,923,915	22,607,420	6,787,701	539,030	395,590	41,067,902
Current Service Cost	268,168	87,191	155,842	81,655	19,400	8,800	621,056
Interest Cost	546,484	118,685	1,414,725	422,694	31,943	23,965	2,558,496
Contributions by Fund Participants	161,996	3,183	201,455	14,219	-	1,918	382,771
Actuarial (Gains)/Losses	(584,585)	(29,945)	(235,161)	(27,347)	(9,278)	(33,781)	(920,097)
Benefits Paid	(707,965)	(184,184)	(1,292,694)	(391,154)	(27,628)	(22,892)	(2,626,517)
Present Value at 30/6/08	**8,498,344**	**1,918,845**	**22,851,587**	**6,887,768**	**553,467**	**373,600**	**41,083,611**

Reconciliation of the fair value of fund assets

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

Reconciliation of the assets and liabilities recognised in the balance sheet

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

Expense recognised in income statement

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Current Service Cost	268,168	87,191	155,842	81,655	19,400	8,800	621,056
Interest Cost	546,484	118,685	1,414,725	422,694	31,943	23,965	2,558,496
Expected Return on Fund assets (net of	(378,242)	(46,943)	(1,258,017)	(308,509)	-	(23,241)	(2,014,952)
Actuarial Losses/(Gains) Recognised in Year	156,905	66,205	2,072,384	544,693	(9,278)	17,461	2,848,370
Expense/(Income) Recognised	**593,315**	**225,138**	**2,384,934**	**740,533**	**42,065**	**26,985**	**4,012,970**

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

Fund Assets

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

Fair Value of Fund Assets

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

Expected Rate of Return on Assets

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

Actual Return on Fund Assets

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

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.

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

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

	Pooled Fund	JPS	PCSS
Salary Increase Rate (Excluding Promotional Increases)	3.5% pa	3.5% pa	3.5% pa
Rate of CPI Increase	2.5% pa	2.5% pa	2.5% pa
Expected Rate of Return on Assets Backing Current Pension Liabilities	8.3%	N/A	7.95%
Expected Rate of Return on Assets Backing Other Liabilities	7.3%	N/A	N/A
Discount Rate	6.55%	6.55%	6.55%

(c) Demographic Assumptions

The demographic assumptions at 30 June 2008 are those used in the 2006 triennial actuarial valuation. A selection of the most financial significant assumptions is shown below.

SASS Contributors – the number of SASS contributors expected in any one year (out of 10,000 members), at the ages shown, to leave the fund as a result of death, disability, resignation, retirement and redundancy. Promotional salary increase rates are also shown.

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

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

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

SSS Contributors – the number of SSS contributors expected in any one year (out of 10,000 members), at the ages shown, to leave the fund as a result of death, disability, resignation, retirement and preservation.

Promotional salary increase rates are also shown.

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

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

SSS Commutation – the proportion of SSS members assumed to commute their pension to a lump sum in any one year.

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

SSS Pensioner Mortality – assumed mortality rates (in 2007-08) for SSS pensioners (separately for normal retirement/spouses and invalidity)

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

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

SSS Pensioner Mortality Improvements – per annum assumed rates of mortality improvement for SSS pensioners

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

Historical Information

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Present Value of Defined Benefit Obligation	8,498,344	1,918,845	22,851,587	6,887,768	553,467	373,600	41,083,611
Fair Value of Fund Assets	(4,764,955)	(594,824)	(14,504,256)	(3,458,437)	-	(253,855)	(23,576,327)
(Surplus)/Deficit in Fund	3,733,389	1,324,021	8,347,331	3,429,331	553,467	119,745	17,507,284
Experience Adjustments – Fund Liabilities	(575,031)	(26,762)	(221,364)	(26,691)	(9,278)	(33,781)	(892,907)
Experience Adjustments – Fund Assets	741,490	96,149	2,309,031	572,041	-	51,242	3,769,953

Expected Contributions

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Expected Employer Contributions	72,285	26,904	10,471	-	N/A	N/A	109,660

Funding Arrangements for Employer Contributions

a) Surplus/(Deficit)

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

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

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

b) Contribution Recommendations

Recommended contribution rates for the entity are:

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

c) Funding Method (Pooled Fund)

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

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

d) Economic Assumptions

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

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

Nature of Asset/Liability

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

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

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2007 comparatives

Member Numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS	TOTAL
Contributors	37,366	59,355	19,059	2,930	138	109	118,957
Deferred Benefits	-	-	2,888	176	-	-	3,064
Pensioners	3,966	-	30,496	5,877	189	269	40,797
Pensions Fully Commuted	-	-	13,116	-	-	-	13,116

Superannuation position for AASB 119

	SASS	SANCS	SSS	PSS	JPS	PCSS	TOTAL
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Accrued Liability	8,814,246	1,923,915	22,607,420	6,787,701	539,030	395,590	41,067,902
Estimated Reserve Account Balance	(5,072,168)	(525,032)	(16,646,509)	(4,098,903)	-	(302,830)	(26,645,442)
	3,742,078	1,398,883	5,960,911	2,688,798	539,030	92,760	14,422,460
Future Service Liability	(1,685,549)	(679,773)	(842,764)	(330,882)	-	-	(3,538,968)
Net Liability to be Disclosed in Balance Sheet	3,742,078	1,398,883	5,960,911	2,688,798	539,030	92,760	14,422,460

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

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Present Value at 1/7/06	8,024,830	1,844,159	22,159,608	7,069,116	580,911	390,256	40,068,880
Current Service Cost	270,798	86,147	172,403	92,604	21,376	9,031	652,359
Interest Cost	442,000	105,778	1,311,054	405,147	33,605	21,599	2,319,183
Contributions by Fund Participants	147,831	-	189,404	15,227	-	2,093	354,555
Actuarial (Gains)/Losses	175,444	(43,108)	(1,351,051)	(419,444)	(74,186)	(11,100)	(1,723,445)
Benefits Paid	(271,713)	(69,239)	118,412	(374,949)	(22,676)	(16,289)	(636,454)
Transfer From State Rail Authority (SRA)	25,056	178	7,590	-	-	-	32,824
Present Value at 30/6/07	**8,814,246**	**1,923,915**	**22,607,420**	**6,787,701**	**539,030**	**395,590**	**41,067,902**

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

Reconciliation of the fair value of fund assets

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Fair Value of Fund Assets at 1/7/06	4,763,339	669,487	10,511,807	919,342	-	271,315	17,135,290
Expected Return on Fund Assets	598,162	48,215	806,265	54,431	-	19,759	1,526,832
Actuarial Gains/(Losses)	34,639	43,278	898,669	409,383	-	25,851	1,411,820
Employer Contributions	8,021	(11,622)	4,113,344	3,075,471	22,676	101	7,207,991
Contributions by Fund Participants	147,831	-	189,404	15,227	-	2,093	354,555
Benefits Paid	(271,713)	(69,239)	118,412	(374,949)	(22,676)	(16,289)	(636,454)
Transfer From State Rail Authority (SRA)	(208,111)	(155,087)	8,608	(2)	-	-	(354,592)
Fair Value of Fund Assets at 30/6/07	**5,072,168**	**525,032**	**16,646,509**	**4,098,903**	**-**	**302,830**	**26,645,442**

Reconciliation of the assets and liabilities recognised in the balance sheet

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Present Value of Defined Benefit Obligations	8,814,246	1,923,915	22,607,420	6,787,701	539,030	395,590	41,067,902
Fair Value of Fund Assets at 30/6/07	(5,072,168)	(525,032)	(16,646,509)	(4,098,903)	-	(302,830)	(26,645,442)
Subtotal	3,742,078	1,398,883	5,960,911	2,688,798	539,030	92,760	14,422,460
Net Liability in Balance Sheet at 30/6/07	**3,742,078**	**1,398,883**	**5,960,911**	**2,688,798**	**539,030**	**92,760**	**14,422,460**

Expenses recognised in income statement

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Current Service Cost	270,798	86,147	172,403	92,604	21,376	9,031	652,359
Interest Cost	442,000	105,778	1,311,054	405,147	33,605	21,599	2,319,183
Expected Return on Fund assets (net of	(598,162)	(48,215)	(806,265)	(54,431)	-	(19,759)	(1,526,832)
Actuarial Losses/(Gains) Recognised in Year	140,804	(86,386)	(2,249,720)	(828,827)	(74,186)	(36,951)	(3,135,266)
Expense/(Income) Recognised	**255,440**	**57,324**	**(1,572,528)**	**(385,507)**	**(19,205)**	**(26,080)**	**(1,690,556)**

Fund Assets

	Pooled Fund 30-Jun-07	PCSS 30-Jun-07
Australian Equities	33.6%	31.9%
Overseas Equities	26.5%	28.6%
Australian Fixed Interest Securities	6.8%	11.2%
Overseas Fixed Interest Securities	6.4%	11.4%
Property	10.1%	15.9%
Cash	9.8%	1.0%
Other	6.8%	0.0%

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

Fair Value of Fund Assets

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

Expected Rate of Return on Assets

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

Actual Return on Fund Assets

	SASS $'000s	SANCS $'000s	SSS $'000s	PSS $'000s	JPS $'000s	PCSS $'000s	Total $'000s
Actual Return on Fund Assets	645,274	93,296	1,170	416,485	-	45,610	1,201,835

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)	4.0% pa to June 2008; 3.5% pa thereafter	4.0% pa	3.5% pa
Rate of CPI Increase	2.5% pa	2.5% pa	2.5% pa
Expected Rate of Return on Assets	7.6%	N/A	7.6%
Discount Rate	6.4% pa	6.4% pa	6.2% pa

(c) Demographic Assumptions

The demographic assumptions at 30 June 2007 are those used in the 2006 triennial actuarial valuation. These are the same assumptions used in the current 2007-08 reporting year.

21. UNFUNDED SUPERANNUATION LIABILITY (continued)

Funding Arrangements for Employer Contributions

a) Surplus / Deficit

The following is a summary of the 30 June 2007 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*;

	SASS	SANCS	SSS	PSS	JPS	PCSS	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Accrued Benefits	8,719,413	1,907,176	20,364,973	5,806,551	425,394	343,770	37,567,277
Net Market Value of Fund Assets	(5,072,168)	(525,032)	(16,646,507)	(4,098,904)	-	(302,830)	(26,645,441)
Net Deficit	3,647,245	1,382,144	3,718,466	1,707,647	425,394	40,940	10,921,836

Funding Method (Pooled Fund)

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

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

Economic Assumptions

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

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

Nature of Asset / Liability

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

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

22. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	2008 $000	2007 $000
Current	2,870,332	2,803,334
Non-Current	151,070	147,544
	3,021,402	**2,950,878**

Long Service Leave (LSL)

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

Valuation Methodology

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

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

a) Long Service Leave and On-costs

	2008 $000	2007 $000
Current		
Budget Dependent Long Service Leave and Other Leave Benefits	2,779,400	2,714,735
Non-Budget Dependent Long Service Leave Pool	90,932	88,599
	2,870,332	**2,803,334**
Non-Current		
Budget Dependent Long Service Leave and Other Leave Benefits	146,284	142,881
Non-Budget Dependent Long Service Leave Pool	4,786	4,663
	151,070	**147,544**
Total Long Service Leave Provision	**3,021,402**	**2,950,878**

Movement in Major Provisions:

	Budget Dependent Long Service Leave $000	Non-Budget Dependent Long Service Leave $000
Balance as at 1 July 2007	2,857,616	93,262
Add: Increase in Liability During the Year	405,706	16,069
Less: Payments	(337,638)	(13,613)
Balance as at 30 June 2008	**2,925,684**	**95,718**

23. PROVISION FOR OUTSTANDING INSURANCE CLAIMS

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

The estimate is then discounted to a present value at the reporting date using discount rates based on the forecast long term financial asset investment return. The table below details the rates used.

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

Provision for Outstanding Claims

	Treasury Managed Fund $000	Government Workers Compensation $000	TAC Fund $000	HIH $000	Other $000	Total $000
Balance at the Beginning of the Year	4,062,744	67,108	176,497	69,703	155,182	4,531,234
Additions	685,103	-	-	-	608	685,711
Payments	(716,987)	(4,760)	(13,261)	(23,828)	(11,900)	(770,736)
Actuarial (Gains)/Losses	(421,354)	(1,261)	4,158	30,793	7,430	(380,234)
Unwinding of Discounts	253,644	4,117	11,419	-	9,700	278,880
Balance at the End of the Year	**3,863,150**	**65,204**	**178,813**	**76,668**	**161,020**	**4,344,855**
Current	630,917	4,869	9,857	18,408	12,202	676,253
Non-Current	3,232,233	60,335	168,956	58,260	148,818	3,668,602
Total - 2008	**3,863,150**	**65,204**	**178,813**	**76,668**	**161,020**	**4,344,855**
Current	602,725	5,294	14,653	16,472	11,918	651,062
Non-Current	3,460,019	61,814	161,844	53,231	143,264	3,880,172
Total - 2007	**4,062,744**	**67,108**	**176,497**	**69,703**	**155,182**	**4,531,234**

The TMF weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.17 years (2007: 6.81 years).

23. PROVISION FOR OUTSTANDING INSURANCE CLAIMS (continued)

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

	2008 %	2007 %
Claims Expected to be Paid Not Later Than One Year:		
Inflation Rate	2.80 - 4.50	2.80 - 4.50
Discount Rate	7.00	6.80
Superimposed Inflation *	0 - 10.00	0 - 10.00
Later Than One Year:		
Inflation Rate	2.50 - 4.0	2.50 - 4.50
Discount Rate	7.00	6.80
Superimposed Inflation *	0 -10.00	0 -10.00

* Dependant on Payment Type

24. CHANGES IN EQUITY

	Accumulated Deficit		Reserves		Total Equity	
	2008	2007	2008	2007	2008	2007
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July	(22,791,130)	(24,053,369)	2,873,463	2,394,829	(19,917,667)	(21,658,540)
Changes in equity - transactions with owners as owners						
Transfer of Crown Property Portfolio to State Property Authority	(216,639)	-	(258,525)	-	(475,164)	-
Investment Transfer in	-	188	-	-	-	188
Debt Transfer in - Administration Restructure	-	(171,528)	-	-	-	(171,528)
Employee Entitlement Liability-Administration Restructure	-	(398,242)	-	-	-	(398,242)
Asset & Liabilities - Administration Restructure	-	(128,826)	-	-	-	(128,826)
Capital Restructure	73,400	184,000	-	-	73,400	184,000
Transfer in of SRA Residual Entity	336	-	-	-	336	-
Total	(142,903)	(514,408)	(258,525)	-	(401,428)	(514,408)
Changes in Equity-Other than Transactions with Owners as Owners						
(Deficit) / Surplus for the Year	(3,898,188)	1,768,801	-	-	(3,898,188)	1,768,801
Increase in Asset Revaluation Reserve						
- Land & Buildings	-	-	150,863	488,321	150,863	488,321
- Finance Lease	-	-	-	(506)	-	(506)
Transfer of Asset Revaluation Reserve for Assets Held for Sale	-	(40)	-	40	-	-
Other Net Increase/(Decrease) in Equity	512	(1,335)	-	-	512	(1,335)
Total	(3,897,676)	1,767,426	150,863	487,855	(3,746,813)	2,255,281
Transfers within equity						
Asset Reduction due to Previous Year Error	-	-	-	(9,221)	-	(9,221)
Other Equity Changes	-	9,221	-	-	-	9,221
Total	**-**	**9,221**	**-**	**(9,221)**	**-**	**-**
Balance at 30 June	**(26,831,709)**	**(22,791,130)**	**2,765,801**	**2,873,463**	**(24,065,908)**	**(19,917,667)**

25. INDIVIDUALLY SIGNIFICANT ITEMS

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

1. Superannuation was a positive expense of $4,013 million compared to a negative expense of $1,695 million for 2006-07. This positive expense was due to two factors that increased the unfunded liability. Firstly, State Super had a negative 7.3 per cent investment return on fund assets. This reflected weakened equity markets and global credit crisis. Secondly, the increase was due to an additional year of service of active scheme members.
2. Recurrent appropriation payments were $35,819 million, an increase of $1,693 million over 2006-07. The main increases went to Health ($565 million), Education ($375 million), Department of Community Service ($182 million), Department of Ageing & Disability ($146 million), Rural Assistance Authority ($143 million) and World Youth Day ($67 million).
3. A grant of $390 million (2007: $960 million) was made to the Transport Infrastructure Development Corporation to enable the repayment of a large portion of this entity's debt.
4. Following a Cabinet decision in May 2007, the Crown Property Portfolio (CPP) was transferred from the Crown Entity on 1 July 2007 and consolidated with the State Property Authority. This resulted in $217 million of accumulated funds and $259 million of reserves being transferred out. This mainly represented property assets.
5. Taxes, fees and fines were $19,143 million, an increase of $352 million over 2006-07. The increase was mainly due to payroll tax ($602 million), motor vehicle taxes & fees ($70 million) and fees & fines ($68 million) offset by falls in stamp duty ($435 million) and land tax ($88 million). Of these assessment amounts $505 million is under objection or appeal.
6. Commonwealth grants totalled $19,229 million, an increase of $1,663 million over 2006-07. The main increases were for GST revenue ($1,053 million), Health Care ($317 million), Rural Adjustment Scheme ($174 million) and Essential Vaccines ($96 million).
7. Total investment income fell from $1,010 million in 2006-07 to a loss of $213 million in 2007-08 primarily due to a significant fall in SICorp investment income attributable to the fall in equity markets.

In 2006-07, there were the following significant items:

1. The LMMC liquidated all its financial assets and repaid $7,175 million to the Crown Finance Entity (CFE). This amount was then paid to State Super to reduce the State's unfunded superannuation liability.
2. Superannuation was a negative expense of $1,695 million compared to a negative expense of $2,060 million for 2005-06. This negative expense is explained by the increase in the discount rate from 5.9 per cent to 6.4 per cent resulting in a fall in funded superannuation liabilities of approximately $2 billion.
3. Due to the decision to wind-up the State Rail Authority as an operational entity the CFE accepted several of its major liabilities as at 30 June 2007. $388 million of superannuation, $170 million of debt and $11 million of workers compensation was vested to the CFE.
4. The Crown Leaseholds Entity revalued vacant Crown land resulting in a gain of $802 million. This was offset by a loss of $283 million on Crown Leasehold land.

25. INDIVIDUALLY SIGNIFICANT ITEMS (continued)

5. A grant of $960 million was made to the Transport Infrastructure Development Corporation to enable the repayment of a large portion of this entity's debt.
6. Recurrent appropriation payments were $34,126 million an increase of $1,734 million over 2005-06. The main increases went to Health - $575 million, Education - $292 million, Aging and Disability - $166 million, Arts, Sport and Recreation - $375 million, Transport - $142 million, Police - $113 million, Rural Assistance Authority - $111 million and Community Services - $108 million.
7. Taxes, fees and fines were $18,790 million, an increase of $2,188 million on 2005-06. The increase was mainly due to stamp duty - $1,140 million payroll tax - $555 million, land tax - $313 million and gaming taxes - $120 million. Of these assessment amounts $424 million is under objection or appeal.

26. COMMITMENTS FOR EXPENDITURE

(a) Capital Commitments

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

	2008 $000	2007 $000
Capital Commitments Contracted for at Reporting Date but not Recognised as Liability are as Follows:		
- not later than one year	10,778	117,095
- later than one year but not later than five years	3,758	9,058
Total (including GST)	**14,536**	**126,153**

At 30 June 2008 the Crown Entity has capital commitments of $14.5 million (2007: $126.2 million) principally relating to the Crown Entity's share (58 per cent) of capital expenditure commitments in Snowy Hydro Limited of $14.5 million (2007: $29.5 million). The details of the agreement are disclosed at Note 7 and Note 27.

Balance at 30 June 2007 included $96.7 million of commitments of the Crown Property Portfolio. These are now vested by the State Property Authority.

(b) Operating Lease Commitments – As Lessee

At 30 June 2008, the Crown Entity, as a Lessee, has Operating Leases commitments of $44.6 million (2007: $445.8 million).

The balance as at 30 June 2007 was primarily operating leases where the Crown Property Portfolio is the lessee ($403.9 million). These are now vested by the State Property Authority.

26. COMMITMENTS FOR EXPENDITURE (continued)

NSW Self Insurance Corporation (SICorp)

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

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

	2008 $000	2007 $000
Future Non-Cancellable Operating Lease Rentals not Provided for and Payable:		
- not later than one year	2,004	89,987
- later than one year but not later than five years	6,755	258,563
- later than five years	35,794	97,217
Total (including GST)	**44,553**	**445,767**
The Following Liabilities have been Recognised in Respect of Non-Cancellable Operating Leases:		
Current:		
Onerous Lease Contracts	-	2,547
Lease Incentives	-	1,408
	-	**3,955**
Non-Current:		
Onerous Lease Contracts	-	10,066
Lease Incentives	-	7,008
	-	**17,074**

(c) Operating Lease Commitments – As Lessor

At 30 June 2008 the Crown Entity, as a lessor, has Operating lease commitments of $277.5 million (2007: $383.6 million) principally relating to:

Crown Finance Entity– Motor Vehicle Leases

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

The Head Lessors lease vehicles to the Crown Entity pursuant to a finance lease called the Head Lease (refer 24 (e): Finance Lease as a Lessee). The Crown Entity on-leases the vehicles as Lessor, to the Lessee agencies under operating leases. The Crown Entity, as Lessor, bears the ultimate risk of losses on disposal of vehicles. For ease of administration during the term of the lease, the Reserve Accounts are held by the Head Lessors.

26. COMMITMENTS FOR EXPENDITURE (continued)

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

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

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

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

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

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

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

StateFleet also acts as Fleet Manager for the Head Lessors.

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

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

26. COMMITMENTS FOR EXPENDITURE (continued)

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

Crown Leaseholds Entity – as Lessor

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

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

Crown Lands Act 1989 (CLA)

- **Lease**

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

- **Licence**

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

- **Enclosure Permit**

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

Crown Lands (Continued Tenures) Act 1989 (CTA)

- **Perpetual Lease**

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

- **Term Lease**

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

- **Special Lease**

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

- **Commonwealth Leases**

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

- **Consumer Price Index (CPI) increases**

  Non-cancellable leases rental charges are escalated annually on a CPI basis.

26. COMMITMENTS FOR EXPENDITURE (continued)

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

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

	2008 $000	2007 $000
Future Non-cancellable Operating Lease Receivables:		
- not later than one year	31,593	100,102
- later than one year but not later than five years	102,464	124,113
- later than five years	143,450	159,427
Total (including GST)	**277,507**	**383,642**

The head leases of CPP as at 30 June 2007 were vested to the State Property Authority from 1 July 2007.

(d) Sub – Leases

Crown Property Portfolio (CPP)

Future Minimum Lease Payments under Non-cancellable Operating Leases that will be Recouped under Sub-leases but not Provided for:		
- not later than one year	-	87,844
- later than one year but not later than five years	-	251,221
- later than five years	-	64,796
Total (including GST)	**-**	**403,861**

The sub-leases of CPP as at 30 June 2007 were vested to the State Property Authority from 1 July 2007.

26. COMMITMENTS FOR EXPENDITURE (continued)

(e) Finance Lease Commitments – as Lessee

Future minimum lease payments payable under finance leases:

	2008 $000	2007 $000
Minimum Lease Payment Commitments in Relation to Finance Leases Payable as Follows:		
- not later than one year	8,447	43,596
- later than one year but not later than five years	-	9,486
- later than five years	-	5,776
Minimum Lease Payments	8,447	58,858
Less: Future Finance Charges	(205)	(5,185)
Present Value of Minimum Lease Payments	**8,242**	**53,673**
Classified as :		
Current Borrowing	8,242	41,600
Non Current Borrowings	-	12,073
Total per Balance Sheet	**8,242**	**53,673**

At 30 June 2008 the Crown Entity has finance lease commitments as a lessee of $8.2 million (2007: $53.7 million) relating to:

Crown Finance Entity – Motor Vehicle Leases

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

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

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

The weighted average interest rate implicit in the lease of the Crown Finance Entity is 5.5 per cent (2007: 5.7 per cent).

Crown Property Portfolio (CPP)

The finance lease commitments of CPP ($8 million) as at 30 June 2007 were vested to the State Property Authority from 1 July 2007.

26. COMMITMENTS FOR EXPENDITURE (continued)

(f) Other Commitments

At 30 June 2008 the Crown Entity had Other Commitments contracted for at reporting date but not recognised as liabilities, of $1.5 million (2007: $5.4 million).

	2008 $000	2007 $000
Other Commitments Contracted for at Reporting Date but not Recognised as Liability are as Follows:		
- not later than one year	730	667
- later than one year but not later than five years	800	278
- later than five years	-	4,524
Total (including GST)	**1,530**	**5,469**

Nedoni

In March 2004 the Land and Environment Court directed the Minister Assisting the Minister for Natural Resources (Lands) to acquire a parcel of land owned by Nedoni Pty Ltd. The land is located at Byron Bay. It is intended that the Minister for Lands will acquire the parcel of land on behalf of the Crown. This matter may not be concluded until early 2011. The potential liability has been estimated at approximately $1 million, being the land value and other costs of acquisition. Due to unresolved issues concerning the amount of land to be acquired, a reliable land valuation estimate could not be determined at this stage and a liability has therefore not been recognised.

Dunghetti Crescent Head Agreement

In 1996, a native title claim on a proposed residential development site at Crescent Head resulted in a consent determination being made in the Federal Court. The general terms of the consent determination required that if the land in Lot B had not been developed within 10 years of the anniversary of the deed of agreement attached to the consent determination, the State would pay the market value of the land, as determined by the Valuer-General, to a Native Title body corporate, established for the purpose of holding the compensation. At the time of the 10th anniversary of the deed of agreement, the Valuer-General determined the land had a value of $4.7 million. It is understood that while the Native Title body corporate has been established, its composition has yet to be formulated. Payment of compensation cannot be made until the formulation of the body corporate has been set and the body corporate formally seeks payment of the compensation from the State. The Crown Entity has no knowledge as to the likely time by which these actions will be completed.

26. COMMITMENTS FOR EXPENDITURE (continued)

Snowy Hydro Limited (SHL)

The Crown Entity's share (58 per cent) of SHL's Other Commitments included above is $1.5 million (2007: $5.4 million). The details of the agreement are disclosed at Note 7 and Note 27.

Joint Government Enterprise Limited (JGE) – Water for Rivers

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

As per the agreement NSW Government ("NSW") has to pay $150 million in total to be paid each quarter over 10 years. NSW has paid $90 million until 30 June 2008. The remaining commitment is $60 million as at 30 June 2008 (2007: $75 million). In addition NSW's share in joint "Funding Account" $41 million (2007: $54 million) is also committed. Refer to Note 17.

27. GUARANTEES

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 have been valued by Ernst & Young. The remainder were estimated. The total amortised valuation was $13.9 million. This amount is immaterial to the Crown Entity and has not been included on the balance sheet.

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 2007 $m	31 Dec 2006 $m
General insurance	153	204
Life insurance	69	72
Inward reinsurance	33	38
	255	**314**

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 been valued by Ernst & Young at $12 million. This amount is immaterial to the Crown Entity and has not been included on the balance sheet.

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.

The guarantees have been valued by Ernst & Young at $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.

28. CONTINGENT LIABILITIES

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

Snowy Hydro Limited

On 28 June 2002, the Commonwealth's Snowy Mountain Hydro-electric Authority became a new public company, Snowy Hydro Limited (SHL). This company is owned by NSW, Victoria and the Commonwealth. NSW holds 58 per cent of the issued shares SHL (all of which are fully paid up) and it has entered into guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme. It is not possible to estimate the amount of exposure at this time for the following situations.

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

If any variation to, or revocation of, the Snowy Water Licence by the Ministerial Corporation or NSW (which has not been agreed to by SHL) has an adverse financial impact on SHL, the company will receive that corresponding amount in compensation from NSW under a compensation deed. No major amendments to the Snowy Licence are currently 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 expiry or revocation of the Snowy Water Licence.

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

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

28. CONTINGENT LIABILITIES (continued)

TCorp Guarantees

The government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of $37 billion (2007: $32.3 billion) under the *Public Authorities (Financial Arrangements) Act 1987*.

Sale of Pacific Power International

As a condition of the Pacific Power International sale, the State must compensate the electricity industry superannuation fund trustee 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 liability would arise if there was a shortfall when:

- the purchaser, Connell Wagner, ceased being 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 by one payment.

The payment 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.

There is no expected liability, with current forecasts on investment returns (2007: none).

Pacific Power – Power Stations

Pacific Power, through its subsidiary Pacific Power (Subsidiary No.1) Pty Limited was in a consortium to construct the Tarong North and Callide C power stations. The engineering procurement and construction (EPC) contracts required a guarantee from the consortium's parent companies. When Pacific Power was dissolved, the Treasurer issued a replacement guarantee, and other Pacific Power guarantees were transferred to the Treasurer.

Under the contracts, the parties to the consortium are liable for their particular commitments. The other parties are also liable if one party is unable to pay.

Both power stations have been completed. A Final Certificate for Pacific Power (Subsidiary No.1) Pty Ltd has been issued for the Tarong North power station.

An Interim Final Certificate for Callide C has been in place since 2006 and some outstanding matters for the consortium have now been settled. A Final Certificate is anticipated during 2008-09.

In respect of possible liabilities arising from the default of another consortium member, the other parties in the consortium are very large well established businesses, and the chance of them being unable to pay for their own possible liabilities are considered to be remote.

28. CONTINGENT LIABILITIES (continued)

NSW Treasury Corporation

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

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

These amounts are recoverable from the government authority participants. At year end they were valued at $1,327 million (2007: $1,587 million).

Contracts with Private Sector Parties

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

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

Floating Interest Rate Exposure on Motor Vehicle Financing Arrangements

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

The two Tranches are funded on a floating rate basis. Effectively there is a floating rate principal exposure of $557 million as at 30 June 2008 (2007 $574 million).

28. CONTINGENT LIABILITIES (continued)

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

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

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

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 they cannot be estimated.

Office of State Revenue

The State Debt Recovery Office is reviewing some infringement matters to decide if special circumstances exist for payment returns. There are currently 186 matters where the Crown Solicitor or other legal firms are acting on behalf of OSR, and the settlement estimate of each is unspecified.

GST Debts

The Crown Entity has operating lease revenue commitments receivable of $277.5 million (2007: $383.6 million). These create a future GST contingent liability of $25.2 million (2007: $34.9 million).

	2008 $000	2007 $000
Contingent Liabilities		
GST Payable		
Operating Lease Commitments - Lessor	25,228	34,876
Total (including GST)	**25,228**	**34,876**

Electricity Tariff Equalisation Ministerial Corporation (ETEMC)

At 30 June 2008 ETEMC showed a payable to generators of $61 million (2007: $121 million) Under the ETEF payment rules, the Fund is required to repay this to the generators when ETEMC has surplus funds.

29. CONTINGENT ASSETS

HIH Collapse

Because of the HIH collapse, the Crown Entity assumed builders warranty and third party motor insurance liabilities of about $650 million. An actuary estimated the discounted present value of the outstanding liability to be $125.3 million as at 30 June 2008. (2007: $129.5 million)

The liquidators currently intend to distribute various percentages up to "more than 50 per cent" depending on the scheme company. In 2008, the Crown Entity received payments totalling $79.3 million
(2007: $94.6 million)

GST Credits

The Crown Entity has capital commitments of $14.5 million (2007: $126.2 million) and operating lease commitments payable of $44.6 million (2007: $405.8 million). The recoverable input tax credits constitute a contingent asset of $1.6 million (2007: $48.9 million).

	2008 $000	2007 $000
GST Recoverable Input Tax Credits		
Capital Commitments	1,321	11,468
Other Commitments	139	489
Operating Lease Commitments - Lessee	148	36,894
	1,608	**48,851**

30. CASH AND CASH EQUIVALENTS

Cash on Hand and at Bank	421,407	685,306
Short Term Deposits	41,083	54,278
	462,490	**739,584**

In 2007-08, the Governor approved financial accommodation for Crown Entity and Electricity Tariff Equalisation Ministerial Corporation from TCorp in total of $3,300 million (2007: $3,000 million) under the Public Authorities (Financial Arrangements) Act 1987. The financing facility covered short term cash requirements caused by seasonal fluctuations in government receipts. At 30 June 2008, $ 1,339 million of this was drawn down (2007: $1,101 million).

Of the cash on hand and at bank, $187.5 million is restricted cash assets (2007: $174.5 million). This is cash in Special Deposit Accounts and trust funds that can only be used in line with the Special Deposit Account legislation and for trust fund purposes. Note 32 and Notes 33 detail these transactions.

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

31. CASH FLOW INFORMATION

(a) Reconciliation of Cash and Cash Equivalents

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

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

	2008 $000	2007 $000
Cash on Hand and at Bank	421,407	685,306
Short Term deposits	41,083	54,278
	462,490	**739,584**
Bank Overdraft	(3,297,782)	(2,919,691)
Net Cash and Cash Equivalents (per Cash Flow Statement)	**(2,835,292)**	**(2,180,107)**

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

(Deficit) / Surplus for the Year	(3,898,188)	1,768,801
Non Cash Items Added Back		
Increase of Investment in Associated Company	(55,390)	(23,765)
Asset Revaluation Decrement	(13,628)	55,932
Unrealised Loss on Investments	588,185	414,410
Depreciation/Amortisation	6,650	27,788
Non Cash Finance Costs	(10,498)	(18,280)
Decrease of Provision for Doubtful Debts	-	(148)
(Gain)/Loss on Asset Disposals	(15,933)	66,356
Land Transferred to Other Government Agencies	11,433	12,822
Equity Restructure	336	(398,242)
Other	(31,909)	(7,523)
	479,246	129,350
Change in Operating Assets and Liabilities		
Movement in Working Capital	(383,365)	(390,833)
Increase/(Decrease) in Other Liabilities	2,975,957	(8,648,533)
Increase in Other Assets	(2,294)	(18,998)
	2,590,298	(9,058,364)
Movement for The Year	3,069,544	(8,929,014)
Net Cash Flows Used In Operating Activities	**(828,644)**	**(7,160,213)**

32. TRUST FUNDS

	2008 $000	2007 $000
Trust Monies Held by the Crown Entity on Behalf of:		
Olympic Coordination Authority Payables	6,098	1,798
State Rail Authority Windup	915	1,300
Compensation Deposits re Land Acquisition Fund	758	1,028
Consumer Affairs Trust	112	112
Other	16	55
	7,899	**4,293**

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.

33. SPECIAL DEPOSIT ACCOUNTS

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

NSW Policyholders Protection Fund

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

Non-Budget Long Service Leave Pool

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

Structured Finance Activities

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

Confiscated Proceeds Account

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

Petroleum Products Subsidy Account

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

33. SPECIAL DEPOSIT ACCOUNTS (continued)

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.

Accounts	NSW Policy Holders Protection Fund $000	Non Budget Long Service Leave Pool $000	Structured Finance Activities $000	Confiscated Proceeds Account $000	Petroleum Products Subsidy $000
Balance 1.7.2006	60,250	19,561	352	35,776	50
Plus Receipts	67,381	27,014	129	10,744	26
Less Payments	(59,098)	(20,159)	(148)	(1,301)	(26)
Balance 30.6.2007	**68,533**	**26,416**	**333**	**45,219**	**50**
Plus Receipts	67,821	9,536	750	20,148	-
Less Payments	(59,041)	(13,613)	(374)	(14,539)	(50)
Balance 30.6.2008	**77,313**	**22,339**	**709**	**50,828**	**-**

Accounts	Workers Compensation $000	Building Warranty Insurance $000	General Government Liability Management Fund $000	Health Super Growth Fund $000	NSW Self Insurance Corporation $000
Balance 1.7.2006	8,647	21,488	6,729,062	61	304,795
Plus Receipts	4,023	1,608	450,885	-	1,652,917
Less Payments	(4,545)	(1,573)	(7,179,947)	(61)	(1,861,805)
Balance 30.6.2007	**8,125**	**21,523**	**-**	**-**	**95,907**
Plus Receipts	4,553	1,481	-	-	2,746,326
Less Payments	(6,085)	(1,164)	-	-	(2,691,912)
Balance 30.6.2008	**6,593**	**21,840**	**-**	**-**	**150,321**

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

34. OTHER LIABILITIES

Current:		
Unearned Revenue	28,750	22,486
Stamp Duty and Tax	-	14,196
Builders Warranty Claim Provision	21,840	21,523
Provision for Shortfall in Lease Payments	-	2,547
Provision for Restoration Costs	-	2,874
Rent Received in Advance	-	2,617
Confiscated Proceeds	50,828	45,219
Premium Received in Advance	10,257	6,894
Management, Incentive and Other Fees	36,659	33,045
Special Deposit and Trust Accounts	14,493	12,418
Deferred Income	18,247	21,419
Other	1,140	14
	182,214	**185,252**
Non-Current:		
Provision for Shortfall in Lease Payments	-	10,066
Provision for Restoration Costs	-	15,570
Aboriginal Land Council Claim	1,010,273	1,042,235
Deferred Income	32,545	222,956
Other	56	109
	1,042,874	**1,290,936**
Total	**1,225,088**	**1,476,188**

(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 33.

(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 33.

34. OTHER LIABILITIES (continued)

(c) Provision for Shortfall in Lease Payments

	2008 $000	2007 $000
Carrying balance at the beginning of year	12,613	14,455
Reductions in provisions from payments and other sacrifices	-	(1,842)
Transferred to State Property Authority	(12,613)	-
Carrying balance at the end of year	**-**	**12,613**
Current liability	-	2,547
Non current liability	-	10,066
	-	**12,613**

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

(d) Provision for restoration costs

The make-good restoration liability is calculated on all leased properties, where Crown entity is the lessee and reflects an estimate of the cost to make-good the premises to their original conditional at the end of the lease term. The make-good costs are recoverable in full from the sub-lessees. A discount rate of 6.02 per cent was used and the level of the provision is reviewed at the end of each year and an adjustment made to Receivables.

These are vested to the State Property Authority from 1 July 2007.

Makegood restoration liability on leased properties		18,444
	-	**18,444**
Current liability		2,874
Non current liability		15,570
	-	**18,444**

(e) Aboriginal Land Council Claims

The Crown Leaseholds Entity 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.

34. OTHER LIABILITIES (continued)

(f) Deferred income

	2008 $000	2007 $000
Current	18,247	21,419
Non Current	32,545	222,956
	50,792	**244,375**

(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. During the year an amount of $18.2 million is recognised as income.

Licence Fees Received	91,235	91,235
Less: Previous Years Amortisation	(22,196)	(3,949)
Less: Current Year Amortisation	(18,247)	(18,247)
	50,792	**69,039**

(ii) Prepaid long-term leases

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

Prepaid Rental Payment Received Upfront	185,791	185,791
Less: Previous Years Amortisation	(18,871)	(17,107)
Less: Current Year Amortisation	-	(1,764)
Less: Transfer to State Property Authority	(166,920)	-
	-	**166,920**
Current Liability	-	1,764
Non Current Liability	-	165,156
Total Liability	**-**	**166,920**

(iii) Incentive from lessor

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

34. OTHER LIABILITIES (continued)

	2008 $000	2007 $000
Lease Incentive Payment Received upfront	68,000	68,000
Less: Previous Years Amortisation	(68,000)	(66,091)
Less: Current Year Amortisation	-	(1,909)
	-	-
Lease Rent Free Incentive Received	9,550	9,550
Less: Previous Years Amortisation	(1,134)	-
Less: Current Year Amortisation	-	(1,134)
Less: Transfer to State Property Authority	(8,416)	
	-	**8,416**
Current Liability	-	1,408
Non Current Liability	-	7,008
Total Liability	**-**	**8,416**

On 1 July 2007, CPP was transferred from the Crown Entity and consolidated with the State Property Authority. Thus the balances of items (i) and (ii) which formed part of the CPP balance sheet have been transferred out.

35. SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES

RECURRENT APPROPRIATIONS	**Appropriation**	**Expenditure**	**Appropriation**	**Expenditure**
	2008		**2007**	
ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE	**$000**	**$000**	**$000**	**$000**
Appropriation Act	2,925,643	2,637,316	3,680,460	2,880,729
Budget Variation Acts (additional appropriation)	390,000	390,000	-	-
Sec 22 - Expenditure for Certain Works and Services	59,761	24,729	-	-
Treasurer's Advance	2,350	2,350	15,020	10,920
Transfers to/from Another Agency (section 32 of the Appropriation Act)	(143,670)	-	-	-
Sec 28 - Supplementation with Offsetting Savings (section 28 of the Appropriation Act)	-	-	(287,630)	-
Sec 16C - Insurance Protection Tax Act 2001	67,821	67,821	67,381	67,381
Total Appropriations/Expenditure (includes transfer payments)	**3,301,905**	**3,122,216**	**3,475,231**	**2,959,030**
LESS: Drawdowns from Treasury		3,155,047		2,987,237
Total Unspent Appropriations		(32,831)		(28,207)
CAPITAL APPROPRIATIONS				
Appropriation Act	187,776	114,844	164,824	127,851
Total Appropriations/Expenditure (Includes Transfer Payments)	**187,776**	**114,844**	**164,824**	**127,851**
LESS: Drawdowns from Treasury		114,844		127,851
Total Unspent Appropriations		-		-

36. CONSOLIDATED FUND TRANSACTIONS

	2008 $000	2007 $000
Cash Flows from Operating Activities		
Receipts		
State Taxation, Fines and Regulatory Fees	19,168,261	18,180,437
Commonwealth Grants	19,233,760	17,491,172
Financial Distributions	2,045,161	1,846,074
Other Operating Revenue	896,294	838,955
Total Receipts	**41,343,476**	**38,356,638**
Payments		
Recurrent Appropriations Paid to Other Agencies	(35,818,657)	(34,125,462)
Recurrent Appropriations Paid to Crown Finance Entity	(3,155,047)	(2,987,237)
Capital Appropriations Paid to Other Agencies	(3,267,682)	(3,082,424)
Capital Appropriations Paid to Crown Finance Entity	(114,844)	(127,851)
Other	(19,081)	19,081
Total Payments	**(42,375,311)**	**(40,303,893)**
Net Cash Flow from Operating Activities	**(1,031,835)**	**(1,947,255)**
Cash Flow from Crown Finance Entity		
Proceeds from Borrowing Transferred	260,000	1,125,280
Investment Income Transferred	-	29,000
Interest Receipts Transferred	58,161	68,563
Advance Repayments Transferred	67,049	180,227
Other Receipts Transferred*	433,242	1,028,576
	818,452	**2,431,646**
Net Increase in Cash	**(213,383)**	**484,391**
Opening Cash and Cash Equivalents	**(1,818,857)**	**(2,487,248)**
Cash transferred in as a result of capital restructuring	73,400	184,000
Closing Cash Balances	**(1,958,840)**	**(1,818,857)**
Cash and Cash Equivalents		
Bank overdraft	(1,958,840)	(1,818,857)
	(1,958,840)	**(1,818,857)**

* In 2008 other receipts transferred includes transfer of surplus reserves from SICorp $300 million (2007: $910 million).

37. PROGRAM STATEMENT – EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2008

	Debt Servicing Costs $000	Refunds and Remissions of Crown Revenue $000	Other Service-wide Activities $000	Natural Disasters Relief $000	Not Attributable *	Total Crown Finance Entity $000
Revenue						
Investment Income	17	-	97,724	-	-	97,741
Share of Profit of Associate	-	-	55,390	-	-	55,390
Revenue From Government	(260,000)	-	(591,284)	-	3,269,891	2,418,607
Other	36	-	463,532	-	-	463,568
Total Revenue	**(259,947)**	**-**	**25,362**	**-**	**3,269,891**	**3,035,306**
Expense						
Superannuation	-	-	4,012,970	-	-	4,012,970
Long Service Leave	-	-	426,757	-	-	426,757
Depreciation/Amortisation	-	-	5,581	-	-	5,581
Grant and Subsidies	-	-	524,918	54,728	-	579,646
Finance Costs	757,870	-	117,490	-	-	875,360
Insurance Claims	-	-	59,849	-	-	59,849
Other	-	67,884	304,851	-	-	372,735
Total Expenses	**757,870**	**67,884**	**5,452,416**	**54,728**	**-**	**6,332,898**
Gain/(Loss) on Disposal of Non-Current Assets	-	-	561	-	-	561
Gain/(Loss) from Financial Instruments	10,348	-	-	-	-	10,348
SURPLUS/(DEFICIT) FOR THE YEAR	**(1,007,469)**	**(67,884)**	**(5,426,493)**	**(54,728)**	**3,269,891**	**(3,286,683)**

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

37. PROGRAM STATEMENT – EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2008 (continued)

	Crown Finance Entity *	Consolidated Fund *	Electricity Tariff Equalisation*	NSW Self Insurance Corporation*	Crown Leaseholds *	Crown Lands Homesites Program *	SRA Residual Holding Corporation	Land Development Working Account *	Elimination	Consolidated Total
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue										
Taxation, Fines & Regulatory F	-	19,180,721	-	-	-	-	-	-	(38,057)	19,142,664
Commonwealth Grants	-	19,228,643	-	-	-	-	-	-	-	19,228,643
Financial Distributions	-	2,106,322	-	-	-	-	-	-	(9,000)	2,097,322
Sales of Goods and Services	-	-	-	824,581	-	-	-	-	25,455	850,036
Investment Income	97,741	-	915	(312,628)	2,355	-	19	-	(1,639)	(213,237)
Share of Profit of Associate	55,390	-	-	-	-	-	-	-	-	55,390
Revenue From Government	2,418,607	-	-	-	(64,573)	-	-	(9,000)	(2,345,034)	-
Other	463,568	1,716,567	252,894	15	131,704	7	-	-	(1,246,110)	1,318,645
Total Revenue	**3,035,306**	**42,232,253**	**253,809**	**511,968**	**69,486**	**7**	**19**	**(9,000)**	**(3,614,385)**	**42,479,463**
Expense										
Superannuation	4,012,970	-	-	-	-	-	-	-	-	4,012,970
Long Service Leave	426,757	-	-	-	-	-	-	-	(4,719)	422,038
Maintenance	-	-	-	-	-	-	-	-	-	-
Depreciation/Amortisation	5,581	-	-	1,074	-	-	-	3	-	6,658
Grant and Subsidies	579,646	-	-	-	-	-	-	-	-	579,646
Finance Costs	875,360	-	-	271,127	-	-	-	-	(1,640)	1,144,847
Insurance Claims	59,849	-	-	352,941	-	-	-	-	-	412,790
Recurrent Appropriations	-	38,973,704	-	-	-	-	-	-	(3,155,047)	35,818,657
Capital Appropriations	-	3,382,526	-	-	-	-	-	-	(114,844)	3,267,682
Other	372,735	(6,620)	252,905	362,304	(12,403)	3,042	-	1,679	(338,135)	635,507
Total Expenses	**6,332,898**	**42,349,610**	**252,905**	**987,446**	**(12,403)**	**3,042**	**-**	**1,682**	**(3,614,385)**	**46,300,795**
Gain/(Loss) on Disposal of Non-Current Assets	561	-	-	-	(58,166)	5,891	-	7,346	-	(44,368)
Gain/(Loss) from Financial Instruments	10,348	-	-	(42,836)	-	-	-	-	-	(32,488)
SURPLUS/(DEFICIT) FOR THE YEAR	**(3,286,683)**	**(117,357)**	**904**	**(518,314)**	**23,723**	**2,856**	**19**	**(3,336)**	**-**	**(3,898,188)**

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

38. TRANSFER PAYMENTS

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

	2008 $'000	2007 $'000
Payments		
Non-Government Schools - Recurrent	(1,840,266)	(1,744,872)
Non-Government Schools - Targeted Programs	(95,861)	(92,991)
Non-Government Schools - Capital	(77,365)	(57,316)
Local Government - Financial Assistance	(399,424)	(388,260)
Local Government - Roads	(157,464)	(150,340)
	(2,570,380)	**(2,433,779)**
Receipts		
Non-Government Schools - Recurrent	1,840,266	1,744,872
Non-Government Schools - Targeted Programs	95,861	92,991
Non-Government Schools - Capital	77,365	57,316
Local Government - Financial Assistance	399,424	388,260
Local Government - Roads	157,464	150,340
	2,570,380	**2,433,779**

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

Changes to the Cash Flow Statement

Purchase of investments from investing activities was previously recorded at net of proceeds from sale and purchase of investments. These activities are now reported at gross. During the year, proceeds from sale of investments was $1,413 million (2007: $8,746 million) and purchase of investments was $1,265 million (2007: $2,365 million).

40. EVENTS AFTER THE BALANCE SHEET DATE

Since 30 June 2008 the value of domestic and international share markets has deteriorated, interest rates have fallen, and the value of the Australian Dollar has fallen significantly compared to the United States Dollar.

The Crown Entity has two major investment portfolios that are directly impacted by these events. These portfolios are held in State Super and the NSW Self Insurance Corporation (SICorp) for the funding of the State's superannuation and insurance liabilities respectively.

Since late September 2008 there has been significant daily volatility in financial markets. The mark to market losses of defined benefit superannuation fund assets, if sustained, will materially increase the amount of superannuation liabilities. At 20 October 2008, these losses are estimated to be around $1.6 billion. The estimated loss from SICorp's investments is approximately $109 million.

However, with current levels of volatility, estimates of such losses are potentially misleading and could be reversed during the remainder of the financial year.

Falls in the long term Commonwealth bond rates since June 2008, which are used to discount superannuation liabilities, will increase the amount of defined benefit superannuation liabilities, as calculated for reporting in the Crown Entity in accordance with AASB 119. It is not possible to readily estimate the impact post balance date, as bond rates are changing daily by significant amounts, and the estimated impact on superannuation liabilities requires a further actuarial estimation.

Further, whereas, the liabilities reported under AASB 119 might increase, they would not have changed significantly since balance date, if calculated in accordance with AAS 25 (the Standard by which Superannuation Funds report). AAS 25 adopts a funding model to discount the liabilities. The discount rate applied under AAS 25 uses long term earnings rates, and is not volatile compared to the volatile government bond rates that are applied under AASB 119 for the Crown Entity.

The Crown Entity believes that AAS 25 remains an appropriate basis for funding as it provides a better indication of the unfunded liabilities and therefore the amount of employer funding required over the long-term to meet future member benefit obligations.

End of Audited Financial Information

New South Wales
TREASURY

Liability Management Ministerial Corporation

Financial Report for the year ended 30 June 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Liability Management Ministerial Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Liability Management Ministerial Corporation (the Corporation), which comprises the balance sheet as at 30 June 2008, the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

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

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

David Nolan
Director, Financial Audit Services

23 October 2008
SYDNEY

Liability Management Ministerial Corporation

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

(a) The accompanying financial report exhibits a true and fair view of the financial position of the Liability Management Ministerial Corporation as at 30 June 2008 and the transactions for the year then ended; and

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

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

John Pierce
Secretary
20 October 2008

Liability Management Ministerial Corporation

Income Statement
for the year ended 30 June 2008

	Note	2008 $000	2007 $000
Operating Revenue			
Contributions from the Crown Finance Entity		-	180,651
Investment Income	3	-	270,222
Other Receipts		-	13
Total Revenue		**-**	**450,886**
Expenses			
Management Fee		-	4,681
Audit Fee		-	6
Payment to the Crown Finance Entity		-	7,174,812
Total Expenses		**-**	**7,179,499**
DEFICIT FOR THE YEAR		**-**	**(6,728,613)**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Statement of recognised income and expenses
for the year ended 30 June 2008

	Note	2008 $000	2007 $000
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
Deficit for the Year		-	(6,728,613)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	4	**-**	**(6,728,613)**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Balance Sheet
as at 30 June 2008

	Note	2008 $000	2007 $000
ASSETS			
Current Assets			
Cash and Cash Equivalents		-	-
Financial Assets at Fair Value		-	-
Derivative Financial Instruments		-	-
Total Current Assets		**-**	**-**
Non-Current Assets			
Financial Assets at Fair Value		-	-
Total Non-Current Assets		**-**	**-**
Total Assets		**-**	**-**
LIABILITIES			
Current Liabilities			
Payables		-	-
Total Current Liabilities		**-**	**-**
Total Liabilities		**-**	**-**
Net Assets		**-**	**-**
Equity			
Retained Surplus		-	-
Total Equity		**-**	**-**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Cash Flow Statement
for the year ended 30 June 2008

	Note	2008 $000	2007 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Payment to the Crown Finance Entity		-	7,174,812
Management Fee		-	5,123
Audit Fees		-	13
Total Payments		**-**	**7,179,948**
Receipts			
Contributions from the Crown Finance Entity		-	180,651
Investment Income		-	270,222
Other Receipts		-	13
Total Receipts		**-**	**450,886**
NET CASH USED IN OPERATING ACTIVITIES	6	**-**	**(6,729,062)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Purchase of Investments		-	(892,364)
Proceeds from Sale of Investments		-	7,615,690
NET CASH FROM INVESTING ACTIVITIES		**-**	**6,723,326**
Net Decrease in Cash and Cash Equivalents		**-**	**(5,736)**
Cash and Cash Equivalents at Beginning of Year		-	5,736
Cash and Cash Equivalents at end of Year		**-**	**-**

The accompanying notes form part of these financial statements.

Liability Management Ministerial Corporation

Notes to the Financial Statements
for the year ended 30 June 2008

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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

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

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

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

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

Use of Estimates and Judgements

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of Compliance

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2008. These are listed as follows:-

- AASB 3, AASB 127 and AASB 2008-3 (Mar 2008) regarding business combinations and consolidations (1 Jul 2009)
- AASB 8 and AASB 2007-3 (Feb 2007) regarding operating segments (1 Jan 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 1004 (Dec 2007) regarding contributions (1 Jul 2008)
- AASB 1049 (Oct 2007) regarding the whole of government and general government sector financial reporting (1 Jul 2008)
- AASB 1050 (Dec 2007) regarding administered items (1 Jul 2008)
- AASB 1052 (Dec) regarding disaggregated disclosures only (1 Jul 2008)
- AASB 2007-9 (Dec 2007) regarding amendments arising from the review of AASs 27, 29 and 31 (1 Jul 2008)
- AASB 2008-1 (Feb 2008) regarding vesting conditions (1 Jan 2009)
- AASB 2008-2 (Mar 2008) regarding puttable financial instruments (1 Jan 2009)
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease (1 Jan 2008)
- Interpretation 12 (Jun 2007) and AASB 2007-2 regarding service concession arrangements (1 Jan 2008)
- Interpretation 14 (Aug 2007) regarding the limit on a defined benefit asset (1 Jan 2008)
- Interpretation 129 (Feb 2007) regarding service concession disclosures (1 Jan 2008)
- Interpretation 1038 (Dec 2007) regarding contributions by owners (1 Jul 2008)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

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

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 as interest accrues.

EXPENSES

Management Fee

Management fees are recognised as an expense in the period in which they are incurred.

Employee Entitlements

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

Goods and Services Tax

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

Contingencies and liabilities are inclusive of GST.

ASSETS

Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise:
- cash at bank
- cash in hand
- restricted cash in the balances of special deposit accounts
- other short term deposits with an original maturity of three months or less.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Financial assets in the scope of AASB 139 "Financial Instrument: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. LMMC classifies its financial assets after initial recognition and, when allowed and appropriate, it re-evaluates this at each year end.

The NSW Treasury Corporation (TCorp) manages LMMC's investments.

Financial Assets at Fair Value

The fund invests in bonds and TCorp HourGlass facility. All bond investments with a term of maturity of up to 12 months must have at least an A1+ short term issuer credit rating from Standard & Poor's or an equivalent recognised rating.

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

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

Derivative Financial Instruments

LMMC uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains of losses arising from changes in the fair value of derivatives are taken directly to the income statement.

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

TAXATION

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

Liability Management Ministerial Corporation

Notes to the Financial Statements
for the year ended 30 June 2008

	2008 $000	2007 $000
3. REVENUE		
Investment Income		
Interest on TCorp Investments at fair value through the profit and loss	-	287,222
Income on Hour-Glass Investments at fair value through the profit and loss	-	(17,000)
	-	**270,222**

4. RETAINED SURPLUS

	2008 $000	2007 $000
Balance at the Beginning of the Financial Year	-	6,728,613
Changes in equity – Other than Transactions with Owners as Owners		
Deficit for the Year	-	(6,728,613)
Balance at the End of the Financial Year	**-**	**-**

5. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or contingent liabilities as at 30 June 2008.

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

	2008 $000	2007 $000
Deficit for the Year	-	(6,728,613)
Change in Operating Assets and Liabilities		
Decrease in Payables	-	(449)
Cash Flows used in Operating Activities	**-**	**(6,729,062)**

7. EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to reporting date requiring disclosure.

End of Audited Financial Information

New South Wales
TREASURY

Electricity Tariff Equalisation Ministerial Corporation

Financial Report for the year ended 30 June 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

ELECTRICITY TARIFF EQUALISATION MINISTERIAL CORPORATION

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Electricity Tariff Equalisation Ministerial Corporation (the Corporation), which comprises the balance sheet as at 30 June 2008, the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

The Fund Administrator's Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

David Nolan
Director, Financial Audit Services

23 October 2008
SYDNEY

Electricity Tariff Equalisation Ministerial Corporation

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 2008 and the transactions for the year then ended; and

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

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

Mark Ronsisvalle
Fund Administrator
20 October 2008

Electricity Tariff Equalisation Ministerial Corporation

Income Statement
for the year ended 30 June 2008

	Note	2008 $000	2007 $000
Revenue			
Tariffs from Retailers/Generators		252,894	289,926
Investment Income		915	20,424
Total Revenue		**253,809**	**310,350**
Expenses			
Tariffs to Retailers/Generators		252,865	582,198
Other	3	40	285
Total Expenses		**252,905**	**582,483**
SURPLUS/(DEFICIT) FOR THE YEAR		**904**	**(272,133)**

The accompanying notes form part of these financial statements.

Electricity Tariff Equalisation Ministerial Corporation

Statement of Recognised Income and Expenses
for the year ended 30 June 2008

	Note	2008 $000	2007 $000
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
Surplus/(Deficit) for the year		904	(272,133)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	7	**904**	**(272,133)**

The accompanying notes form part of these financial statements.

Electricity Tariff Equalisation Ministerial Corporation

Balance Sheet
as at 30 June 2008

	Note	2008 $000	2007 $000
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	100	313,037
Receivables	5	12,105	120,990
Total Current Assets		**12,205**	**434,027**
Total Assets		**12,205**	**434,027**
LIABILITIES			
Current Liabilities			
Payables	6	12,123	434,849
Total Current Liabilities		**12,123**	**434,849**
Total Liabilities		**12,123**	**434,849**
Net Assets		**82**	**(822)**
Equity			
Retained Surplus/(Deficit)	7	82	(822)
Total Equity		**82**	**(822)**

The accompanying notes form part of these financial statements.

Electricity Tariff Equalisation Ministerial Corporation

Cash Flow Statement
for the year ended 30 June 2008

	Note	2008 $000	2007 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Payments to Retailers/Generators		675,562	147,701
Management Fee		35	281
Consultant Costs		2	-
Other		37	21
Total Payments		**675,636**	**148,003**
Receipts			
Payments from Retailers/Generators		361,776	192,860
Interest Received		915	20,424
GST Recouped		8	28
Total Receipts		**362,699**	**213,312**
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	10	**(312,937)**	**65,309**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(312,937)**	**65,309**
Opening Cash and Cash Equivalents		313,037	247,728
CLOSING CASH AND CASH EQUIVALENTS		**100**	**313,037**

The accompanying notes form part of these financial statements.

Electricity Tariff Equalisation Ministerial Corporation

Notes to the Financial Statement
for the year ended 30 June 2008

1. INFORMATION

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

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

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

The Government has decided to gradually phase out the Fund to close it by 30 June 2010. However, the final and revised settlements relating to all trading weeks up to 30 June 2010 will be finalised during 2010-11.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

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

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

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

Use of Estimates and Judgements

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Statement of Compliance

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2008. These are listed as follows:-

- AASB 3, AASB 127 and AASB 2008-3 (Mar 2008) regarding business combinations and consolidations (1 Jul 2009)
- AASB 8 and AASB 2007-3 (Feb 2007) regarding operating segments (1 Jan 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 1004 (Dec 2007) regarding contributions (1 Jul 2008)
- AASB 1049 (Oct 2007) regarding the whole of government and general government sector financial reporting (1 Jul 2008)
- AASB 1050 (Dec 2007) regarding administered items (1 Jul 2008)
- AASB 1052 (Dec) regarding disaggregated disclosures only (1 Jul 2008)
- AASB 2007-9 (Dec 2007) regarding amendments arising from the review of AASs 27, 29 and 31 (1 Jul 2008)
- AASB 2008-1 (Feb 2008) regarding vesting conditions (1 Jan 2009)
- AASB 2008-2 (Mar 2008) regarding puttable financial instruments (1 Jan 2009)
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease (1 Jan 2008)
- Interpretation 12 (Jun 2007) and AASB 2007-2 regarding service concession arrangements (1 Jan 2008)
- Interpretation 14 (Aug 2007) regarding the limit on a defined benefit asset (1 Jan 2008)
- Interpretation 129 (Feb 2007) regarding service concession disclosures (1 Jan 2008)
- Interpretation 1038 (Dec 2007) regarding contributions by owners (1 Jul 2008)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

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

Tariff Receipts from Retailers/Generators

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

Investment Income

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

Interest income is recognised as interest accrues.

EXPENSES

Tariff Payments to Retailers/Generators

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

Employee Entitlements

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

Goods and Services Tax

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

- for when the GST cannot be recovered from the Australian Taxation Office, then it is either part of the cost of acquiring an asset, or part of an item expense.
- for receivables and payables which are recognised as including GST.
- for the cash flow statement where they are recognised as part of payments and receipts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goods and Services Tax (continued)

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

The Commonwealth has determined that no GST is payable or receivable on tariffs between ETEF and electricity businesses (4th Division 81 Commonwealth GST Determination).

For the Cash Flow Statement GST is recognised as part of revenues, expenses and assets.

ASSETS

Cash and Cash Equivalents

Cash and cash equivalents comprise short term deposits with an original maturity of three months or less.

The Cash Flow Statement shows these cash and cash equivalents.

Receivables

Receivables are recognised and carried at the original levied amount less an allowance for impairments.

Payables

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

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

Taxation

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

	2008 $000	2007 $000
3. EXPENSES		
Other		
Audit Fees	27	24
Consultants Costs	2	-
Management Fee	11	261
	40	**285**

4. CASH AND CASH EQUIVALENTS

Short Term Deposits	100	313,037

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

Payments from Retailers/Generators	12,102	120,984
GST Receivable	3	6
	12,105	**120,990**

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 National Electricity Market Management Company (NEMMCO) 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 2008. No indication of impairment was found and no allowance for impairment loss has been made in the Income Statement for 2008 (2007: $Nil).

Electricity Tariff Equalisation Ministerial Corporation

Notes to the Financial Statement
for the year ended 30 June 2008

	2008 $000	2007 $000

6. PAYABLES

	2008 $000	2007 $000
Payments to Retailers/Generators	12,103	434,800
Audit Fees	20	26
Management Fee	-	23
	12,123	**434,849**

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 NEMMCO settlement timetable. The payments to retailers/generators are non-interest bearing.

7. RETAINED SURPLUS

	2008 $000	2007 $000
Balance at the beginning of the financial year	(822)	271,311
	(822)	271,311
Changes in equity – other than transactions with owners as owners		
Surplus/(Deficit) for the year	904	(272,133)
Balance at the end of the financial year	**82**	**(822)**

8. CONTINGENT LIABILITIES

As at 30 June 2008, ETEMC has contingent liabilities to generators of $61 million (2007: $121 million). These contingent liabilities arise through the generators making payments to ETEF. Under the ETEF payment rules, ETEMC is required to repay to the generators when funds are available.

9. CONTINGENT ASSETS

There are no contingent assets.

10. RECONCILIATION OF OPERATING RESULT TO CASH FLOWS FROM OPERATING ACTIVITIES

	2008 $000	2007 $000
Surplus/(Deficit) For the Year	904	(272,133)
Change in Assets and Liabilities		
Decrease/(Increase) in Receivables	108,885	(97,066)
(Decrease)/Increase in Payables	(422,726)	434,508
Net Cash Flows From Operating Activities	**(312,937)**	**65,309**

11. FINANCIAL INSTRUMENTS

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

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

Financial Instrument Categories

	Note	Category	Carrying Amount 2008 $'000	Carrying Amount 2007 $'000
Financial Assets				
Cash and Cash Equivalents	4	N/A	100	313,037
Receivables[1]	5	Receivables (measured at cost)	12,102	120,984
Financial Liabilities				
Payables	6	Payables (measured at cost)	12,123	434,849

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.

11. FINANCIAL INSTRUMENTS (continued)

(a) Interest Rate Risk (continued)

Interest Rate Risk
Sensitivity Analysis

	Carrying Amount $'000	- 1% Profit $'000	- 1% Equity $'000	+ 1% Profit $'000	+ 1% Equity $'000
2008					
Financial Assets					
Cash and Cash Equivalents	100	-	-	-	-
2007					
Financial Assets					
Cash and Cash Equivalents	313,037	(417)	(417)	417	417

(b) Currency Risk

As at 30 June 2008, the ETEMC has no transactional or structural currency exposures.

(c) Credit Risk

Credit risk is the risk of financial loss because another party to a contract or a financial position does not meet a financial obligation.

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

Cash and Cash Equivalents

Cash comprises cash investment in floating rate notes, short term bank bills and commercial paper. Interest is earned on daily bank balances adjusted for a management fee to NSW Treasury

Electricity Tariff Equalisation Ministerial Corporation

Notes to the Financial Statement
for the year ended 30 June 2008

11. FINANCIAL INSTRUMENTS (continued)

(c) Credit Risk (continued)

Concentration of Credit Risk

By credit rating	AAA	AA+	AA	AA-	A+	A	Other Ratings (1)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2008								
Cash and Cash Equivalents	100	-	-	-	-	-	-	100
Receivables	-	-	-	-	-	-	12,102	12,102
2007								
Cash and Cash Equivalents	1,541	29,767	248,696	33,033	-	-	-	313,037
Receivables	-	-	-	-	-	-	120,984	120,984

1) Short term ratings of A-2 or better, when counterparty has no long term rating or the long term rating is A or lower

By classification of counterparty	Governments	Bank	Other	Total
	$'000	$'000	$'000	$'000
2008				
Cash and Cash Equivalents	100	-	-	100
Receivables	12,102	-	-	12,102
2007				
Cash and Cash Equivalents	1,541	310,480	1,016	313,037
Receivables	120,984	-	-	120,984

11. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity Risk

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

			Interest Rate Exposure			Maturity Dates		
	Weighted Average Effective Interest Rate	Nominal Amount	Fixed Interest Rate	Variable Interest Rate	Non-Interest Bearing	< 1 Year	1 - 5 Years	> 5 Years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2008								
Payables	-	-	-	-	12,123	12,123	-	-
Total Financial Liabilities	**-**	**-**	**-**	**-**	**12,123**	**12,123**	**-**	**-**
2007								
Payables	-	-	-	-	434,849	434,849	-	-
Total Financial Liabilities	**-**	**-**	**-**	**-**	**434,849**	**434,849**	**-**	**-**

According to the Payment Rules, the cash balance of the fund must never be in deficit meaning that if necessary additional funds are sourced from the generators in order to meet payments to retailers.

The ETEMC has approved financial accommodation from TCorp for $300 million under the *Public Authorities (Financial Arrangements) Act 1987*. The financing facility is to cover temporary cash deficits which occur during the day of settlement between retailers and generators.

No assets have been pledged as collateral. The ETEMC’s exposure to liquidity risk is deemed insignificant based on prior periods’ data and current assessment of risk.

(e) Fair Value

All financial instruments are carried at fair value, unless otherwise stated. The fair value of ETEMC’s non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

(f) Market Price Risk

ETEMC is not subject to electricity price risk since any shortfall in cash needed to make payments to retailers as a result of significant fluctuations in energy prices will be met by the generators as per the payment rules.

12. EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to reporting date requiring disclosure.

End of Audited Financial Information

New South Wales
TREASURY

Crown Lands Homesites Program

Financial Report for the year ended 30 June 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

CROWN LANDS HOMESITES PROGRAM

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Lands Homesites Program (the Program), which comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Program as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005

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

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

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

David Nolan
Director, Financial Audit Services

23 October 2008
SYDNEY

Crown Lands Homesites Program

Statement by Department Head

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

a) the accompanying financial report exhibits a true and fair view of the financial position of the Crown Lands Homesites Program as at 30 June 2008 and the financial performance for the year then ended; and

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

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

John Pierce
Secretary
20 October 2008

Crown Lands Homesites Program
Income Statement
for the year Ended 30 June 2008

	Notes	2008 $'000	2007 $'000
Continuing operations			
Sales revenue		11,704	11,580
Cost of sales		(5,894)	(7,134)
Gross profit		**5,810**	**4,446**
Other income	2	433	406
Expenses			
Marketing expenses	3	(1,105)	(756)
Other operating expenses	4	(1,781)	(1,927)
Total expenses		**(2,886)**	**(2,683)**
Net profit for the year	9	**3,357**	**2,169**

The accompanying notes form part of these financial statements.

Crown Lands Homesites Program
Balance Sheet
as at 30 June 2008

	Notes	2008 $'000	2007 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	10	7,302	4,514
Trade and other receivables	5	-	1,116
Inventories	6	13,438	9,293
Total Current Assets		**20,740**	**14,923**
Non-Current Assets			
Trade and other receivables	5	170	170
Inventories	6	17,113	18,957
Total Non-Current Assets		**17,283**	**19,127**
TOTAL ASSETS		**38,023**	**34,050**
LIABILITIES			
Current Liabilities			
Trade and other payables	7	5,335	3,243
Provisions	8	653	3,448
Total Current Liabilities		**5,988**	**6,691**
Non-Current Liabilities			
Trade and other payables	7	6,759	6,775
Provisions	8	1,488	153
Total Non-Current Liabilities		**8,247**	**6,928**
TOTAL LIABILITIES		**14,235**	**13,619**
NET ASSETS		**23,788**	**20,431**
EQUITY			
Retained earnings	9	23,788	20,431
TOTAL EQUITY		**23,788**	**20,431**

The accompanying notes form part of these financial statements.

Crown Lands Homesites Program
Cash Flow Statement
for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
Cash flows from operating activities			
Receipts from customers		13,862	10,916
Interest received		1	13
Payments to suppliers		(11,012)	(15,388)
Other		(63)	595
Net cash flows from operating activities	10(b)	**2,788**	**(3,864)**
Net increase / (decrease) in cash and cash equivalents		**2,788**	**(3,864)**
Cash and cash equivalents at the beginning of period		**4,514**	**8,378**
Cash and cash equivalents at the end of period	10(a)	**7,302**	**4,514**

The accompanying notes form part of these financial statements.

Crown Lands Homesites Program
Statement of Changes in Equity
for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
Balance at beginning of financial year		**20,431**	**18,653**
Changes in equity – other than transactions with owners as owners			
Profit for the period		3,357	2,169
Total		3,357	2,169
Transactions with owners as owners			
Distribution to NSW Treasury		-	(391)
Total		-	(391)
Balance at the end of the financial year	9	**23,788**	**20,431**

The accompanying notes form part of these financial statements.

REPORTING ENTITY

The Crown Lands Homesites Program (CLHP) is a not-for-profit entity responsible for the development and sale of residential Crown Lands Homesites. Landcom conducts this activity on behalf of the Crown Entity. The reporting entity is consolidated as part of the Crown Entity.

This financial report for the year ended 30 June 2008 has been authorised for issue by the Secretary of the New South Wales Treasury on 20 October 2008.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report which has been prepared in accordance with:

- applicable Australian Accounting Standards (including Australian Accounting Interpretations); and
- the requirements of the *Public Finance and Audit Act 1983,* the *Public Finance and Audit Regulation,* and the Treasurer's Directions.

The financial report items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations that management has made are disclosed in the relevant notes to the financial report.

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

(b) Statement of Compliance

The financial statement and notes comply with the Australian Accounting Standards, which include Australian Accounting Interpretations.

The accounting policies have been consistently applied, unless stated otherwise.

(c) Income Recognition

Income is measured at the fair value of the consideration or contribution received or receivable.

i Revenue from sale of land is recognised when the significant risks and rewards of ownership of the land have passed to the buyer and can be measured reliably. Specifically, with respect to property sales, the risks and rewards are considered passed to the buyer at the time of settlement.

ii Interest income is recognised as the interest accrues.

iii Other income is based on the general principle that there is a right to be compensated for services rendered and it is probable that economic benefits will result and the revenue can be reliably measured.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Cost of Sales

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

(e) Expenditure Recognition

Operating and working expenses are expensed in the year in which they are incurred. Where they are directly attributable to the management of construction contracts, a proportion is capitalised to land under development (works in progress).

(f) Goods and Services Tax

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

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

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

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

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

Commitments and contingencies and other amounts disclosed in the financial statements are inclusive of the amount of GST recoverable from, or payable to, the Australian Taxation Office.

(g) Inventories

Inventories comprise Developed Land for Sale, Work in Progress (Land under Development) and Undeveloped Land.

Developed land is land which has been subdivided and registered on completion of all development activity.

Work in Progress (Land under Development) represents land that has been subdivided into precincts and where development activity relating to the precinct has commenced.

Current developed Land and Work in Progress is expected to be sold within the next twelve months.

Undeveloped land consists of land holdings where no development has taken place and land holdings where estate major work activity has been undertaken. It excludes precincts on which development activity has commenced. Undeveloped land is classified as a non-current asset.

Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of land and related development expenses. All direct and indirect expenditure on development are included in the relevant precincts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial Instruments

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

In accordance with AASB 7 "Financial Instruments: Disclosure" and AASB 132 "Financial Instruments: Presentation" information is disclosed in Note 11, in respect of the credit risk and interest rate risk of financial instruments. All such amounts are carried in the accounts at net fair value unless otherwise stated. The accounting policy for each class of financial instrument is stated hereunder.

The Crown Lands Homesites Program does not enter into or trade in financial instruments for speculative purposes.

Cash and Cash Equivalents
Cash comprises cash on hand and cash at bank.

Trade and Other Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the Income Statement when impaired, derecognised or through the amortisation process.

Short-term receivables with no stated interest rate are measured at transaction cost or face value.

Interest is charged on overdue settlement monies where agreed settlement dates are not met. The rate of interest applied varied during the year and is currently 13.0% (2007 11.9%). Sales are made on varying terms, but generally on a 30-day exchange and 30-day settlement basis.

Trade and Other payables
These amounts represent liabilities for goods and services provided to Crown Lands Homesites Program. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequently measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(i) Distribution to NSW Treasury

Crown Lands Homesites Program is required to return funds that are in excess of working capital to the Consolidated fund of NSW Treasury. During the year ended 30 June 2008 Crown Lands Homesites returned $Nil to Consolidated Fund (2007 $0.391million).

(j) Provisions

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

If the time value of money is material, provisions are discounted at the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

The unwinding of this discounting rate is recognised as other income or other operating expenses in the income statement.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Provisions (continued)

Provision to complete projects
Provision to complete projects represent unpaid development costs and is raised as an estimate based on known costs at the time.

Provision for rebates
Provision for rebates is recognised when a lot is sold. As part of the condition of sale, the Crown Lands Homesites Program may be committed to make a payment to the purchaser provided certain design criteria are met and applied for within specified period by the purchaser, usually between 18-24 months. This payment represents reimbursement for additional costs incurred by the purchaser in complying with the design criteria set by the Crown Lands Homesites Program.

(k) Comparitives

Prior year comparitive figures had to be repositioned or reclassified in the financial statements to conform with the basis of presentation and classification used in the current year.

(l) Prior Period Errors

The 2007 cash flow statement incorrectly excludes GST cash flows. This error has had the effect of understating receipts from customers by $532K, understating payments to suppliers $1,199K and understating other by $667K.

The 2007 reconcilaition of net cash provided by operating activities to profit or loss incorrectly excludes non-cash movements. This has had the effect of understating amortisation by $507K and overstating the movement in payables by $507K.

Restated financial information for 2008 and 2007 has been presented as if the error had not been made.

(m) Accounting Standards/ Interpretations issued but not yet effective
Australia Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2008. These are listed as follows:

Accounting Standards or UIGs Issued but not yet effective	**Impact to CLHP**	**Operative Date**
AASB 2007-9	Minimal impact	1 July 2008
AASB 101 & AASB 2007-8	Minimal impact	1 Jan 2009

2 OTHER INCOME

	2008 $'000	**2007 $'000**
Forfeited sales deposits	3	2
Unwinding of discounts	425	-
Other	5	404
	433	**406**

3 MARKETING EXPENSES

	2008 $'000	2007 $'000
Agents' commission	288	346
Advertising and promotion	817	410
	1,105	**756**

4 OTHER OPERATING EXPENSES

	2008 $'000	2007 $'000
Estate maintenance	154	153
Management/support fee	1,376	1,142
Project costs written off	63	52
Unwinding of discounts	-	507
Auditor's remuneration	21	17
Consultant costs	32	2
Rates	8	8
Rental expense	56	22
Other	71	24
	1,781	**1,927**

Management/support fees represent charges by Landcom for the cost of professional and corporate support services.

Project cost adjustments represent items of expense where expenditure incurred on projects was written off as land did not proceed to appropriation.

5 TRADE AND OTHER RECEIVABLES

	2008 $'000	2007 $'000
Current		
Debtors	-	1,116
	-	**1,116**
Non Current		
Development bonds	170	170
	170	**170**

Development bonds are amounts held by councils as security for satisfactory completion of development works.

6. INVENTORIES

	2008 $'000	2007 $'000
Current		
Works in progress	7,726	5,205
Developed land	5,712	4,088
	13,438	**9,293**
Non-Current		
Developed land	1,052	1,420
Undeveloped land	16,061	17,537
	17,113	**18,957**
	30,551	**28,250**
Details are:		
Acquisition cost	9,988	10,805
Development costs	20,563	17,445
	30,551	**28,250**

7. TRADE AND OTHER PAYABLES

	2008 $'000	2007 $'000
Current		
The Crown Core liability	1,846	2,151
Trade payables	2,013	618
GST payable	95	57
Deposits held	7	382
Accrued expenses	1,374	35
	5,335	**3,243**
Non Current		
The Crown Core liability	6,669	6,775
Other	90	-
	6,759	**6,775**
	12,094	**10,018**

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

8. PROVISIONS

	2008 $'000	2007 $'000
Current		
Provision to complete projects	554	3,030
Provision for rebates	99	418
	653	**3,448**
Non Current		
Provision for rebates	-	153
Provision to complete projects	1,488	-
	1,488	**153**
	2,141	**3,601**

2008 Movement	**Provision for rebates $'000**	**Provision to complete projects $'000**
Carrying amount at beginning of year	571	3,030
Additional provisions recognised	-	895
Reductions in provisions from payments	(53)	(1,148)
Reductions in provisions from remeasurement	(419)	(735)
Carrying amount at end of year	**99**	**2,042**

9. RETAINED EARNINGS

	2008 $'000	2007 $'000
Balance at the beginning of financial year	20,431	18,653
Net profit for the year	3,357	2,169
Distribution to NSW Treasury	-	(391)
Balance at the end of financial year	**23,788**	**20,431**

10. RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO PROFIT OR LOSS

	2008 $'000	2007 $'000
(a) For the purpose of the Cash Flow Statement, cash and cash equivalent includes cash on hand and cash at bank. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:		
Cash and cash equivalents	**7,302**	**4,514**

	2008 $'000	2007 $'000
(b) Reconciliation from the net profit for the year to the net cash flows from operations:		
Net profit for the year	3,357	2,169
Non-cash interest income	-	(391)
Unwinding of discounts (income)/expense	(425)	507
Change in assets and liabilities		
(Increase)/ decrease in receivables	1,116	(1,196)
(Increase)/ decrease in inventories	(2,301)	(144)
Increase/(decrease) in provisions	(1,460)	1,085
Increase/(decrease) in payables	2,501	(5,894)
Net cash provided by operating activities	**2,788**	**(3,864)**

11. FINANCIAL INSTRUMENTS

(This note is to be read in conjunction with Note 1(h))

The Crown Lands Homesites Program's principal financial instruments and risks are outlined below together with its processes for managing risk. These financial instruments arise directly from its operations. It does not enter into or trade in financial instruments for speculative purposes.

Financial Instrument Categories

Financial Assets	**Notes**	**Category**	**Carrying amount 2008 $'000**	**Carrying amount 2007 $'000**
Class				
Cash and cash equivalent assets	10	N/A	7,302	4,514
Trade and other receivables	5	Loans and receivables (at amortised cost)	170	1,286
Financial Liabilities				
Class				
Trade and other payables	7	Financial liabilities (at amortised cost)	11,902	9,579

Note: This analysis excludes statutory receivables, prepayments and unearned revenue as these are not within the scope of AASB 7.

(a) Interest Rate Risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates. Crown Lands Homesites Program exposure to interest rate risks and the effective interest rates of financial assets and liabilities, both recognised and unrecognised at the balance date is minimal.

There are no financial instruments subject to interest rates.

(b) Credit Risk

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation thereunder. Crown Lands Homesites Program's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the balance sheet. No collateral is held and no financial guarantees have been granted.

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

All trade debtors are recognised as amounts receivable at balance date and are reviewed regularly for collectibility on an ongoing basis. No debts are considered unrecoverable, generally being resolved within 30 days. No interest is earned on trade debtors.

There are no trade debtors that are past due or impaired whose terms have been renegotiated in the 'receivables' category of the balance sheet.

(c) Liquidity Risk

Liquidity risk arises if the Crown Lands Homesites Program is unable to meet its payment obligations when they fall due. During the current and prior years there were no defaults or breeches. No assets have been pledged as collateral. Exposure to liquidity risk is deemed insignificant.

The table below summarises the maturity profile of the Crown Lands Homesites Program's financial liabilities and interest rate exposure.

Maturity Analysis of Financial Liabilities

			Interest Rate Exposure			Maturity Dates		
	Weighted Average Effective Int Rate	**Nominal Amount**	**Fixed Interest Rate**	**Variable Interest Rate**	**Non Interest Bearing**	**< 1 Year**	**1 – 5 Years**	**> 5 Years**
2008								
Trade and other payables	-	13,157	-	-	13,157	5,233	7,711	213
2007								
Trade and other payables	-	10,409	-	-	10,409	2,804	7,605	-

Note: The nominal amounts disclosed are the contractual undiscounted cash flows of each class of financial liability. Therefore the amounts disclosed will not reconcile to the balance sheet. This analysis also excludes statutory payables, as these are not within the scope of AASB 7.

(d) Market Risk

Currency Risk
The Crown Lands Homesites Program does not have any investments or loans nor is there any exposure to foreign currency risk.

(e) Net Fair Value

All financial instruments are carried at net fair value, unless stated otherwise.

12. EXPENDITURE COMMITMENTS

The Crown Lands Homesites Program does not have any capital or operating lease commitments (2007 - $nil). The total expenditure commitments contracted for at balance date but not provided for:

	2008 $'000	**2007 $'000**
Not later than one year	43	88
Total (including GST)	**43**	**88**

The total expenditure commitments above include input tax credits of $3,888 that are expected to be recoverable from the ATO (2007: $8,000).

13. CONTINGENT LIABILITIES

There may be potential unquantifiable liabilities under Native Title and Aboriginal Land Rights legislation, which result from actions taken in the development and sale of Crown land.

14. POST BALANCE SHEET EVENTS

There have been no material post balance sheet events which would require disclosure or adjustments to the 30 June 2008 Financial Statements.

End of Audited Financial Statements

New South Wales
TREASURY

Crown Leaseholds Entity

Financial Report for the year ended 30 June 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

CROWN LEASEHOLDS ENTITY

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Crown Leaseholds Entity (the Entity), which comprises the balance sheet as at 30 June 2008, the operating statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Crown Leaseholds Entity as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

Secretary of The Treasury's Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

David Nolan
Director, Financial Audit Services

27 October 2008
SYDNEY

Crown Leaseholds Entity

Pursuant to Section 45F (1B) of the *Public Finance and Audit Act 1983* and clause 4 of the *Public Finance and Audit Regulation 2005,* I declare that in my opinion:

(a) the accompanying financial report exhibits a true and fair view of the financial position of the Crown Leaseholds Entity for the year ended 30 June 2008 and the financial performance for the year then ended; and

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

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

John Pierce
Secretary
20 October 2008

Crown Leaseholds Entity

Operating Statement
for the year ended 30 June 2008

	Notes	2008 $`000	2007 $`000
Revenue			
Leases and Licences	2 (a)	48,531	49,720
Investment Revenue	2 (b)	2,674	2,504
Other Revenue	2 (c)	77,578	40,699
Total Revenue		**128,783**	**92,923**
Expenses			
Other Operating Expenses	3 (a)	2,155	2,556
Grants and Subsidies	3 (b)	15,429	13,962
Other Expenses	3 (c)	13,397	25,508
Total Expenses		**30,981**	**42,026**
Loss on Disposal of Assets	4	**(58,166)**	**(31,349)**
Other Losses	5	**(35,444)**	**(14,866)**
Surplus for the Year		**4,192**	**4,682**

The accompanying notes form part of these financial statements.

Crown Leaseholds Entity

Balance Sheet
as at 30 June 2008

	Notes	2008 $`000	2007 $`000
ASSETS			
Current Assets			
Cash & cash equivalents	6	5,470	12,171
Trade & other receivables	7	25,807	23,535
Total Current Assets		**31,277**	**35,706**
Non-Current Assets			
Trade & other receivables	8	21,540	22,708
Property, plant & equipment	9	6,300,734	6,155,335
Total Non-Current Assets		**6,322,274**	**6,178,043**
Total Assets		**6,353,551**	**6,213,749**
LIABILITIES			
Current Liabilities			
Trade & other payables	10	5,314	3,420
Other	11	22,627	23,359
Total Current Liabilities		**27,941**	**26,779**
Non-Current Liabilities			
Other	12	1,021,144	1,009,359
Total Non-Current Liabilities		**1,021,144**	**1,009,359**
Total Liabilities		**1,049,085**	**1,036,138**
Net Assets		**5,304,466**	**5,177,611**
EQUITY			
Retained Earnings	14	2,539,471	2,611,745
Reserves	14	2,764,995	2,565,866
Total Equity		**5,304,466**	**5,177,611**

The accompanying notes form part of these financial statements.

Crown Leaseholds Entity

Statement of Recognised Income and Expense
for the year ended 30 June 2008

	Notes	2008 $`000	2007 $`000
Net Asset Revaluation Increments		235,673	519,227
Total Income & Expense Recognised Directly In Equity	14	235,673	519,227
Surplus For The Year	14	4,192	4,682
Total Recognised Income & Expense For The Year		**239,865**	**523,909**

The accompanying notes form part of these financial statements.

Crown Leaseholds Entity

Cash Flow Statement
for the year ended 30 June 2008

	Notes	2008 $`000	2007 $`000
Cash Flows from Operating Activities			
Receipts from Customers		39,585	28,550
Interest Received		2,355	2,319
Other Receipts		4,052	5,290
Net cash provided by operating activities	16	**45,992**	**36,159**
Cash flows from Investing Activities			
Proceeds from Sale of Untenured Crown Land		11,881	18,810
Net cash provided by investing activites		**11,881**	**18,810**
Cash Flows from Financing Activities			
Distribution to NSW Treasury	13	(64,574)	(54,798)
Net cash used in financing activites		**(64,574)**	**(54,798)**
Net (decrease)/increase in cash & cash equivalents		**(6,701)**	**171**
Cash & cash equivalents at the beginning of the Financial Year		12,171	12,000
Cash & Cash Equivalents at the end of the Financial Year	6	**5,470**	**12,171**

The accompanying notes form part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Crown Leaseholds Entity (CLE) is the entity that reports the value of untenured & tenured Crown Land. It collects revenue relating to the purchase of untenured Crown land and generates revenue from leases, licences and permissive occupancies of Crown land. The CLE's activities are administered by the Department of Lands.

The CLE's financial report is reported separately from the Department of Land's operational activities in accordance with NSW Treasury policy to reflect that:

- the ownership of the Crown Estate rests with the Crown; and
- revenue generated from the ownership of the Crown Estate is of a regulatory nature under the control of the Crown.

The CLE's financial report is consolidated as part of the Crown Entity and the Total State Sector Accounts.

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

(b) Basis of Preparation

The CLE's financial report is a general purpose financial report which has been prepared on an accrual basis in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the *Public Finance and Audit Act 1983*
- the *Public Finance and Audit Regulations 2005* and
- Treasurer's Directions.

Property, plant and equipment, investment property, assets (or disposal groups) held for sale and financial assets at 'fair value through profit or loss' and available for sale are measured at fair value. Other financial report items are prepared in accordance with the historical cost convention.

Judgments, key assumptions and estimations management has made are disclosed in the relevant notes to the financial report.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in Presentation or Classification

The layout of the Operating Statement and notes have been amended, for the 2008 report. Some items have also been reclassified, along with comparative details. The scope of these amendments includes:

- changed the naming to Operating Statement (previously Income Statement) and the format of the notes for revenue, expenses and gains/losses; and
- reclassification of items between Revenues, Expenses and Gains/Losses.

Specific items which have been reclassified include:

- movement of some Revenue items between the sub-categories of leases, licences, investment revenue and other revenue
- waivers shown as expenses, rather than as offsets to revenue, as this is a better reflection of the substance of the transactions; and
- further detail disclosed relating to disposal of assets for no consideration and those where proceeds were received.

(d) Statement of compliance

The financial report and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(e) Administration Costs

The cost of administering the Crown Estate is borne by the Department of Lands and is therefore, not reflected in the financial report.

(f) Accounting for the Goods and Services Tax (GST)

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

- the amount of GST incurred by CLE as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition cost of an asset, or as part of an item of expense
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. However, the GST components of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

Commitments and contingencies and other amounts disclosed in the financial report are net of the amount of GST recoverable from, or payable to, the Australian Taxation Office.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Revenue Recognition

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

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

ii. Revenue from leases and permissive occupancies
Rental revenue is recognised in accordance with AASB 117 *Leases* on a straight-line basis over the lease term.

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

iv. Crown Land
Land declared to be Crown or returned to Crown as per revenue note 2(c) is recognised upon gazettal at fair value.

(h) Property, Plant & Equipment

i. Acquisitions of assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Crown Leasehold Entity. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. deferred payment amount is effectively discounted at an asset-specific rate.

ii. Reservation of Crown Land

Pursuant to Section 87 of the Crown Lands Act 1989, all the Crown land in the Eastern and Central Divisions of the State (including the New South Wales land on the continental shelf within the 3 Nautical Mile Zone) that was not within a reserve or part of any holding, was reserved under reserve No. R1011448 for the purpose of future public requirement as gazetted on 31 March 2006. To facilitate administration of those parcels, action was taken for land within reserve No. 1011448 to be further allocated to separate reserves within each Parish in the Eastern and Central Divisions of the State as gazetted on the 29th June 2007. These lands are referred to, classified and valued as untenured Crown Land.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property, Plant & Equipment (continued)

iii. Revaluation of property, plant and equipment

Crown land that is within the CLE is valued in accordance with the NSW Treasury policy TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value*. This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment.* Underlying the definition of 'fair value' is a presumption that the CLE is a going concern without any intention or need to liquidate or otherwise wind up its operations or undertake a transaction on adverse terms.

For the basis of revaluation adopted by CLE for Land Under Tenure and Untenured Crown Land refer to note 1(h)(iv) and 1(h)(v) respectively.

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

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

As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

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

iv. Land Under Tenure

Land under tenure, which includes perpetual leases, term leases, licences, permissive occupancies and enclosure permits are re-valued annually by the Valuation Services Division within Land and Property Information NSW (LPI) at fair value. The revaluation was done as at 30 June 2008. The LPI valuers determined there were no material changes to the values when compared to the last revaluation undertaken in 2007.

The CLE's interest in the land under tenure is limited by the existence of leases which in many cases will deny the CLE occupancy of the land for many years or even in perpetuity. The CLE's interest in these leases is generally limited to the right to receive the income stream from the rentals combined with (in the case of term leases) the present value of the market value of the land deferred for the term of the lease.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property, Plant & Equipment (continued)

iv. *Land Under Tenure (continued)*

Consequently, the basis of valuation is the capitalisation of the income stream from the different classifications of land within each local government area, appropriately taking into account the conditions attaching to the leases. The method of valuation utilised mass valuation techniques.

Re-valuations are now more precise as the land value within each local government area (LGA) will be calculated at the appropriate LGA/Category figure which will be adjusted annually. The capitalisation rates for 2006/07 ranged from 2% to 12%. The capitalisation rates for 2007/08 have remained unchanged whilst the valuations have increased in line with CPI increases.

The balance in the asset revaluation reserve represents an accumulation of various effects, which cannot be individually measured. These include;

- increase in rentals and annual CPI based rental increases;
- new leases and licenses granted over untenured Crown land and identification of further chargeable occupancies; and
- movements in leaseholds occurring upon conversion to freehold.

v. Untenured Crown Land

Untenured Crown land represents all parcels of Crown land not classified as leasehold, permissive occupancies or enclosure permits. This land, which includes untenured Crown land, Crown reserves for which no formal trust has been established, certain Crown Roads and New South Wales land on the continental shelf within the 3 Nautical Mile Zone, was independently valued in March 2008 by the Valuation Services Division within LPI at fair value in accordance with the requirements of AASB 116 *Property, Plant and Equipment*. The revaluation was done as at 30 June 2008. As a result, the value of untenured Crown land was adjusted to reflect the revaluation and the land value as at 30 June 2008.

The valuation method adopted in 2007 was the valuation of each land category on a rate per hectare basis for each land type with each LGA. The land was valued at the highest and best use taking into account zoning and other restrictions, access to services and infrastructure and property market demand.

These value elements were considered in a global way when formulating a value level to apply to the particular land type. The rates per hectare for each land type were determined following a consideration of sales of comparable land in the locality. Where significantly different classes of land were identified these were accounted for in compiling the overall rate per hectare for the land class.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property, Plant & Equipment (continued)

v. ***Untenured Crown Land (continued)***

In revaluing the land in 2008, a single change factor, compared to the 2007 valuation, was struck for each LGA. This factor was applied to each Crown land type within each respective LGA, to determine the 2008 valuation. The factor was determined from general market analysis and research.

Some minor infrastructure, such as minor dams, sits on untenured Crown land. As these items do not generate any future economic benefit to the CLE they are included in the untenured Crown land valuation and therefore are not recognised as separate assets.

It is likely that some parcels of untenured Crown land may have been contaminated at some stage in the past. The Department of Lands has identified at least 490 sites on untenured Crown land which are likely to be contaminated to some degree. Work is still to be undertaken to determine the nature and extent of any such contamination. This work will also assist in determining the likely impact of any contamination on the value of the land holdings and estimation of remediation costs of the CLE. However, it is considered that the existence of contaminated sites will not have a material impact on the overall value of the CLE land holdings.

vi. Impairment of property, plant and equipment

As a not-for-profit entity with no cash generating units, the CLE is effectively exempt from AASB 136 *Impairment of Assets* and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

(i) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the operating statement when impaired, derecognised, through the amortisation process or expensed directly as the debt may warrant.

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

(j) Payables

These amounts represent liabilities for goods and services provided to the CLE and other amounts, including interest. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Equity Transfers

The accounting treatment for transfers of land between CLE and other State government agencies which are not due to an administrative restructure or transfers of programs/functions and parts thereof between NSW public sector entities is in accordance with NSW Treasury's accounting policy, TPP 08-3 Contributions by Owners Made to Wholly-Owned Public Sector Entities.

The approach under this policy results in gains or losses for the CLE due to differences in value between the carrying amounts recognised by the transferor and the transferee.

The rationale for this accounting approach per NSW Treasury's Policy TPP 08-3 (6.1 & 6.2) is as follows:

- The Government (as the shareholder or owner) has made a decision to withdraw equity from one entity and to inject equity into another entity. The transfer at fair value ensures that the transferor entity is held accountable and the transfer is made transparent. The transfer is in substance a transfer to / from the Government and should be treated consistently by all parties to the transfer.

- The Government needs to know the fair value of the assets and liabilities transferred to ensure an appropriate capital structure is maintained and to assess the performance of entities.

Treasury policy TPP 08-3 addresses transfers involving statutory bodies and PTEs that are not subject to AAS 29. TPP 08-3 also applies to Departments where the other party is a statutory body or a PTE not subject to AAS 29, because AAS 29 only applies to transfers between two Departments.

As noted in section 6.1 of TP08-3, the fair value approach requires the transferred assets and liabilities to be recognised by both the transferor and transferee at fair value to the transferee.

In most cases, carrying amounts of the transferor's assets and liabilities will not be materially different from the fair value to the transferee, where the existing use is the same. This is because fair value has been adopted as the basis of valuation of physical non-current assets in the NSW Public Sector (Valuation of Physical Non-Current Assets at Fair Value - TPP 07-1). AASB 116 Property, Plant and Equipment paragraph 31 states that where non-current physical assets are valued at fair value "revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date". Subject to this requirement, TPP 07-1 requires that all classes of property, plant and equipment be revalued at least once every five years.

However, where the existing use of physical assets is different between the two entities, the transferor's fair value prior to the transfer will be different to the fair value of the asset recognised by the transferee. This is because under Treasury's Asset Valuation Policy (TPP 07-1), fair value must be measured based on existing use, where there is no feasible alternative use (refer section 2.3.1 of TPP 07-1).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Equity Transfers (continued)

In these circumstances the difference in value between the carrying amount previously recognised by the transferor and the fair value to be recognised by the transferee must be recognised by the transferor in its financial report immediately prior to transfer.

Any balance remaining in the asset revaluation reserve of the transferor in respect of those assets transferred must be moved to retained earnings.

This policy clarifies that assets transferred as a result of an equity adjustment constitute a separate "class" of assets for the transferor, for the purpose of AASB 116 *Property, Plant and Equipment* paragraph 37.

Valuing transferred assets as a separate class avoids the need to revalue all assets in the class where they originally belonged.

Liabilities and other assets transferred must also be valued at fair value at the date of transfer. This means that investments and debt should be revalued to market value at the date of transfer. Any unrealised gain or loss must be recognised by the transferor.

(m) *New Australian Accounting Standards issued but not effective*

The following new Accounting Standards and Interpretations, that have been issued but are not yet effective, have not been adopted for the annual reporting period ending 30 June 2008:

- AASB 3 *Business Combinations (issued March 2008)*
- AASB 8 *Operating Segments (issued February 2007)*
- AASB 101 *Presentation of Financial Statements (issued September 2007)*
- AASB 123 *Borrowing Costs (issued June 2007)*
- AASB 127 *Consolidated & Separate Financial Statements (issued March 2008)*
- AASB 1004 *Contributions (issued December 2007)*
- AASB 1049 *Whole of Government & General Government Sector Financial Reporting (issued October 2007)*
- AASB 1050 *Administered Items (issued December 2007)*
- AASB 1051 *Land Under Roads (Issued December 2007)*
- AASB 1052 *Disaggregated Disclosures (issued December 2007)*
- AASB 2007-02 *Amendments to Australian Accounting Standards arising from AASAB Interpretation 12 (issued February 2007)*
- AASB 2007-03 *Amendments to Australian Accounting Standards arising from AASB 8 (issued February 07)*
- AASB 2007-06 *Amendments to Australian Accounting Standards arising from AASB 123 (issued June 2007)*
- AASB 2007-08 *Amendments to Australian Accounting Standards arising from AASB 101 (issued September 2007)*
- AASB 2007-09 *Amendments to Australian Accounting Standards arising from the review of AAS's 27, 29 & 31(issued December 2007)*
- AASB 2008-01 *Amendments to Australian Accounting Standard – Share based Payments: Vesting Conditions & Cancellations (issued February 2008)*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) *New Australian Accounting Standards issued but not effective (continued)*

- AASB 2008-02 *Amendments to Australian Accounting Standards – Puttable Financial Instruments & Obligations arising from Liquidation (issued March 2008)*
- AASB 2008-03 *Amendments to Australian Accounting Standards arising from AASB 3 & AASB 127 (issued March 2008)*
- AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration & Similar Liabilities (issued June 2007)*
- AASB Interpretation 4 *Determining whether an Arrangement contains a Lease (issued February 2007*
- AASB Interpretation 12 *Service Concession Arrangements (issued June 2007)*
- AASB Interpretation 13 *Customer Loyalty Programmes (issued August 2007)*
- AASB Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements & their Interaction (issued August 2007)*
- AASB Interpretation 129 *Service Concession Arrangements: Disclosures (issued February 2007)*
- AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities (issued December 2007)*

The Crown Leasehold Entity has not yet determined the potential effects of applying these standards on its financial report.

2. REVENUE

	2008 $`000	2007 $`000
(a) Leases and Licences		
Leases and licences revenue	54,126	55,678
Less: rebates	(5,595)	(5,958)
	48,531	49,720
(b) Investment Revenue		
Interest on land sales and leases	2,674	2,504
	2,674	2,504
(c) Other Revenue		
Land acquired for no consideration		
Land transferred from Reserve Trust to untenured land	31,868	31,007
Land declared to be Crown Land	41,670	4,052
Royalties	2,213	2,329
Other land receipts	1,827	3,311
	77,578	40,699

Crown Leaseholds Entity

Notes to the Financial Statements
for the year ended 30 June 2008

3. EXPENSES		
(a) Other Operating Expenses		
Audit fees	60	60
Bad debts expense	113	(139)
Loan grant expense (low and interest free loans)	1,926	2,549
Other	56	86
	2,155	2,556

The audit fee for the CLE audit of the financial report for the year ended 30 June 2007 was $63,000. The total fee payable for the audit of the financial report for the year ended 30 June 2008 is $64,000 with $10,000 paid and $15,000 accrued by 30 June 2008.

(b) Grants and Subsidies		
Waivers	15,429	13,962
	15,429	13,962
(c) Other Expenses		
Aboriginal land claims granted	1,236	25,508
Aboriginal land claims revaluation increment	12,161	-
	13,397	25,508

Crown Leaseholds Entity

Notes to the Financial Statements
for the year ended 30 June 2008

4. LOSS ON DISPOSAL OF ASSETS	**2008**	**2007**
	$`000	**$`000**
(a) Net Gain/(Loss) on Sale of Land		
Proceeds from sale of land		
General land sales	3,238	2,281
Land sold to Government agencies	610	1,275
Sale of land to Land Development Working Account	7,834	7,379
Conversion of perpetual leases to freehold	8,472	12,262
Total proceeds	20,154	23,197
Less: carrying value of land	(14,436)	(25,431)
Net gain / (loss) on sale of land	5,718	(2,234)
(b) Disposal of Land for No Consideration		
Land transferred to Reserve Trusts	(48,012)	(18,387)
Crown roads transferred to Local Government	(15,872)	(10,728)
	(63,884)	(29,115)
Total Loss on Disposal of Assets	**(58,166)**	**(31,349)**
5. OTHER LOSSES		
Revaluation increment (decrement) on transfer of land to other NSW Government agencies (eg. National Parks)	(35,444)	(14,866)
	(35,444)	**(14,866)**

6. CASH & CASH EQUIVALENTS		
Cash and cash equivalents	**5,470**	**12,171**

Cash and cash equivalents comprises cash at bank, security deposits and receipts collected by the Department. An amount of $4.476 million (2007 - $12.061 million) is held in a bank remitting account pending transfer to the Consolidated Fund.

Crown Leaseholds Entity

Notes to the Financial Statements
for the year ended 30 June 2008

7. CURRENT TRADE & OTHER RECEIVABLES	**2008**	**2007**
	$`000	**$`000**
Trade debtors	24,948	22,879
Amounts due on conversions	1,609	1,408
Allowance for impairment	(750)	(752)
	25,807	**23,535**
Movement in the allowance for impairment		
Balance at 1 July	(752)	(3,957)
Amounts written off during the year	2	3,205
Amounts recovered during the year	-	-
Increase/(Decrease) in allowance recognised in surplus/(deficit)	-	-
Balance at 30 June	**(750)**	**(752)**

8. NON-CURRENT TRADE & OTHER RECEIVABLES		
Amounts due on conversions	**21,540**	**22,708**

9. PROPERTY, PLANT & EQUIPMENT

Year Ended 30 June 2008	Untenured Crown Land	Crown Land Under Tenure	Total Carrying Amount
	$'000	$'000	$'000
Balance at beginning of year	***5,603,757***	***551,578***	***6,155,335***
Additions	73,538	-	73,538
Disposals	(76,939)	(2,993)	(79,932)
Transfer between classes	(35,253)	35,253	-
Revaluation Increment/(Decrement)	254,738	(19,065)	235,673
Write down to Fair Value on transfer to other government	(71,182)	-	(71,182)
Transfer from/(to) other government	(12,698)	-	(12,698)
Balance at end of year	**5,735,961**	**564,773**	**6,300,734**

Year Ended 30 June 2007	Untenured Crown Land	Crown Land Under Tenure	Total Carrying Amount
	$'000	$'000	$'000
Balance at beginning of year	***4,892,067***	***881,198***	***5,773,265***
Additions	35,059	-	35,059
Disposals	(79,382)	(16,074)	(95,456)
Transfer between classes	30,331	(30,331)	-
Revaluation Increment/(Decrement)	802,442	(283,215)	519,227
Write down to Fair Value on transfer to other government	(63,938)	-	(63,938)
Transfer from/(to) other government	(12,822)	-	(12,822)
Balance at end of year	**5,603,757**	**551,578**	**6,155,335**

During the year, land to the value of $84m was transferred to Forests NSW and to the Department of Environment and Climate Change. In line with the requirements of NSW Treasury Policy TPP 08-3 *Contributions by Owners Made to Wholly Owned Public Sector Entities* to recognise transferred assets at the fair value to the transferee, the CLE wrote down the land value by $71.2m of which $35.8 m was written against the asset revaluation reserve and $35.4m was recognised as a revaluation decrement in the operating statement.

The Crown Leasehold Entity land holdings include land, valued at $1.021 billion (2007-$1.009 billion), which has been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983*. These parcels of land remain under the care, control and management of the Crown pending formal land boundary surveys being undertaken so that freehold title can be prepared. Once this action occurs, freehold title can be issued to the respective local Aboriginal Land Councils. At that point the care, control and management of the land will be transferred from the Crown.

10. CURRENT TRADE & OTHER PAYABLES

	2008	2007
	$`000	$`000
Security Deposits	1,505	1,492
Payments received in advance	2,478	1,788
Others	1,331	140
	5,314	**3,420**

In addition to the cash security deposits of $1.505 million (2007 - $1.492 million), the entity is holding non cash guarantees of $5.187 million (2007 - $4.792 million) in the form of bank guarantees.

These bank guarantees are required in connection with a lease or licence of land for the provision of restoration costs that CLE may incur, if after the expiry of the lease or licence, work has to be done to restore the land to its original state or to demolish any structures that the customer may have left. These bank guarantees can also be used to cover unpaid rent although this is not the main reason for holding the guarantees. When the lease or licence expires or is terminated, if the land is in satisfactory condition and no money needs to be spent, the bank guarantee is returned to the customer.

11. OTHER CURRENT LIABILITIES

Amounts due to Treasury:		
- Unspent deposits	-	873
Unearned revenue	22,627	22,486
	22,627	**23,359**

Unearned revenue represents invoices raised and payments received in the current financial period in respect of the future financial periods.

12. OTHER NON-CURRENT LIABILITIES

The Crown Leasehold Entity has provided for the liability of claims which have been granted to local Aboriginal Land Councils under the *Aboriginal Land Rights Act 1983* as at 30 June 2008 but not yet transferred. The amount represents fair value of land granted based on estimated size of the land. Until the land is surveyed, the precise area to be transferred is unknown.

	2008	2007
	$`000	**$`000**
Opening balance of Aboriginal Land Council claims granted	1,009,359	1,024,762
Claims granted during the year	1,236	25,508
Revaluation increment	12,161	-
Claims transferred out during the year from provision	(1,612)	(40,911)
Closing balance of Aboriginal Land Council claims	**1,021,144**	**1,009,359**

13. CONSOLIDATED FUND TRANSFERS

The amount of $64.574 million (2007 - $54.798 million) were funds transferred to the Consolidated Fund in the twelve months to 30 June 2008 by the Department of Lands.

Crown Leaseholds Entity

Notes to the Financial Statements
for the year ended 30 June 2008

14. EQUITY

	Retained Earnings		Asset Revaluation Reserve		Total Equity	
	2008	2007	2008	2007	2008	2007
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at beginning of financial year	**2,611,745**	**2,675,966**	**2,565,866**	**2,095,711**	**5,177,611**	**4,771,677**
Prior period adjustments						
Surplus Government Properties Sold	-	(783)	-	-	**-**	**(783)**
Amount Owed to Other Entity	-	(500)	-	-	**-**	**(500)**
Restated opening balance	**2,611,745**	**2,674,683**	**2,565,866**	**2,095,711**	**5,177,611**	**4,770,394**
Changes in Equity - transactions with owners as owners						
Land transferred to other government agencies	(12,871)	(18,272)	-	-	(12,871)	(18,272)
Land transferred from other government agencies	173	5,450	-	-	173	5,450
Distribution to Treasury (Con Fund transfers)	(64,574)	(54,798)	-	-	(64,574)	(54,798)
Total	**(77,272)**	**(67,620)**	**-**	**-**	**(77,272)**	**(67,620)**
Changes in Equity - other than transactions with owners as owners						
Surplus/(Deficit) for the Year	4,192	4,682	-	-	4,192	4,682
Increment on revaluation of land	-	-	235,673	519,227	235,673	519,227
Transfer on disposal of land	-	-	(35,738)	(49,072)	(35,738)	(49,072)
Total	**4,192**	**4,682**	**199,935**	**470,155**	**204,127**	**474,837**
Transfer within Equity						
ARR balance transferred to the retained earnings on disposal of land	806	-	(806)	-	-	-
	806	**-**	**(806)**	**-**	**-**	**-**
Balance at end of financial year	**2,539,471**	**2,611,745**	**2,764,995**	**2,565,866**	**5,304,466**	**5,177,611**

14. EQUITY *(continued)*

Prior Period Errors

The following prior period errors were identified:

- Surplus Government Properties were transferred to the Land Development Working Account at an incorrect value. The effect of correcting this error reduced Trade and Other Receivables and Retained Earnings by $782,697 at 1 July 2006.

- Lease income was incorrectly recorded in the CLE that was the property of the Department of Lands. The effect of correcting this error was to reduce Cash and Cash Equivalents and Retained Earnings by $500,000 at 1 July 2006.

15. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments – Crown Leaseholds Entity as Lessor

The CLE has entered into operating leases on its land under tenure (Note 1(h)(iv)). All the non-cancellable leases rental charges are increased annually on the *Consumer Price Index* basis and the lease terms range from 1 to 99 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	2008	2007
	$`000	**$`000**
Not later than one year	21,228	20,309
Later than one year but not greater than five years	93,149	89,206
Later than five years but not greater than 10 years	130,409	124,026
	244,786	**233,541**

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

***Crown Lands Act 1989* (CLA):**

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

- **Licence**
  These tenures are terminable at will by the Minister and generally have no set term (not included in preceding commitment table).

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

15. COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

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

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

(b) Commitments for expenditure

There is one commitment for expenditure as at 30 June 2008 of $39,000 for audit fee (2007 - $50,000).

(c) Contingent liabilities

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

16. RECONCILLIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES.

	2008 $`000	2007 $`000
Surplus/(Deficit) for the year	4,192	4,682
Adjustment for non-cash items		
Loss on land disposed of	58,166	31,349
Interest free loan adjustments	1,608	2,365
(Gain) on non cash acquisition of land	(73,538)	(35,059)
Asset revaluation decrement	35,444	14,866
ALC claims granted	13,397	25,508
Change in Assets and Liabilities		
Decrease/(Increase) in receivables	5,561	(4,084)
(Decrease)/Increase in liabilities	1,162	(3,468)
Net Cash Flow from Operating Activities	**45,992**	**36,159**

17. FINANCIAL INSTRUMENTS

The Crown Leasehold Entity's principal financial instruments are outlined below. These financial instruments arise directly from the Crown Leasehold Entity's operations or are required to finance the Crown Leasehold Entity's operations. The Crown Leasehold Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Crown Leasehold Entity's main risks arising from financial instruments are outlined below, together with the Crown Leasehold Entity's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout this financial report.

The Secretary of the Treasury has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Crown Leasehold Entity, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the Audit Committee on an ongoing basis.

17. FINANCIAL INSTRUMENTS *(continued)*

(a) Financial instrument categories

	Note	Category	2008 $'000 Carrying Amount	2007 $'000 Carrying Amount
Financial Assets				
Cash and cash equivalents	6	N/A	5,470	12,171
Receivables[1]	7	Receivables measured at cost	24,198	22,127
Other Receivables	7,8	Receivables measured at amortised cost	23,149	24,116
Financial Liabilities				
Payables[2]	10	Payables measured at cost	2,836	1,632

Notes
1. Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).
2. Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

(b) Credit Risk

Credit risk arises when there is the possibility of the Crown Leasehold Entity's debtors defaulting on their contractual obligations, resulting in a financial loss to the Crown Leasehold Entity. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Crown Leasehold Entity, including cash and receivables. The Crown Leasehold Entity has not granted any financial guarantees. Credit risk associated with the Crown Leasehold Entity's financial assets, is managed through the selection of counterparties, establishment of minimum credit rating standards and careful management of customer credit arrangements. Bank guarantees are also held for customers with large regular dealings with the Crown Leasehold Entity.

Cash
Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate, adjusted for a management fee to NSW Treasury.

Receivables - trade debtors
All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance or impairment).

17. FINANCIAL INSTRUMENTS *(continued)*

The Crown Leasehold Entity is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Debtors that are passed due and considered impaired are included in the table below.

	Total $'000	Past Due but Not Impaired $'000			Considered Impaired $'000
		<3 months overdue	3-6 months overdue	>6 months overdue	
2008					
Receivable	23,718	2,776	1,910	18,282	750
2007					
Receivable	24,285	7,733	4,872	10,928	752

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

(c) Liquidity risk

Liquidity risk is the risk that the Crown Leasehold Entity will be unable to meet its payment obligations when they fall due. The Crown Leasehold Entity continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility without the need for the use of overdrafts, loans and other advances.

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

17. FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk (continued)

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

	Weighted Average Effective Interest	Nominal Amount	Interest Rate Exposure			Maturity Dates		
			Fixed Interest Rate	Variable Interst Rate	Non-Interest Bearing	1 year or less	1 to 5 years	Over 5 years
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2008								
Trade and other payables	-	2,836	-	-	2,836	2,836	-	-
Total Financial Liabilities		**2,836**	**-**	**-**	**2,836**	**2,836**	**-**	**-**
2007								
Trade and other payables	-	1,632	-	-	1,632	1,632	-	-
Total Financial Liabilities		**1,632**	**-**	**-**	**1,632**	**1,632**	**-**	**-**

Notes:
1. The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities;
2. The amounts exclude statuary liabilities, revenue received in advance, accrued wages and salaries.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Crown Leasehold Entity has no exposure to foreign currency risk and does not enter into commodity contracts.

Interest rate risk

The Crown Leasehold Entity does not account for any fixed rate financial instruments, a change in interest rates would not affect surplus or deficit or equity. A reasonable possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The Crown Leasehold Entity's exposure to interest risk is set out below.

$'000	Carrying Amount	-1%		1%	
		Profit	Equity	Profit	Equity
2008					
Cash and Cash Equivalent	5,470	(55)	(55)	55	55
2007					
Cash and Cash Equivalent	12,171	(122)	(122)	122	122

18. AFTER BALANCE DATE EVENTS

There are no after balance date events.

End of Audited Financial Report

New South Wales
TREASURY

State Rail Authority Residual Holding Corporation (StateRail)

Financial Report for the year ended 30 June 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

State Rail Authority Residual Holding Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the State Rail Residual Holding Corporation (the Corporation), which comprises the balance sheet as at 30 June 2008, the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

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

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

David Nolan
Director, Financial Audit Services

23 October 2008
SYDNEY

State Rail Authority Residual Holding Corporation

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

(a) The accompanying consolidated financial report exhibits a true and fair view of the financial position of the Crown Entity as at 30 June 2008 and the transactions for the year then ended; and

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

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

John Pierce
Secretary
20 October 2008

State Rail Authority Residual Holding Corporation

Income Statement
for the year ended 30 June 2008

	Notes	2008 $000	2007 $000
INCOME			
Services to Other NSW Rail Entities		-	1,374
Government Contributions	3	-	19,423
Interest		19	4,549
Other Revenue		94	3,091
Total Income		**113**	**28,437**
EXPENSES			
Payroll Costs		-	1,687
Severance Payments		-	310
Other Employee Benefits		-	43,134
Loss on Asset Disposals		-	11,318
Finance Costs		-	13,589
Contract and General Expenses		-	10,726
Workers Compensation		-	(18,362)
Depreciation	8	-	206
Audit Fees for Auditing		-	120
Doubtful Debts Provision Write-back		-	(102)
Income Tax Equivalent Write-back		-	(5,295)
Payment to Rail Corporation	5	449	-
Total Expenses		**449**	**57,331**
LOSS FOR THE YEAR		**(336)**	**(28,894)**

The accompanying notes form part of these financial statements.

State Rail Authority Residual Holding Corporation

Balance Sheet
as at 30 June 2008

	Notes	2008 $000	2007 $000
ASSETS			
Current Assets			
Cash and Cash Equivalents	6	-	336
Receivables	7	-	-
Total Current Assets		**-**	**336**
Non-Current Assets			
Property, Plant and Equipment	8	-	-
Total Non-Current Assets		-	-
Total Assets		**-**	**336**
LIABILITIES			
Current Liabilities			
Payables	9	-	-
Provisions	10	-	-
Tax Liabilities		-	-
Total Current Liabilities		**-**	**-**
Non-Current Liabilities			
Provisions		-	-
Total Non-Current Liabilities		**-**	**-**
Total Liabilities		**-**	**-**
Net Assets (Liabilities)		**-**	**336**
EQUITY			
Reserves	11	-	-
Accumulated funds	12(a)	-	336
Total Equity		**-**	**336**

The accompanying notes form part of these financial statements.

State Rail Authority Residual Holding Corporation

Statement of Recognised Income and Expense
for the year ended 30 June 2008

	Notes	2008 $000	2007 $000
Total Equity at the Beginning of Year		336	(405,669)
Net Revaluation Increments	11	-	63,123
Loss for the Year		(336)	(28,894)
Total (Loss)/Income Recognised for the Year		**(336)**	**34,229**
Transactions with Equity Holders in their Capacity as Equity Holders			
Vesting of Liabilities	12(b)	-	371,776
Total Transactions with Equity Holders		**-**	**371,776**
Total Equity at the End of the Year		**-**	**336**

The accompanying notes form part of these financial statements.

State Rail Authority Residual Holding Corporation

Cash Flow Statement
for the year ended 30 June 2008

	Notes	2008 $000	2007 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Receipts from Customers and others		-	22,707
Government Contributions Received		-	19,423
Funding for pre-1.7.1996 Workers' Compensation		-	7,608
Interest Received		-	4,549
Total Receipts		**-**	**54,287**
Payments			
Payments to Suppliers, Employees and Others		(336)	(67,265)
Interest Paid		-	(11,383)
Total Payments		**(336)**	**(78,648)**
NET CASH FLOWS USED IN OPERATING ACTIVITIES	6(b)	**(336)**	**(24,361)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts			
Investments Redeemed		-	15,465
Total Receipts		**-**	15,465
NET CASH FLOWS FROM INVESTING ACTIVITIES		**-**	**15,465**
Vesting of Funds	12(b)	-	(57,047)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(336)**	**(65,943)**
Cash and Cash Equivalents at the beginning of the year		**336**	**66,279**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**-**	**336**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2008

Notes Index

State Rail Authority Residual Holding Corporation

Notes to the Financial Statements
for the year ended 30 June 2008

1. STATE RAIL AUTHORITY RESIDUAL HOLDING CORPORATION INFORMATION

The State Rail Authority of New South Wales (StateRail) was a statutory body representing the Crown in right of the State of New South Wales, as constituted by the *Transport Administration Act 1988 (TAA).* Since 1 January 2004, pursuant to amendments to the TAA that provided for the restructuring of the Rail Industry, StateRail's principal activities have been to manage the transfer of selected assets, rights and liabilities to Rail Corporation New South Wales (RailCorp), and to manage the disposal of the remainder in consultation with RailCorp.

On 30th June 2007, all remaining functions, assets (including assets related to the cross border rolling stock leases) except for cash of $336,000 (refer Note 5a), rights and liabilities of StateRail with the unique exception of its rights and liabilities relating to specified ongoing cross border rolling stock leases, were transferred, by the operation on that date of a number of vesting orders, to various agencies, including RailCorp, Rail Infrastructure Corporation and the Crown.

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 vestings of all other StateRail assets rights and liabilities.

The financial report was authorised for issue by the Secretary on the date on which the accompanying Statement by the Secretary was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

This is a general purpose financial report prepared in accordance with the requirements of:

- Applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- Public Finance and Audit Act 1983
- Public Finance and Audit Regulation 2005
- Treasury Accounting Policy Statements

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

- property, plant and equipment
- certain provisions
- derivative financial instruments

These are measured at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accrual basis of accounting has been adopted in the preparation of the financial report, except for cash flow information.

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

SRA is a not-for-profit entity for accounting purposes.

At 30 June 2007, SRA has achieved its statutory objective to wind up all its residual business activities and ceased all operations. Except for the cash balance of $336,000, there are no assets or liabilities remaining in SRA, as any not specifically vested to another NSW government entity have been assumed by the Crown.

USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial report requires management to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision effects both current and future period.

STATEMENT OF COMPLIANCE

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2008. These are listed as follows:-

- AASB 3, AASB 127 and AASB 2008-3 (Mar 2008) regarding business combinations and consolidations (1 Jul 2009)
- AASB 8 and AASB 2007-3 (Feb 2007) regarding operating segments (1 Jan 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 1004 (Dec 2007) regarding contributions (1 Jul 2008)
- AASB 1049 (Oct 2007) regarding the whole of government and general government sector financial reporting (1 Jul 2008)
- AASB 1050 (Dec 2007) regarding administered items (1 Jul 2008)
- AASB 1052 (Dec) regarding disaggregated disclosures only (1 Jul 2008)
- AASB 2007-9 (Dec 2007) regarding amendments arising from the review of AASs 27, 29 and 31 (1 Jul 2008)
- AASB 2008-1 (Feb 2008) regarding vesting conditions (1 Jan 2009)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STATEMENT OF COMPLIANCE (continued)

- AASB 2008-2 (Mar 2008) regarding puttable financial instruments (1 Jan 2009)
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease (1 Jan 2008)
- Interpretation 12 (Jun 2007) and AASB 2007-2 regarding service concession arrangements (1 Jan 2008)
- Interpretation 14 (Aug 2007) regarding the limit on a defined benefit asset (1 Jan 2008)
- Interpretation 129 (Feb 2007) regarding service concession disclosures (1 Jan 2008)
- Interpretation 1038 (Dec 2007) regarding contributions by owners (1 Jul 2008)

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

LEASES

Details of leasing arrangements

The SRA had granted various operating leases in relation to real property. These leases have been vested.

Accounting treatment

Lease rentals under an operating lease are recognised as income (or expense) on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Initial direct costs incurred as lessor in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

An asset leased to a lessee is presented in the balance sheet according to the nature of the asset and is subject to the depreciation policy for similar but non-leased assets.

INCOME

Income is measured at the fair value of the consideration or contributions received or receivable. In most cases this is the value of the cash exchanged or exchangeable. Income is only recognised if its receipt is probable and the amount is reliably measurable.

Revenue from the rendering of a service is recognised by reference to the stage of completion of the transaction provided that the transaction's outcome, stage of completion and the past and prospective costs are all reliably measurable. Otherwise such revenue is only recognised to the extent of the associated recognised recoverable expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions are recognised when control of the cash or other asset (or the right to receive it) is obtained.

Interest revenue is recognised using the effective interest method which uses a rate that exactly discounts a financial instrument's expected future cash receipts, through the expected life of the financial instrument (or shorter period) to the net carrying amount of the instrument.

Operating lease income is recognised on a straight-line basis over the lease term.

Revenue from the sale of assets or other goods is recognised when control and the significant risks and rewards of ownership have passed to the buyer and the past and prospective transaction costs are reliably measurable.

EXPENSES

Borrowing costs

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

Redundancy

Severance payments, job search allowances and payments in lieu of notice are recognised as severance payments expense. Payments for annual leave, long service leave, superannuation and pay in lieu of certain holidays worked, which are paid on redundancy, are charged to the respective provisions.

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. Refer to Note 6.

PROPERTY, PLANT AND EQUIPMENT

Recognition

An item of property, plant and equipment is recognised as an asset if it has service potential controlled by the SRA is expected at acquisition to be used for more than one year, has a cost or value that can be measured reliably and exceeds the capitalisation threshold.

A component is accounted for separately, if it:

- has a useful life materially different from that of the prime asset and therefore requires separate replacement during the life of the prime asset, or
- is material enough to justify separate tracking, or
- is capable of having a reliable value attributed to it

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A dedicated spare part does not normally have a useful life of its own. Dedicated spares purchased specifically for a particular asset or class of assets and which would become redundant if that asset or class were retired or use of that asset or class were discontinued, are considered to form part of the historical cost of that asset or class.

Measurement

An item of property, plant and equipment purchased or constructed is initially measured at its cost which is its fair value on acquisition. This includes the purchase price and any costs directly attributable to bringing it to the location and condition necessary for it to be capable of operating as intended. An item of property, plant and equipment acquired at no cost or for a nominal cost is initially measured at its fair value.

Property, plant and equipment are revalued at least once every five years to fair value. Fair value is an asset's market price or if such a price is not observable or estimable from market evidence, its replacement cost being the written-down cost of an optimised modern equivalent asset.

An impairment loss is unlikely to arise on any item of property plant and equipment because the carrying amount (usually depreciated replacement cost) is unlikely to ever exceed the recoverable amount.

If an item of property, plant and equipment is revalued the entire class to which it belongs is revalued.

Any accumulated depreciation at the date of a revaluation is restated proportionately with the change in the gross carrying amount of the related asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Upon revaluation of a class of property, plant and equipment, a net revaluation increase is credited directly to the Asset Revaluation Reserve for that class and a net revaluation decrease is recognised in the Income Statement except that to the extent it reverses a previous increase or decrease for the same class, it is debited to the Asset Revaluation Reserve or recognised in the income statement respectively.

Depreciation

Each item of property, plant and equipment (except land) is depreciated on a straight-line basis over its estimated useful life commencing when the item is available for use. A capital spare is depreciated over the useful life of the asset or class of assets to which it relates.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The depreciation charge for each period is recognised as an expense unless it is included in the carrying amount of another asset.

In determining an asset's useful life consideration is given to its expected usage, its expected wear and tear, technical or commercial obsolescence, and legal or similar limits on its use.

The expected useful lives of items of property, plant and equipment are as follows:

	YEARS
Stations and related works	200
Trackwork and infrastructure	200
Non-station buildings brick	80
Non-station buildings non-brick	50
Rollingstock	20 - 35
Plant and machinery	5 - 30

Each asset's useful life, residual value and depreciation method are reviewed each year and any resulting adjustments are accounted for as a change in accounting estimate.

Derecognition

An item of property, plant and equipment is derecognised either on disposal or when its service potential ceases and it is not expected to have any disposal value.

On derecognition of an item of property, plant and equipment any gain or loss or any related compensation receivable is recognised in the income statement. Any revaluation increment remaining in the Asset Revaluation Reserve in respect of a derecognised asset is transferred to accumulated funds. See Notes 8 and 10.

PROVISIONS

Provisions generally

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement eg employee benefits, workers' compensation claims, public liability claims and litigated (contractual and other) claims.

A provision is recognised when the following criteria are satisfied:

- there is a likely present legal or constructive obligation as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The amount recognised is the best estimate of the expenditure required to settle the present obligation as at reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision. Where the effect of the time value of money is material, a provision is measured using the present value of the expenditures expected to be required to settle the obligation and using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Each provision is reviewed as at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that a settlement will be required, the provision is reversed. A provision is only used for its intended purpose.

An expense and reimbursement in respect of the workers' compensation provision are presented on a net basis in the income statement.

Employee benefits

Employee benefit provisions represent the expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date.

Superannuation, long service leave, annual leave and award leave liabilities are recognised as provisions when the obligations arise, which is usually through the rendering of service by employees. Expenditure creating such provisions is either expended or capitalised, depending on its nature. Severance liabilities are recognised as a provision (and an expense) when a voluntary redundancy agreement is reached or when there is a demonstrable commitment to the termination of employees' services.

Provisions are not recognised for employee benefits that have already been settled (eg payments to First State Super, a fully funded superannuation scheme), that do not accumulate (eg allowances, non-monetary benefits, parental leave), that are unlikely to be settled beyond the current year's entitlement (eg sick leave), or that have little or no marginal cost (eg post-employment travel passes).

Costs associated with, but that are not, employee benefits (such as payroll tax) are recognised separately.

Superannuation and long service leave provisions are actuarially assessed prior to each reporting date and are measured at the present value of the estimated future payments. All other employee benefit provisions (ie for benefits falling due within twelve months after reporting date) are assessed by management and are measured at the undiscounted amount of the estimated future payments.

The amount recognised for the superannuation provision is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the income statement (or capitalised) for superannuation and long service leave is the net total of current service cost, interest cost, the expected return on any plan assets, and actuarial gains and losses. Actuarial gains or losses are recognised as income or expense in the year they occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The actuarial assessment of superannuation and long service leave provisions uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled. See Note 10.

EQUITY ADJUSTMENTS DUE TO INDUSTRY RESTRUCTURING

A transfer of assets (or liabilities) to (or from) another NSW public sector entity as a result of a Ministerial order to give effect to industry restructuring is treated as a distribution to (or contribution by) the Government and recognised as a direct adjustment to accumulated funds. See Note 12.

FINANCIAL INSTRUMENTS

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised at fair value based on the transaction cost or face value. Any changes are accounted for in the Income Statement if impaired.

The SRA believes there are no risks, including credit, market and liquidity risks related to this balance.

There are no receivables that are past due or impaired whose terms have been renegotiated. No collateral is held and no financial guarantees have been granted.

TAXATION

Income Tax Equivalents

The Office of State Revenue has advised that StateRail is not subject to the Tax Equivalent Regime (TER) under which it was required to pay a taxation equivalent to the NSW Government based on the accounting result.

Goods and Services Tax

Revenues, expenses and assets are generally recognised net of the amount of goods and services tax (GST). However, receivables and payables are stated with the amount of GST included and GST that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the relevant asset or expense.

The net amount of GST recoverable from (or payable to) the ATO is recognised as part of receivables (or payables) in the balance sheet. Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of any cash flow that is recoverable from (or payable to) the ATO is classified as an operating cash flow.

State Rail Authority Residual Holding Corporation

Notes to the Financial Statements
for the year ended 30 June 2008

3. GOVERNMENT CONTRIBUTIONS

	2008 $000	2007 $000
CAPITAL GRANTS FROM NSW GOVERNMENT		
Funding for Capital Works	-	7,131
Total Capital Grants	**-**	**7,131**
OPERATING SUBSIDIES FROM NSW GOVERNMENT		
Industry Restructuring Transitional Funding	-	12,292
Total NSW Government Operating Subsidies	**-**	**12,292**
TOTAL GOVERNMENT CONTRIBUTIONS	**-**	**19,423**

4. EXPENSES

(a) DEFINED BENEFIT SUPERANNUATION PLAN EXPENSE (within Other Employee Benefits Expense)

	2008 $000	2007 $000
Current Service Cost	-	384
Interest Cost	-	2,675
Expected Loss on Plan Assets	-	22,726
Actuarial Losses	-	17,083
Total Defined Benefit Superannuation Expense	**-**	**42,868**

(b) DEFINED CONTRIBUTION SUPERANNUATION PLAN EXPENSE (within Other Employee Benefits Expense)

	2008 $000	2007 $000
Contributions to First State Super	**-**	**95**

5. PAYMENT TO RAIL CORPORATION

During 2007-08, StateRail transferred its remaining cash balance of $449k to RailCorp. The amount includes $336k closing bank balance at 30 June 2007, as well as interest and other income earned during the year.

State Rail Authority Residual Holding Corporation

Notes to the Financial Statements
for the year ended 30 June 2008

6. CASH AND CASH EQUIVALENTS

(a) CASH ASSETS

	2008 $000	2007 $000
Cash at Bank	-	336
Total Cash Assets	**-**	**336**

(b) RECONCILIATION OF LOSS FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES

	2008 $000	2007 $000
Loss for the Year	(336)	(28,894)
Amortisation of Loan Premiums	-	(266)
Workers' Compensation Funding	-	(5,713)
Depreciation	-	206
Assets Written Off or Sold	-	11,318
Amortisation of Loan Discounts	-	229
Income Tax Equivalent Write Back	-	(5,295)
Loss on Debt Management	-	400
Net Movements in Assets and Liabilities Applicable to Operating Activities		
(Increase)/Decrease in Receivables	-	21,215
Increase/(Decrease) in Payables	-	(28,980)
Increase in Provisions	-	11,419
NET CASH FLOW USED IN OPERATING ACTIVITIES	**(336)**	**(24,361)**

(c) NON CASH FINANCING AND INVESTING ACTIVITIES

During 2006-07 the Minister for Transport transferred assets and liabilities from StateRail to RailCorp, Rail Infrastructure Corporation and The Crown. The net transfer of liabilities represents a non-cash contribution of $371.776m by the Government.

State Rail Authority Residual Holding Corporation

Notes to the Financial Statements
for the year ended 30 June 2008

7. RECEIVABLES

	2008 $000	2007 $000
Receivables	-	-

8. PROPERTY, PLANT AND EQUIPMENT

	2008 $000	2007 $000
Total Land	-	-
Total Buildings	-	-
Total Rollingstock	-	-
Total Plant and Machinery	-	-
TOTAL PROPERTY, PLANT AND EQUIPMENT	-	-

ASSET CLASS MOVEMENTS

	Land $000	Buildings $000	Rolling Stock $000	Plant and Machinery $000	Total $000
2006-07					
Carrying Amount at the Beginning of Year	101,592	12,437	2,161	85	116,275
Disposals/Write-offs	(8,386)	(1,242)	(1,690)	-	(11,318)
Net Revaluation Increments	60,494	2,629	-	-	63,123
Transfers to RailCorp	(65,428)	(3,785)	(313)	(74)	(69,600)
Transfers to RIC	(88,272)	(10,002)	-	-	(98,274)
Depreciation Expense	-	(37)	(158)	(11)	(206)
Carrying Amount at End of Year	-	-	-	-	-

REVALUATIONS

Management revalued all assets at 30 June 2007 using indices provided by the State Valuation Office prior to the vesting of all assets to NSW Government organisations.

9. PAYABLES

		2008 $000	2007 $000
Payables		-	-

10. PROVISIONS

		2008 $000	2007 $000
Current provisions			
Superannuation	10(a)	-	-
Long service leave	10(b)	-	-
Total current employee benefits		-	-
Workers' compensation	10(d)	-	-
Pre-1.7.1996 workers' compensation	10(d)	-	-
Public liability claims	10(e)	-	-
Litigated claims	10(e)	-	-
Total current provisions		-	-
Non-current provisions			
Workers' compensation	10(d)	-	-
Pre-1.7.1996 workers' compensation	10(d)	-	-
Public liability claims	10(e)	-	-
Total Non-current provisions		-	-
TOTAL PROVISIONS		-	-

(a) SUPERANNUATION

Employer contributions are made to three defined-benefit superannuation schemes, the State Authorities Superannuation Scheme (SASS), the State Authorities Non-Contributory Superannuation Scheme (SANCSS), and the State Superannuation Scheme (SSS). Each scheme is administered by the SAS Trustee Corporation (STC) as part of The Pooled Fund.

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCSS)

Actuarial gains and losses are recognised in the profit or loss in the year they occur.

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

10. PROVISIONS (continued)

Reconciliation of the assets and liabilities recognised in the Balance Sheet

	SASS		SANCSS		SSS		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
	$000	$000	$000	$000	$000	$000	$000	$000
Present Value of Defined Benefit Obligations	-	-	-	-	-	-	-	-
Investment Reserve Liability (Asset)	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Surplus in Excess of Recovery Available from Schemes	-	-	-	-	-	-	-	-
Unrecognised Past Service Cost	-	-	-	-	-	-	-	-
Net liability to be disclosed in balance sheet	-	-	-	-	-	-	-	-

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

Movement in net liability recognised in the Balance Sheet

	SASS		SANCSS		SSS		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
	$000	$000	$000	$000	$000	$000	$000	$000
Net Liability at start of the year	-	208,077	-	136,401	-	163	-	344,641
Net Expense recognised in the income statement	-	25,144	-	18,869	-	(1,145)	-	42,868
Contributions	-	(57)	-	(4)	-	(34)	-	(95)
Vested	-	(233,164)	-	(155,266)	-	1,016	-	(387,414)
Net liability to be disclosed in balance sheet	-	-	-	-	-	-	-	-

Actual Return on Plan Assets

	SASS		SANCSS		SSS		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
	$000	$000	$000	$000	$000	$000	$000	$000
Actual Return on Plan Assets	-	(24,780)	-	(19,196)	-	1,170	-	(42,806)

VALUATION METHOD AND PRINCIPAL ACTUARIAL ASSUMPTIONS AT THE REPORTING DATE

Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations 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.

10. PROVISIONS (continued)

	2008 %	2007 %
• Discount rate at 30 June	-	6.4
• Expected return on plan assets at 30 June	-	7.6
• Expected salary increases	-	4% pa to 2008; 3.5% pa thereafter
• Expected rate of Increase in CPI	-	2.5

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

	SASS		SANCSS		SSS		TOTAL	
	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000
Accrued Benefits	-	22,139	-	177	-	6,870	-	29,186
Investment Reserve Liability/(Asset)	-	208,111	-	155,088	-	(8,605)	-	354,594
Net (surplus)/deficit	**-**	**230,250**	**-**	**155,265**	**-**	**(1,735)**	**-**	**383,780**

State Rail vested its superannuation liability to the Crown on 30th June 2007.

Recommended contributions rates for the entity are:

Multiple of Member Contributions		% of Member Salary		Multiple of Member Contributions	
SASS		**SANCSS**		**SSS**	
2008 $000	**2007 $000**	**2008 $000**	**2007 $000**	**2008 $000**	**2007 $000**
-	2.6	-	0.5	-	2.1

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.

10. PROVISIONS (continued)

The economic assumptions adopted for the last actuarial review of the Fund were

Weighted-Average Assumptions	2008 %	2007 %
• Expected return on fund assets	-	7.7
• Expected salary increases	-	4.0
• Expected rate of CPI Increase	-	2.5

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

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

(b) LONG SERVICE LEAVE

	2008 $000	2007 $000
Carrying amount at the beginning of the year	-	1,387
Additional Benefits Accrued	-	120
Less Benefits Taken or Divested	-	(1,507)
Carrying amount at the end of the year	**-**	**-**

(c) MOVEMENTS IN PROVISIONS (other than employee benefit provisions)

	Workers' Compensation $000	Pre 1.7.1996 Worker's Compensation $000	Public Liability Claims $000	Litigated Claims $000
2006-07				
Carrying Amount at the Beginning of Year	48,865	145,917	15,276	950
Increases in Provision	-	3,922	10,451	1,030
Discounting Adjustment	1,858	1,790	-	-
Subtotal	**50,723**	**151,629**	**25,727**	**1,980**
Payment of Claims	4,932	7,608	13,597	-
Decrease in Provisions	18,568	-	5,502	-
Vested	27,223	144,021	6,628	1,980
Carrying Amount at the End of Year	**-**	**-**	**-**	**-**

10. PROVISIONS (continued)

(d) WORKERS COMPENSATION

The pre-1.7.1996 workers' compensation provision relates to all claims incurred prior to 1 July 1996, the date of a restructuring of the NSW rail industry. The NSW Treasury has undertaken to fund all such claims.

Commencing from 1 July 2007, the NSW Treasury has also undertaken to fund for all workers' compensation claims incurred on or after 1 July 1996.

(e) PUBLIC LIABILITY AND LITIGATED CLAIMS

The Public Liability Claims recognises claims against the SRA that arise from personal injuries, or property damage occurring on its premises, or involving its assets.

The Litigated Claims recognises claims against the SRA arising from prosecutions or fines in relation to legislative or contractual breaches or other matters.

For these types of claims, any case incurred on or after 1 July 2007, the date after which StateRail has wound up, will be funded by the NSW Treasury.

11. RESERVES

ASSET REVALUATION RESERVE

The Asset Revaluation Reserve recognises the accumulated net revaluation increments in relation to property plant and equipment currently held. The movements during the year were:

	2008 $000	2007 $000
Carrying amount at the beginning of the year	-	110,533
Net Revaluation Increments	-	63,123
Transfer to Accumulated funds on asset disposal	-	(173,656)
Carrying amount at the end of the year	**-**	**-**

State Rail Authority Residual Holding Corporation

Notes to the Financial Statements
for the year ended 30 June 2008

12. ACCUMULATED FUNDS

(a) MOVEMENT IN ACCUMULATED FUNDS

	2008 $000	2007 $000
Accumulated Loss at the Beginning of Year	336	(516,202)
Transactions other than with Owners as Owners		
Loss for the Year	(336)	(28,894)
Transfers from Asset Revaluation Reserve on Asset Disposal	-	173,656
Total Transactions other than with Owners as Owners	**(336)**	**144,762**
Add Equity Distributions to Government		
Net Liabilities Withdrawn for Transfer to Other Entities	-	371,776
Total Distributions to Owners	-	371,776
Accumulated Funds at the End of Year	**-**	**336**

(b) NET LIABILITIES TRANSFERRED TO OTHER ENTITIES

As part of the restructuring of the NSW rail industry, the Minister for Transport ordered the transfer of the following assets and liabilities from the SRA during the year. The net transfers have been treated as distributions to the Government and recognised as direct adjustments to accumulated funds.

Assets Transferred		
Cash assets	-	57,047
Receivables (current)	-	10,217
Property, Plant and Equipment	-	167,878
Other Non-Current Assets	-	138,872
Total Assets	-	**374,014**
Liabilities Transferred		
Payables	-	250
Borrowings	-	171,528
Provisions (current)	-	415,583
Provisions (non-current)	-	158,429
Total Liabilities	-	**745,790**
Net Liabilities Divested	-	**371,776**

End of Audited Financial Report

New South Wales
TREASURY

New South Wales Self Insurance Corporation

Financial Report for the year ended 30 June 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

NSW SELF INSURANCE CORPORATION

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the NSW Self Insurance Corporation (the Corporation), which comprises the balance sheet as at 30 June 2008, the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Qualified Auditor's Opinion

In my opinion, except for the effect on the financial report of the matter referred to in the Basis for Qualified Auditor's Opinion paragraph below, the financial report:

- presents fairly, in all material respects, the financial position of the NSW Self Insurance Corporation as at 30 June 2008, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

Basis for Qualified Auditor's Opinion

As disclosed in Note 2 "Summary of Significant Accounting Policies" under the heading "Liabilities, Provisions", the Corporation has applied Accounting Standard AASB 137 *"Provisions, Contingent Liabilities and Contingent Assets"* to its general insurance contracts because at the whole of government level the Treasury Managed Fund is a self insurance scheme. In my opinion, the Corporation should have applied Accounting Standard AASB 1023 *"General Insurance Contracts"* to its general insurance contracts as the Corporation meets the definition of a general insurer. While I could not carry out audit procedures to determine the actual effect of this departure, I believe that had the Corporation applied AASB 1023, liabilities would have increased by a material amount and net assets decreased by the same amount. The Corporation would have also had to make additional disclosures about its general insurance contracts. My audit report for 2007 was similarly qualified.

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

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

Peter Achterstraat
Auditor-General

27 October 2008
SYDNEY

New South Wales Self Insurance Corporation

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

1. The accompanying financial report exhibits a true and fair view of the financial position of the NSW Self Insurance Corporation as at 30 June 2008 and the transactions for the year then ended; and

2. The financial report has been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, the Treasurer's Directions and relevant Australian Accounting Standards except for AASB 1023 *General Insurance Contracts*.

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

John Pierce
Secretary, NSW Treasury and
Manager, NSW Self Insurance Corporation
20 October 2008

New South Wales Self Insurance Corporation
Financial Statements for the year ended 30 June 2008

New South Wales Self Insurance Corporation
Income Statement
for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
INCOME			
Premiums	3,22	795,114	820,103
Reinsurance and Other Recoveries	4,22	29,467	51,736
Investment (Loss) / Income	5,22	(355,259)	555,046
Other	22	15	8
Total Income		**469,337**	**1,426,893**
EXPENSES			
Claims	6,22	266,648	163,465
Outwards Reinsurance	22	28,884	29,944
Depreciation and Amortisation	14,15,22	1,066	904
Finance Costs	17,22	269,180	271,158
Management Fees	22	83,566	86,573
Other	8,22	38,307	35,052
Total Expenses		**687,651**	**587,096**
(DEFICIT) / SURPLUS BEFORE PAYMENT TO THE CROWN ENTITY		**(218,314)**	**839,797**
Payment to the Crown Entity	7,22	300,000	910,000
NET DEFICIT FOR THE YEAR AFTER PAYMENT TO THE CROWN ENTITY		**(518,314)**	**(70,203)**

The accompanying notes form part of these financial statements.

New South Wales Self Insurance Corporation
Statement of Recognised Income and Expense
for the year ended 30 June 2008

	2008 $'000	2007 $'000
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	-	-
Net Deficit for the Year After Payment to the Crown Entity	(518,314)	(70,203)
TOTAL INCOME AND EXPENSES RECOGNISED FOR THE YEAR	**(518,314)**	**(70,203)**

The accompanying notes form part of these financial statements.

New South Wales Self Insurance Corporation
Balance Sheet
as at 30 June 2008

	Notes	2008 $'000	2007 $'000
CURRENT ASSETS			
Cash and Cash Equivalents	21,23,24	150,321	99,761
Receivables	9,23,24	93,325	116,115
Reinsurance and Other Recoveries Receivable	10,23,24	34,223	31,939
Financial Assets at Fair Value	12,23,24	81,715	306,864
Derivative Financial Instruments	11,23,24	3,168	4,537
Other	13,23	15	-
Total Current Assets		**362,767**	**559,216**
NON-CURRENT ASSETS			
Reinsurance and Other Recoveries Receivable	10,23,24	146,284	154,811
Financial Assets at Fair Value	12,23,24	4,054,035	4,564,385
Property, Plant and Equipment	14,23	368	498
Intangibles	15,23	2,432	3,016
Other	13,23	42	51
Total Non-Current Assets		**4,203,161**	**4,722,761**
TOTAL ASSETS		**4,565,928**	**5,281,977**
CURRENT LIABILITIES			
Payables	16,23,24	120,452	123,696
Provision for Outstanding Claims	17,23	645,643	622,672
Other	19,23	8,019	3,331
Total Current Liabilities		**774,114**	**749,699**
NON-CURRENT LIABILITIES			
Provision for Outstanding Claims	17,23	3,461,524	3,683,677
Provision for Restoration	18,23	56	53
Total Non-Current Liabilities		**3,461,580**	**3,683,730**
TOTAL LIABILITIES		**4,235,694**	**4,433,429**
NET ASSETS		**330,234**	**848,548**
EQUITY			
Retained Surplus	20,23	330,234	848,548
		330,234	**848,548**

The accompanying notes form part of these financial statements.

New South Wales Self Insurance Corporation
Cash Flow Statement
for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
RECEIPTS			
Premiums Received		942,534	930,869
Premiums - Hindsight Adjustment Received		99,813	32,288
Investment Income		232,970	969,475
Reinsurance and Other Recoveries		35,920	38,862
GST Refunds		26,594	23,210
Other		15	85
Total Receipts		**1,337,846**	**1,994,789**
PAYMENTS			
Claims and Expenses Paid		(786,111)	(643,332)
Premiums - Hindsight Adjustment Paid		(139,008)	(90,437)
Management Fees Paid		(91,924)	(94,584)
GST Paid		(87,730)	(86,577)
Outwards Reinsurance Expense		(30,844)	(31,257)
Payment to the Crown Entity		(300,000)	(910,000)
Total Payments		**(1,435,617)**	**(1,856,187)**
NET CASH FLOWS (USED IN) / FROM OPERATING ACTIVITIES	21	**(97,771)**	**138,602**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Investments		948,747	2,023,264
Purchase of Investments		(800,064)	(2,365,510)
Purchase of Property, Plant and Equipment, and Intangibles		(352)	(1,391)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		**148,331**	**(343,637)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**50,560**	**(205,035)**
Cash and Cash Equivalents at the Beginning of Year		99,761	304,796
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	**150,321**	**99,761**

The accompanying notes form part of these financial statements.

1. NSW SELF INSURANCE CORPORATION INFORMATION

The NSW Self Insurance Corporation (SICorp) is a statutory body that largely provides self-insurance coverage for general government budget-dependent agencies. Its main business address is Level 17, 201 Elizabeth Street Sydney NSW 2000.

SICorp is a not-for-profit entity which includes all the assets, liabilities, rights and obligations of the:

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

SICorp operates under the *NSW Self Insurance Corporation Act 2004* and the *Public Finance and Audit Act 1983*. SICorp was previously the Insurance Ministerial Corporation, under section 24 of the *Government Insurance Office (Privatisation) Act 1991*.

The claims management arrangement of SICorp is shared between:

- GIO General Limited (GIO)
- Allianz Insurance Australia (Allianz)
- Employers Mutual Limited (EML)

Current contract with the existing claims managers commenced at 1 July 2005 and is subject to public tender, which occur at least every five years.

The claim managers receive a management fee to administer the following funds:

NSW Treasury Managed Fund

The NSW Treasury Managed Fund (TMF) is SICorp’s main insurance scheme. It is a self-insurance scheme that protects the insurable assets and exposures of:

- all public sector agencies financially dependent on the Consolidated Fund
- all public hospitals
- various statutory authorities

Pre-Managed Fund Reserve

The Pre-Managed Fund Reserve holds the reserves previously held in the Fire Risks Account, the Fidelity Fund, and the Public Liability Fund. It has been used to fund claims the NSW Government incurred before 1 July 1989 which the government previously met, in particular GWC claims. These claims are now funded directly from the Consolidated Fund.

Pre-Managed Fund Reserve annual reporting accounts have been consolidated with the TMF from 2000-01.

1. NSW SELF INSURANCE CORPORATION INFORMATION (continued)

Governmental Workers Compensation Account

The Governmental Workers Compensation Account (GWC) pays the outstanding workers compensation claims liabilities as at 30 June 1989 of the:

- Consolidated Revenue Fund
- Public Hospitals
- RTA Managed Fund

From 1 July 1989, the TMF has handled workers compensation insurance for these agencies.

Transport Accidents Compensation Fund

The Transport Accidents Compensation Fund (TAC) pays for motor transport accident claims under the common law system which applied until 30 June 1987 and TransCover system claims costs from then until 30 June 1989. The Intermediate Claims provisions of the Motor Accidents Scheme retrospectively replaced TransCover.

The accounts are consolidated into SICorp's Parent, the Crown Entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

- Public Finance and Audit Act 1983
- Public Finance & Audit Regulation 2005
- Treasury Accounting Policy Statements

The report also complies with applicable Australian Accounting Standards which include Australian Accounting Interpretations except for AASB 1023 *General Insurance Contracts*.

The financial report has been prepared on a historical cost basis, except for:

- Derivative financial instruments
- Financial assets designated as fair value through profit and loss
- Provision for outstanding claims

These have been measured at fair value.

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

Use of Estimates and Judgements

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

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

Classification and Valuation of Investments
SICorp classifies its investments as fair value through profit and loss. The fair value has been determined by reference to the underlying value provided by the Portfolio manager.

Valuation of Derivative Financial Instruments
The fair values of derivatives are determined by reference to the market value for similar instruments.

Where an active market exists, fair values are determined by reference to the specific market quoted prices/yields at the year end. If no active market exists, judgement is used to select the valuation technique which best estimates fair value by discounting the expected future cash flows arising from the securities to their present value using market yields and margins appropriate to the securities. These margins take into account credit quality and liquidity of the securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision for Outstanding Claims
The provision for outstanding claims is determined by the independent actuary, PricewaterhouseCoopers, in consultation with the claims managers for NSW Treasury Managed Fund, Transport Accident Compensation Fund and Governmental Workers Compensation Account. It is measured as the best estimate of the expected future payments required to settle the present obligation at the reporting date.

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

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on investment opportunities available on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in Note 17.

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

Statement of Compliance

The financial report complies with applicable Australian Accounting Standards which include Australian Accounting Interpretations except for AASB 1023 *General Insurance Contracts*.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2008. These are listed as follows:-

- AASB 3, AASB 127 and AASB 2008-3 (Mar 2008) regarding business combinations and consolidations (1 Jul 2009)
- AASB 8 and AASB 2007-3 (Feb 2007) regarding operating segments (1 Jan 2009)
- AASB 101 and AASB 2007-8 (Sep 2007) regarding presentation of financial statements (1 Jan 2009)
- AASB 123 and AASB 2007-6 (Jun 2007) regarding borrowing costs (1 Jan 2009)
- AASB 1004 (Dec 2007) regarding contributions (1 Jul 2008)
- AASB 1049 (Oct 2007) regarding the whole of government and general government sector financial reporting (1 Jul 2008)
- AASB 1050 (Dec 2007) regarding administered items (1 Jul 2008)
- AASB 1052 (Dec) regarding disaggregated disclosures only (1 Jul 2008)
- AASB 2007-9 (Dec 2007) regarding amendments arising from the review of AASs 27, 29 and 31 (1 Jul 2008)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of Compliance (continued)

- AASB 2008-1 (Feb 2008) regarding vesting conditions (1 Jan 2009)
- AASB 2008-2 (Mar 2008) regarding puttable financial instruments (1 Jan 2009)
- Interpretation 4 (Feb 2007) regarding determining whether an arrangement contains a lease (1 Jan 2008)
- Interpretation 12 (Jun 2007) and AASB 2007-2 regarding service concession arrangements (1 Jan 2008)
- Interpretation 14 (Aug 2007) regarding the limit on a defined benefit asset (1 Jan 2008)
- Interpretation 129 (Feb 2007) regarding service concession disclosures (1 Jan 2008)
- Interpretation 1038 (Dec 2007) regarding contributions by owners (1 Jul 2008)

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 SICorp.

Adoption of New Accounting Standard

SICorp has adopted AASB 7 *Financial Instruments; Disclosures*, and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

Comparative Figures

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.

Reclassifications made to comparative figures include:

Cash Flow Statement

- A reclassification of $29.2 million from premium hindsight received to premiums received in operating activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE

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

Premium Revenue

Premium revenue is the cost to member agencies of insurance cover from 1 July each year.

Premiums are recognised to income over the period of the insured risk.

Reinsurance and Other Recoveries Revenue

Reinsurance recoveries are recognised as revenue for claims incurred. Other recoveries include recoveries of claims paid under:

- sharing agreements
- third party recoveries
- salvage and subrogation

Investment Income

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

Interest revenue is recognised as interest accrues.

EXPENSES

Outwards Reinsurance Expense

Premiums ceded to re-insurers are recognised as an expense in line with the indemnity period of the corresponding reinsurance contract.

Claims Expenses

Claims expenses include:

- cash settlement of claims
- movements in outstanding provisions

Finance Costs

Finance costs include the unwinding of discounts for the provision of outstanding claims and restoration costs.

These are recognised as an expense when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific asset.

The useful lives of depreciable asset categories are:

- office equipment: 7 years
- furniture and fittings: 5 to 10 years
- computer hardware: 4 years

Amortisation of Intangible Assets

Computer software costs are amortised over 5 years.

Payment to the Crown Entity

Pursuant to the Net Assets Holding Level Policy, SICorp will make payments to the Crown Entity when it has surplus assets over and above the required level. Further information on the policy is included in Note 7.

The payments are recognised as expenses when they are paid or payable.

Leases

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

SICorp as a lessee
The operating lease relates to the rental of office space, the principal business address of SICorp. It is a non-cancellable lease with a term of six years and an option to extend for a further four years. A rental review is taken biannually to effective market prices.

On expiration of the lease, the rental premise is to be returned to its original condition. A provision for restoration has been taken up.

The operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

Income Tax

Income from the funds of SICorp are exempt from income tax under S23(d) of the Income Tax Assessment Act 1936.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS

Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise:

- deposit held at call with banks
- investments in NSW Treasury Corporation Hour-Glass Cash Facility
- investments in money market instruments

The Cash Flow Statement shows these cash and cash equivalents net of outstanding bank overdraft(s).

Investments

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. SICorp classifies its financial assets after initial recognition and, when allowed and appropriate, it re-evaluates this at each year-end.

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

Investments comprise of NSW Treasury Corporation (TCorp) Managed Bond portfolio and Hour-Glass investment facilities and are classified as fair value through profit and loss.

Derivative Financial Instruments
SICorp uses derivatives such as interest rate swaps to reduce the risks of interest rate fluctuations. These instruments are initially recognised at fair value at the date on which the derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value for derivatives are shown after net-off of transactions with the same counter-party.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the Income Statement.

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

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets, for example taxes and premiums, are short-term to be carried at original invoice amount as the effect of discounting is immaterial.

The collection of trade receivables is reviewed on an ongoing basis. An allowance for impairment is established when there is objective evidence that not all amounts due will be collectable. Bad debts are written off as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance and Other Recoveries Receivable

Receivables from reinsurance and other recoveries are actuarially assessed.

When it becomes apparent that a recovery may not be received with virtual certainty, these recoveries are deducted from the recoveries receivable estimate.

The amount of reinsurance and other recoveries receivables is equal to gross case estimated costs plus gross payments to date less the retention limit less reinsurance recoveries received to date. The measurement of these receivables is affected by factors such as normal inflation and the discount rate used for discounting of future expected receipts. The rates applied are consistent with those used in the valuation of provisions for outstanding claims (see Note 17).

An explicit allowance has been made in respect of Liability claims arising in respect of Hepatitis C. As recoveries from Hepatitis C claims are funded by the Commonwealth, default risk is considered negligible. In relation to other recoveries, around half of these are recoverable from the Motor Accidents Authority, for which default risk is also negligible.

There has not been any key assumption made around the amounts recoverable that would have a significant risk of causing a material adjustment to the carrying amount of these assets within the next annual reporting period.

Property, Plant and Equipment

Office furniture, equipment and computer hardware are recorded at cost plus any incidental acquisition costs. All items are carried at cost less accumulated depreciation, as surrogate for fair value.

The depreciation expense on property, plant and equipment are recognised in the depreciation and amortisation line of the Income Statement.

No revaluation is undertaken on these assets as the difference between fair value and carrying value is immaterial.

Intangible assets

Intangible assets include capitalised expenditures for the Data Warehouse and computer softwares.

Intangibles are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation.

The amortisation expense on intangible assets is recognised in profit or loss in the depreciation and amortisation line of the Income Statement.

Impairment of Assets

As a not-for-profit entity with no cash generating units, SICorp is effectively exempt from AASB 136 *Impairment of Assets* and impairment testing. AASB 136 defines recoverable amount as the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LIABILITIES

Provisions

Provisions are recognised when SICorp has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The liability for claims includes:
- claims incurred but not yet paid
- incurred but not yet reported

When it is virtually certain that some or all of a provision will be reimbursed, as in an insurance contract, the reimbursement is recognised as a separate asset.

Where there is a material effect due to the time value of money, a provision is discounted. The increase in the provision resulting from the passage of time is recognised in finance costs.

Under Australian Accounting Standards, the Pre-Managed Fund Reserve, the GWC and the TAC are required to adopt AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. SICorp's main insurance scheme, the TMF, is required to comply with AASB 1023 *General Insurance Contracts*.

However, at the General Government and Total State Sector reporting levels SICorp is considered a public sector self insurance scheme resulting in the adoption of AASB 137 for all of the Corporation's activities. To provide enhanced consistency, reliability, relevance and comparability of the financial information for users of the financial statements, AASB 137 is applied across all SICorp's activities including the TMF.

Trade and other payables

Trade and other payables are carried at costs and are liabilities for goods and services provided, but not paid for prior to the end of the financial year. This occurs when SICorp becomes obliged to make future payments in respect of goods and services, even if it has not been billed for them.

Like receivables, these are short-term and are carried at original invoice amount as the effect of discounting is immaterial.

Goods and Service Taxes

Revenue, expenses and assets are recognised net of Goods and Services Tax (GST), except:
- where the GST is either part of the cost of acquiring an asset, or part of an item of expense not recoverable from the Australian Tax Office
- for receivables and payables which are stated with the amount of GST included

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables.

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

3. PREMIUM REVENUE

	2008 $'000	2007 $'000
Tariff Premium	803,015	791,035
Hindsight Adjustments	(59,287)	(26,580)
Visiting Medical Officers (VMO)	51,338	55,606
Medically Supervised Injecting Centre (MSIC)	48	42
	795,114	**820,103**

Motor vehicle hindsight adjustment for 2005/06, workers compensation final hindsight adjustments for 2001/02 and interim hindsight adjustments for 2003/04 were paid in 2007/08.

Payments of the workers compensation final hindsight adjustments for 2002/03 and interim hindsight adjustments for 2004/05 will be paid in 2008/09.

4. REINSURANCE & OTHER RECOVERIES REVENUE

Recoveries Revenue	35,552	38,700
Movement in Outstanding Recoveries[1]	(6,085)	13,036
	29,467	**51,736**

[1] Movement in outstanding recoveries represent the increase / (decrease) in the actuarially assessed level of reinsurance and other recoveries receivable at reporting date.

The movement in outstanding recoveries for 2008 represents discounted expected future recoveries at 30 June 2008 ($180.5 million) less closing balance at 30 June 2007 ($186.6 million). Refer to Note 10 for further details.

5. INVESTMENT INCOME

Bank Interest	3,931	4,041
Revenue from Financial Assets Held at Fair Value		
Bond Portfolio	141,512	151,263
Hour-Glass Facility	(458,071)	453,317
Gains/(Losses) from Financial Assets Held at Fair Value		
Derivative Financial Instruments - Held for Trading	(9,445)	(9,249)
Bond Portfolio - Designated as at Fair Value	(33,186)	(44,326)
	(355,259)	**555,046**

6. CLAIMS EXPENSES

	2008 $'000	2007 $'000
Claims Paid	735,008	604,335
Movement in Outstanding Claims[1]	(468,360)	(440,870)
	266,648	**163,465**

[1.] Movement in outstanding claims represent the increase / (decrease) in provision for outstanding claims liabilities excluding the increase in provisions due to the unwinding of discounts during the year. The increase in the carrying amount of a provision due to the passage of time is recognised as a finance cost.

The movement in outstanding claims for 2008 represents outstanding claims liabilities at 30 June 2008 ($4,107.1 million) less closing balance at 30 June 2007 ($4,306.3 million) less finance cost for the year ($269.2 million). Refer to Note 17 for further details.

7. PAYMENT TO THE CROWN ENTITY

Payment to the Crown Entity	300,000	910,000
	300,000	**910,000**

Pursuant to SICorp's Net Assets Holding Level Policy, the Corporation will make payments to the Crown Entity when it has surplus assets over and above the required level.

The Policy, established in March 2006, takes into consideration the following:

- the probability of poor investment returns for the year(s), and/or
- the possibility of a deterioration in claims experience, and/or
- the impact of a major claim, either not covered by reinsurance protection or exhausting the reinsured retention level

The Policy dictates that the target surplus assets held for SICorp to be the sum of 10 per cent of outstanding claims liabilities of the TMF plus the amount absorbed by the fund of any one claim exceeding the reinsurance retention level. The adequacy of the fund's net assets level is reviewed annually based on the financial results as at 31 December.

8. OTHER EXPENSES

	2008 $'000	2007 $'000
Levies Paid to:		
Dust Diseases	4,352	4,074
WorkCover Authority of NSW	19,115	18,329
Investment Management Fees	1,946	2,421
Risk Management Fees	1,624	1,560
Actuarial Expenses		
Pricewaterhouse Coopers	4,289	3,546
Taylor Fry	324	102
Storage Costs	384	266
Maintenance	1,671	872
Bank Charges	33	21
Audit Fees	171	153
Legal Expenses	-	7
Consultancy	245	258
Reinsurer Administration Fees	1,103	900
Personnel Services Fees	1,809	1,899
Operating Lease Rental Expenses	316	341
Recoveries Written-Off	130	-
Other	795	303
	38,307	**35,052**

9. RECEIVABLES

Current

	2008	2007
Premiums Receivable	87,675	116,012
Other	5,650	103
	93,325	**116,115**

Other receivables are non-interest bearing and are generally on 30 days term.

10. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2008 $'000	2007 $'000
Expected Future Recoveries (Undiscounted)	264,599	293,215
Discount to Present Value	(84,058)	(106,589)
	180,541	186,626
Outstanding Reinsurance and Other Recoveries on Paid Claims	(34)	124
	180,507	**186,750**
Current	34,223	31,939
Non-Current	146,284	154,811
	180,507	**186,750**

11. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 $'000	2007 $'000
Current Assets		
Interest Rate Futures	3,168	4,537
Amount receivable under derivative financial instruments	**3,168**	**4,537**

Interest rate swap contracts were used by SICorp to naturally hedge exposure to fluctuations in interest rates affecting investment returns.

The NSW Treasury Corporation (TCorp) has been appointed to manage SICorp's investments. It is authorised to invest in derivative financial instruments under authorised and clearly defined limits. Derivative contracts are not used for speculative purposes.

TCorp may use the following derivative financial instruments:

- Exchange traded interest rate futures contracts
- Exchange traded interest rate options
- Interest rate swaps
- Currency and basis swaps

At 30 June, the nominal principal amounts and period of expiry of the derivatives are as follows:

	2008 $'000	2007 $'000
Less than one year	3,168	4,537
	3,168	**4,537**

12. FINANCIAL ASSETS AT FAIR VALUE

	2008 $'000	2007 $'000
Current		
Bond Portfolio	81,715	306,864
	81,715	**306,864**
Non-Current		
Hour-Glass Investments		
Australian Shares	677,646	798,262
Indexed Australian Shares	188,593	206,635
International Shares	754,062	736,184
Indexed International Shares	237,636	260,193
Listed Property	199,894	209,700
International Bonds	393,948	313,163
Medium-Term Growth	96,476	110,477
Long-Term Growth	95,573	110,061
Bond Portfolio	1,410,207	1,819,710
	4,054,035	**4,564,385**
	4,135,750	**4,871,249**

At 30 June 2008, total investments of SICorp are financial assets designated at fair value through profit and loss.

13. OTHER ASSETS

Current		
Prepayments	15	-
	15	**-**
Non-Current		
Deferred Restoration Costs	42	51
	42	**51**

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14. PROPERTY, PLANT AND EQUIPMENT

	2008 $'000	2007 $'000
Computer Hardware		
Cost	688	664
Accumulated Depreciation	(438)	(271)
Net Computer Hardware	**250**	**393**
Office Equipment		
Cost	56	27
Accumulated Depreciation	(13)	(8)
Net Office Equipment	**43**	**19**
Furniture and Fittings		
Cost	107	107
Accumulated Depreciation	(32)	(21)
Net Furniture and Fittings	**75**	**86**
Total Property, Plant and Equipment		
Cost	851	798
Accumulated Depreciation	(483)	(300)
Net Property, Plant and Equipment	**368**	**498**

Reconciliations

Reconciliations of carrying amount for each class of property, plant & equipment

	2008	2007
Computer Hardware		
Net Carrying Amount at the Beginning of Year	393	371
Additions	24	170
Depreciation Expense	(167)	(148)
Balance at Year End	**250**	**393**
Office Equipment		
Net Carrying Amount at the Beginning of Year	19	23
Additions	29	-
Depreciation Expense	(5)	(4)
Balance at Year End	**43**	**19**
Furniture and Fittings		
Net Carrying Amount at the Beginning of Year	86	97
Depreciation Expense	(11)	(11)
Balance at Year End	**75**	**86**
Total Property, Plant and Equipment		
Net Carrying Amount at the Beginning of Year	498	491
Additions	53	170
Depreciation Expense	(183)	(163)
Balance at Year End	**368**	**498**

15. INTANGIBLES

	2008 $'000	2007 $'000
Computer Software		
Cost	4,544	4,245
Accumulated Amortisation	(2,112)	(1,229)
Net Computer Software	**2,432**	**3,016**

Reconciliation
Reconciliation of Carrying Amount

	2008 $'000	2007 $'000
Computer Software		
Net Carrying Amount at the Beginning of Year	3,016	2,536
Additions	299	1,221
Amortisation	(883)	(741)
Balance at Year End	**2,432**	**3,016**

16. PAYABLES

	2008 $'000	2007 $'000
GST Payable	76,671	80,866
Management Fees Payable	35,160	31,294
Other	8,621	11,536
	120,452	**123,696**

Payables are non-interest bearing and are generally on 30 day terms.

If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

Treasurer's Direction 219.01 allows the Minister to award interest for late payment. No interest was awarded during the year for late payment.

17. PROVISION FOR OUTSTANDING CLAIMS

	TMF $'000	GWC $'000	TAC $'000	2008 Total $'000	2007 Total $'000
Balance at the Beginning of Year	4,062,744	67,108	176,497	4,306,349	4,476,062
Additions	685,103	-	-	685,103	702,213
Payments	(716,987)	(4,760)	(13,261)	(735,008)	(604,335)
Actuarial Gains	(421,354)	(1,261)	4,158	(418,457)	(538,749)
Unwinding of Discounts	253,644	4,117	11,419	269,180	271,158
Balance at the End of Year	**3,863,150**	**65,204**	**178,813**	**4,107,167**	**4,306,349**
Current	630,917	4,869	9,857	645,643	622,672
Non-Current	3,232,233	60,335	168,956	3,461,524	3,683,677
	3,863,150	**65,204**	**178,813**	**4,107,167**	**4,306,349**

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be 6.17 years for TMF (2007: 6.81 years), 9.32 years for GWC (2007: 9.66 years) and 17.93 years for TAC Fund (2007: 17.91 years).

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

	TMF		GWC		TAC	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
Not later than one year						
Inflation Rate	2.8 - 4.5	2.8 - 4.5	4.5	4.5	4.5	4.5
Discount Rate	7.0	6.8	7.0	6.8	7.0	6.8
Superimposed Inflation*	0 - 10.0	0 - 10.0	0 - 3.0	0 - 3.0	0 - 2.5	0 - 2.5
Later than one year						
Inflation Rate	2.5 - 4.0	2.5 - 4.0	4.5	4.5	4.5	4.5
Discount Rate	7.0	6.8	7.0	6.8	7.0	6.8
Superimposed Inflation*	0 - 10.0	0 - 10.0	0 - 3.0	0 - 3.0	0 - 2.5	0 - 2.5

* Dependent on payment type

18. PROVISION FOR RESTORATION

	2008 $'000	2007 $'000
Balance at the Beginning of Year	53	119
Reversal of Unused Provisions	-	(67)
Unwinding of Discounts	3	1
Balance at the End of Year	**56**	**53**

19. OTHER LIABILITIES

Premium Received in Advance	**8,019**	**3,331**

20. EQUITY

Retained Surplus

Balance at the Beginning of Year	848,548	918,751
Current Year Deficit	(518,314)	(70,203)
Balance at the End of Year	**330,234**	**848,548**

21. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of Cash and Cash Equivalents

Cash and Cash Equivalents at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2008 $'000	2007 $'000
Cash and Cash Equivalents		
Short Term Money Market Investments	48,342	43,672
Cash Held at Other Financial Institutions	101,979	56,089
	150,321	**99,761**

Included in the cash and cash equivalents is a restricted amount of $1.6 million (2007: $1.8 million) relating to funds being held on behalf of other parties.

Reconciliation of Net Deficit for the Year to Net Cash Flows From Operating Activities

	2008 $'000	2007 $'000
Net Deficit for the Year	**(518,314)**	**(70,203)**
Adjustments for:		
Depreciation and Amortisation	1,066	904
Unrealised Loss in Investments	588,185	414,410
Unwinding of Discounts	269,180	271,158
Actuarial Gains	(418,457)	(538,749)
(Decrease)/Increase in Outstanding Claims	(49,905)	97,878
(Decrease)/Increase in Payables	(3,244)	6,647
Increase in Other Liabilities	4,688	965
Increase/(Decrease) in Provision for Restoration	3	(66)
Decrease/(Increase) in Receivables	22,790	(31,330)
Decrease/(Increase) in Reinsurance and Other Recoveries Receivable	6,243	(13,080)
(Increase)/Decrease in Other Assets	(6)	68
Net Cash Flows from Operating Activities	**(97,771)**	**138,602**

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22. INCOME STATEMENT OF FUNDS

	TMF $'000	GWC $'000	TAC $'000	2008 Total $'000	2007 Total $'000
Revenue					
Premiums	795,114	-	-	795,114	820,103
Reinsurance and Other Recoveries	27,418	1,394	655	29,467	51,736
Investment (Loss) / Income	(343,847)	(3,362)	(8,050)	(355,259)	555,046
Other	15	-	-	15	8
Total Revenue	**478,700**	**(1,968)**	**(7,395)**	**469,337**	**1,426,893**
Expenses					
Claims	263,751	(1,261)	4,158	266,648	163,465
Outwards Reinsurance	28,884	-	-	28,884	29,944
Depreciation and Amortisation	1,066	-	-	1,066	904
Finance Costs	253,644	4,117	11,419	269,180	271,158
Management Fees	83,566	-	-	83,566	86,573
Other	38,051	52	204	38,307	35,052
Total Expenses	**668,962**	**2,908**	**15,781**	**687,651**	**587,096**
(DEFICIT) / SURPLUS BEFORE PAYMENT TO THE CROWN ENTITY	**(190,262)**	**(4,876)**	**(23,176)**	**(218,314)**	**839,797**
Payment to the Crown Entity	300,000	-	-	300,000	910,000
NET DEFICIT FOR THE YEAR AFTER PAYMENT TO THE CROWN ENTITY	**(490,262)**	**(4,876)**	**(23,176)**	**(518,314)**	**(70,203)**

23. BALANCE SHEET FOR FUNDS

	TMF $'000	GWC $'000	TAC $'000	2008 Total $'000	2007 Total $'000
CURRENT ASSETS					
Cash and Cash Equivalents	143,216	3,704	3,401	150,321	99,761
Receivables	93,325	-	-	93,325	116,115
Reinsurance and Other Recoveries Receivable	33,764	394	65	34,223	31,939
Financial Assets at Fair Value	81,715	-	-	81,715	306,864
Derivative Financial Instruments	3,168	-	-	3,168	4,537
Other	15	-	-	15	-
Total Current Assets	**355,203**	**4,098**	**3,466**	**362,767**	**559,216**
NON-CURRENT ASSETS					
Reinsurance and Other Recoveries Receivables	140,868	4,351	1,065	146,284	154,811
Financial Assets at Fair Value	3,861,986	58,464	133,585	4,054,035	4,564,385
Property, Plant and Equipment	368	-	-	368	498
Intangibles	2,432	-	-	2,432	3,016
Other	42	-	-	42	51
Total Non-Current Assets	**4,005,696**	**62,815**	**134,650**	**4,203,161**	**4,722,761**
TOTAL ASSETS	**4,360,899**	**66,913**	**138,116**	**4,565,928**	**5,281,977**
CURRENT LIABILITIES					
Payables	120,297	66	89	120,452	123,696
Provision for Outstanding Claims	630,917	4,869	9,857	645,643	622,672
Other	8,019	-	-	8,019	3,331
Total Current Liabilities	**759,233**	**4,935**	**9,946**	**774,114**	**749,699**
NON-CURRENT LIABILITIES					
Provision for Outstanding Claims	3,232,233	60,335	168,956	3,461,524	3,683,677
Provision for Restoration	56	-	-	56	53
Total Non-Current Liabilities	**3,232,289**	**60,335**	**168,956**	**3,461,580**	**3,683,730**
TOTAL LIABILITIES	**3,991,522**	**65,270**	**178,902**	**4,235,694**	**4,433,429**
NET ASSETS	**369,377**	**1,643**	**(40,786)**	**330,234**	**848,548**
EQUITY					
Retained Surplus / (Deficit)	369,377	1,643	(40,786)	330,234	848,548
	369,377	**1,643**	**(40,786)**	**330,234**	**848,548**

24. FINANCIAL INSTRUMENTS

SICorp's principal financial instruments are outlined below. These financial instruments arise directly from SICorp's operations or are required to finance those operations. SICorp does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

SICorp's main risks arising from financial instruments are outlined below, together with SICorp's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included through this financial report.

The Audit and Risk Committee has overall responsibility for the establishment and oversight of risk management, and reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by SICorp, set risk limits and controls, and monitor risks. Compliance with policies is reviewed by the Audit and Risk Committee on an ongoing basis.

The main purpose of these financial instruments is to derive income and investment gains which are used to fund insurance liabilities.

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

Financial Instrument Categories

	Note	Category	Carrying Amount	
			2008	2007
			$'000	$'000
Financial Assets				
Cash and Cash Equivalents	21	N/A	150,321	99,761
Financial Assets at Fair Value	12	At fair value through profit or loss (designated as such upon initial recognition)	4,135,750	4,871,249
Derivative Financial Instruments	11	At fair value through profit or loss (classified as held for trading)	3,168	4,537
Receivables[1]	9, 10	Receivables (measured at cost)	273,832	302,865
Financial Liabilities				
Payables	16	Payables (measured at cost)	43,066	42,065

1. Excludes statutory receivables and prepayments.

24. FINANCIAL INSTRUMENTS (continued)

Risk Management

The activities of SICorp expose it to a variety of financial risks. These are:

- Market risks
    i. interest rate risk
    ii. currency risk
    iii. other price risk
- Credit risk
- Liquidity risk

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

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

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

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

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

24. FINANCIAL INSTRUMENTS (continued)

Market Risks

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

The effects on SICorp's operating result due to reasonably possible changes in risk variables are outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which SICorp operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the balance sheet date. The analysis is performed on the same basis for 2007. The analysis assumes that all other variables remain constant.

- *Interest Rate Risk*

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

Exposure to interest rate risk arises primarily through SICorp's investments in the TCorp Bond Portfolio. TCorp manages the portfolio to agreed benchmarks to minimise the fair value interest rate risk. SICorp does not account for any fixed rate financial instruments as available for sale. Therefore for these financial instruments a change in interest rates would not affect SICorp's equity.

The following table provides the sensitivity analysis of interest rate risk affecting applicable financial assets on the operating result and equity of SICorp. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility.

		$'000			
	Carrying Amount	-1%		+1%	
		Profit	Equity	Profit	Equity
2008					
Cash and Cash Equivalents[1]	101,979	(1,020)	(1,020)	1,020	1,020
Bond Portfolio	1,522,665	58,600	58,600	(58,600)	(58,600)
2007					
Cash and Cash Equivalents[1]	56,089	(561)	(561)	561	561
Bond Portfolio	2,136,270	83,600	83,600	(83,600)	(83,600)

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

24. FINANCIAL INSTRUMENTS (continued)

- *Currency Risk*

SICorp has some foreign currency risk exposure from its investments in the TCorp Bond Portfolio.

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

As at 30 June 2008, SICorp has no transactional or structural currency exposures (2007: $Nil).

- *Other Price Risk*

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

SICorp holds units in the following Hour-Glass investment facilities:

Facility	Investment Sectors	Investment Horizon	2008 $'000	2007 $'000
Treasury Managed Fund Facility	Cash, money market instruments, International bonds, listed property, Australian & International shares	Long term	2,472,548	2,562,651
Medium Term Growth Facility	Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares	4 years to 7 years	96,476	110,477
Long Term Growth Facility	Cash, money market instruments, Australian & International bonds, listed property, Australian & International shares	7 years and over	95,573	110,061

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

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

24. FINANCIAL INSTRUMENTS (continued)

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

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

		Impact	
	Change in Unit Price	**2008 $'000**	**2007 $'000**
Treasury Managed Fund Facility	+/- 17.5%	432,696	448,464
Medium Term Growth Facility	+/- 7.5%	7,236	8,286
Long Term Growth Facility	+/- 15.0%	14,336	16,509

SICorp has no exposure to commodity price risk.

Credit Risk

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

Cash and Cash Equivalents

Cash comprises cash investment in TCorp Hour-Glass cash facility and bank balances with other financial institutions. Interest is earned on daily bank balances.

Receivables

Receivables include trade debtors, and reinsurance and other recoveries receivable.

- *Trade Debtors*

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

24. FINANCIAL INSTRUMENTS (continued)

- *Reinsurance and Other Recoveries Receivable*

  Receivables from reinsurance and other recoveries are actuarially assessed.

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

SICorp does not receive any collateral for receivables.

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

	Total $'000	Past Due but Not Impaired $'000			Considered Impaired $'000
		< 3 months overdue	3 - 6 months overdue	> 6 months overdue	
2008					
Receivables	4,108	3,053	-	1,055	-
2007					
Receivables	30,508	29,452	-	1,056	-

The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7.

Financial Assets at Fair Value

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

24. FINANCIAL INSTRUMENTS (continued)

Credit risk applicable to investments in TCorp's managed assets portfolio as well as receivables are detailed in the tables below.

Concentration of Credit Risk

By credit rating	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other Ratings[(1)] $'000	Total $'000
2008								
Receivables	5,468	-	-	-	-	144	268,220	273,832
Bond Portfolio	1,305,402	101,400	67,500	3,900	11,400	3,200	29,863	1,522,665
2007								
Receivables	-	-	-	-	138	784	301,943	302,865
Bond Portfolio	1,357,038	80,500	575,800	94,400	23,700	4,832	-	2,136,270

By classification of counterparty	Governments $'000	Banks $'000	Other $'000	Total $'000
2008				
Receivables	87,675	-	186,157	273,832
Bond Portfolio	1,145,365	77,800	299,500	1,522,665
2007				
Receivables	116,012	50	186,803	302,865
Bond Portfolio	879,370	753,700	503,200	2,136,270

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. A great majority of receivables are from government agencies with no credit rating.

Liquidity Risk

The liquidity of SICorp's investments is assured by the high-credit nature of the fixed interest investments and the fact that all Hour-Glass share and property investments are required to be listed on a recognised stock exchange.

In accordance with the Memorandum of Understanding, TCorp is to consider its ability to exit the Portfolio's holdings in an orderly manner, in the context of the aggregate holdings of each security contained in the Portfolio and the market turnover of each security.

During the current and prior years, there were no defaults on payables. No assets have been pledged as collateral. SICorp's exposure to liquidity risk is deemed insignificant based on prior periods' data and the current assessment of risk.

24. FINANCIAL INSTRUMENTS (continued)

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

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

			Interest Rate Exposure			Maturity Dates		
	Weighted Average Effective Interest Rate %	Nominal Amount $'000	Fixed Interest Rate $'000	Variable Interest Rate $'000	Non-Interest Bearing $'000	< 1 Year	1 - 5 Years	> 5 Years
2008								
Payables	-	-	-	-	43,066	43,066	-	-
Total Financial Liabilities		**-**	**-**	**-**	**43,066**	**43,066**	**-**	**-**
2007								
Payables	-	-	-	-	42,065	42,065	-	-
Total Financial Liabilities		**-**	**-**	**-**	**42,065**	**42,065**	**-**	**-**

25. COMMITMENTS FOR EXPENDITURE

SICorp has one commercial lease. This lease has a six year life with renewal option included in the contract. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2008 $'000	2007 $'000
Operating Lease Commitments - Lessee		
- Not later than one year	336	336
- Later than one year and not later than five years	1,293	1,342
- Later than five years	-	287
	1,629	**1,965**

Operating lease commitments are inclusive of GST. The total amount above includes input tax credits of $148.1k (2007: $178.5k) that are expected to be recovered from the Australian Taxation Office.

26. CONTINGENT ASSETS

There are no known contingent assets at balance date.

27. CONTINGENT LIABILITIES

Under the Claims Management Agreement between SICorp and its claims providers, there are five annual periods of assessment of the tail management incentive fees. The periods are as follows:

Period 1: 31/12/05 to 31/12/06
Period 2: 31/12/06 to 31/12/07
Period 3: 31/12/07 to 31/12/08
Period 4: 31/12/08 to 31/12/09
Period 5: 31/12/09 to 31/12/10

The incentive fees are actuarially assessed. As at 30 June 2008, included within the total management fees is an incentive fees amount of $9.2 million which was for Period 1 payments. Tail incentive fees for 2007 (Period 2) will be paid during 2008/09.

28. EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to reporting date requiring disclosure.

End of Audited Financial Report

New South Wales
TREASURY

Land Development Working Account

Financial Report for the year ended 30 June 2008

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

LAND DEVELOPMENT WORKING ACCOUNT

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Land Development Working Account (the Entity), which comprises the balance sheet as at 30 June 2008, the operating statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Land Development Working Account as at 30 June 2008, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

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

Secretary of The Treasury's Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

David Nolan
Director, Financial Audit Services

30 October 2008
SYDNEY

Land Development Working Account

Pursuant to Section 45F (1B) of the *Public Finance and Audit Act* 1983 and clause 11 of *the Public Finance and Audit Regulation 2005,* I declare that in my opinion:

(a) the accompanying financial report exhibits a true and fair view of the financial position of the Land Development Working Account at 30 June 2008 and the financial performance for the year then ended; and

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

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

John Pierce
Secretary
30 October 2008

Land Development Working Account

Operating Statement
for the year ended 30 June 2008

	Notes	2008 $`000	2007 $`000
Revenue			
Sale of Goods and Services	2 (a)	17,693	20,042
Investment Revenue	2 (b)	47	15
Other Revenue	2 (c)	44	23
Total Revenue		17,784	20,080
Expenses			
Other Operating Expenses	3 (a)	9,475	9,422
Depreciation	3 (b)	3	2
Total Expenses		9,478	9,424
Surplus / (Deficit)		8,306	10,656

The accompanying notes form part of these financial statements

Land Development Working Account

Balance Sheet
as at 30 June 2008

	Notes	2008 $`000	2007 $`000
Current Assets			
Cash & Cash Equivalents	4	30,520	26,091
Trade & Other Receivables	5	2,931	895
Inventories	6	2,621	2,276
Total Current Assets		36,072	29,262
Non-current Assets			
Inventories	6	3,542	3,733
Plant & Equipment	7	8	11
Total Non-current Assets		3,550	3,744
Total Assets		39,622	33,006
Current Liabilities			
Trade & Other Payables	8	3,532	4,056
Contribution Payable	9	9,000	9,000
Other	10	15,907	8,073
Total Current Liabilities		28,439	21,129
Total Liabilities		28,439	21,129
Net Assets		11,183	11,877
Equity			
Retained Earnings	12	11,183	11,877
Total Equity		11,183	11,877

The accompanying notes form part of these financial statements

Land Development Working Account

Statement of Recognised Income and Expense
for the year ended 30 June 2008

	Notes	2008 $`000	2007 $`000
Total Income & Expense recognised Directly into Equity		-	-
Profit for the year	12	8,306	10,656
Total Recognised Income & Expenses For The Year		8,306	10,656

The accompanying notes form part of these financial statements.

Land Development Working Account

Cash Flow Statement
for the year ended 30 June 2008

	Notes	2008 $`000	2007 $`000
Cash Flows from Operating Activities			
Receipts from customers		29,230	28,701
Payment to suppliers		(15,801)	(14,204)
Net cash provided by operating activities	11(b)	13,429	14,497
Cash Flows from Investing Activities			
Purchase of fixed assets		-	(13)
Net cash used in investing activites		-	(13)
Cash Flows from Financing Activities			
Distribution to NSW Treasury		(9,000)	(6,500)
Net cash used in financing activites		(9,000)	(6,500)
Net increase in cash & cash equivalents		4,429	7,984
Cash & cash equivalents at the beginning of the financial year		26,091	18,107
Cash & Cash Equivalents at The End of The Financial Year	11(a)	30,520	26,091

The accompanying notes form part of these financial statements

Land Development Working Account

Notes to the Financial Statements
For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Land Development Working Account (LDWA) is a commercial activity of the Crown Entity, undertaking the development and sale of Crown land for residential purposes in country New South Wales and for commercial purposes on a State wide basis. All Crown land sold by the LDWA is initially acquired by the LDWA from the Crown Leaseholds Entity. The LDWA operates in New South Wales, Australia. The office is located at Level 4, 1 Prince Albert Road, Queens Square, Sydney NSW 2000. These activities, administered by the Department of Lands on behalf of the Crown Entity are reported separately from the Department of Lands operational activities, in accordance with NSW Treasury policy.

LDWA is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the Crown Entity and the NSW Total State Sector Accounts.

The financial report for the year ended 30 June 2008 has been authorised for issue by the Secretary of NSW Treasury on the date the accompanying statement by the Secretary was signed.

(b) Basis of preparation

LDWA's financial report is a general purpose financial report which has been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- the requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2005* and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer.

The financial report has been prepared on an accrual basis and is based on historical cost, unless stated otherwise.

Property, plant and equipment, investment property, assets (or disposal groups) held for sale and financial assets at 'fair value through profit or loss' and available for sale are measured at fair value. Other financial report items are prepared in accordance with the historical cost convention.

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

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

The following new Accounting Standards and Interpretations have not been applied and are not yet effective.

- AASB 3 *Business Combinations (issued March 2008)*
- AASB 8 *Operating Segments (issued February 2007)*
- AASB 101 *Presentation of Financial Statements (issued September 2007)*
- AASB 123 *Borrowing Costs (issued June 2007)*
- AASB 127 *Consolidated & Separate Financial Statements (issued March 2008)*
- AASB 1004 *Contributions (issued December 2007)*
- AASB 1049 *Whole of Government & General Government Sector Financial Reporting (issued October 2007)*
- AASB 1050 *Administered Items (issued December 2007)*
- AASB 1051 *Land Under Roads (Issued December 2007)*
- AASB 1052 *Disaggregated Disclosures (issued December 2007)*
- AASB 2007-02 Amendments to Australian Accounting Standards arising from AASAB Interpretation 12 (issued February 2007)
- AASB 2007-03 Amendments to Australian Accounting Standards arising from AASB 8 (issued February 2007)
- AASB 2007-06 Amendments to Australian Accounting Standards arising from AASB 123 (issued June 2007)
- AASB 2007-08 Amendments to Australian Accounting Standards arising from AASB 101 (issued September 2007)
- AASB 2007-09 Amendments to Australian Accounting Standards arising from the review of AAS's 27, 29 & 31(issued December 2007)
- AASB 2008-01 Amendments to Australian Accounting Standard – Share based Payments: Vesting Conditions & Cancellations (issued February 2008)
- AASB 2008-02 Amendments to Australian Accounting Standards – Puttable Financial Instruments & Obligations arising from Liquidation (issued March 2008)
- AASB 2008-03 Amendments to Australian Accounting Standards arising from AASB 3 & AASB 127 (issued March 2008)
- AASB Interpretation 1 Changes in Existing Decommissioning, Restoration & Similar Liabilities (issued June 2007)
- AASB Interpretation 4 Determining whether an Arrangement contains a Lease (issued February 2007)
- AASB Interpretation 12 Service Concession Arrangements (issued June 2007)
- AASB Interpretation 13 Customer Loyalty Programmes (issued August 2007)
- AASB Interpretation 14 AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements & their Interaction (issued August 2007)
- AASB Interpretation 129 Service Concession Arrangements: Disclosures (issued February 2007)
- AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities (issued December 2007)

The LDWA has not yet determined the potential effects of applying these standards on its financial report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Revenue recognition

Revenue is measured at the fair value of the consideration or contribution received or receivable. Revenue from the sale of land is recognised on settlement when LDWA transfers the significant risks and rewards of ownership of the assets. A 10% deposit of the sale price is normally paid on the date of exchange of contract and is recognised as a liability until the settlement of the sale.

(e) Sale of surplus land controlled by other government agencies

LDWA acts as an agent for other government agencies in regard to the sale of surplus Crown land. After deducting LDWA's selling expenses, the proceeds from the sale are remitted to the selling government agency, which is responsible for transferring any Crown share of proceeds to the Consolidated Fund. These proceeds are therefore not recognised as revenue in this financial report.

(f) Cost of sales

The cost of sales includes the cost of land for all land sales and development costs incurred for developed land.

(g) Employee related expenses

LDWA has no employees. All LDWA's human resources are provided by the Department of Lands on a fee for services rendered basis. This fee includes employee related costs (salaries, superannuation, leave entitlements, payroll tax and workers' compensation insurance) and administration costs.

(h) Inventories - property held for sale

Inventories include land development projects at different stages of completion. Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of land and related development expenses. Registered valuers are engaged in determining the realisable value of property where there is an indication that the net realisable value may have fallen below cost. All direct expenditures and appropriate development overheads are charged to the relevant projects. Crown land acquired by LDWA is transferred from the Crown Leaseholds Entity and is accounted for as follows:

i. **Land for sale as undeveloped land**
The acquisition of undeveloped land is recognised initially as inventory with a corresponding liability to the Crown Leaseholds Entity. The value of the land is measured at the cost of acquisition from the Crown Leaseholds Entity. Payment of the liability owing to the Crown Leaseholds Entity occurs at the time of settlement. The liability that is owed to the Crown Leaseholds Entity is non interest bearing.

ii. **Land for sale as developed land**
The acquisition of land is recognised initially as inventory with a corresponding liability to the Crown Leaseholds Entity at the time the decision is made to develop the land. The value of the land is measured at fair value on acquisition as determined by registered valuers. Payment of the liability owing to the Crown Leaseholds Entity occurs at the time of settlement. The liability that is owed to the Crown Leaseholds Entity is non interest bearing.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Acquisition of Fixed Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the agency. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

(j) Capitalisation Threshold

Property, plant and equipment and intangible assets costing $5,000 and above individually (or forming part of a network costing more than $5,000) are capitalised.

(k) Revaluation of Physical Non-Current Assets

Physical non-current assets are valued in accordance with the NSW Treasury policy "Valuation of Physical Non-Current Assets at Fair Value" (TPP 07-1). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment and AASB 140 Investment Property.*

Property, plant and equipment is revalued at least once every five years or with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

(l) Depreciation

Depreciation is provided for on a straight line basis against all depreciable assets, so as to write off the depreciable amount of each depreciable asset, as it is consumed over its useful life per *AASB 116 – Property, Plant and Equipment*.

Depreciation Rates:

Plant and Equipment	20%

(m) Cash and cash equivalents

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest accrued on bank balances is paid directly to NSW Treasury and not reported in this financial report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the operating statement when impaired, derecognised or through the amortisation process. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(o) Payables

These amounts represent liabilities for goods and services provided to LDWA and other amounts, including interest. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(p) Accounting for the Goods and Services Tax (GST)

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

- the amount of GST incurred by LDWA as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the acquisition cost of an asset, or as part of an item of expense;
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to the taxation authority, is included as part of receivables or payables.

(q) Comparatives

The layout of the Operating Statement and notes has been amended, for the 2008 report. Some items have also been reclassified, along with comparative details. The scope of these amendments includes changes to the format of the Operating Statement (previously Income Statement) and associated notes for revenues and expenses. Cost of sales is now reported as expenses, rather than as an offset to revenue, as this better reflects the nature of the entity's transactions.

(r) Contributions to NSW Treasury

LDWA is required to return funds in excess of working capital to the Consolidated Fund of NSW Treasury. Excess funds for the current period are transferred to contribution payable and paid in the following financial year.

Notes to the Financial Statements
For the year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Correction of Prior Period Errors

The 2007 financial statements have been revised to reflect corrections of prior period errors in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

AASB 108 requires the correction of prior period errors retrospectively, subject to certain limitations, to permit comparability with the current year. The retrospective adjustment occurs by restating the comparative amount in the prior period, or, if the event occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities, and equity for the earliest prior period presented.

Note 13 of this report includes the 2007 financial statements with the line items affected by corrections of prior period errors, and an explanation of the differences to the amounts reported in the audited 2007 Land Development Working Account financial statements.

There were no changes to accounting policies from the adoption of new accounting standards in 2008 that significantly affect the primary financial statements.

Changes in accounting estimates are recognised in the period when the estimate is revised. Such changes are not adjusted retrospectively to the financial report.

Land Development Working Account

Notes to the Financial Statements
For the year ended 30 June 2008

2. REVENUE

	2008 $`000	2007 $`000
(a) Sale of Goods and Services		
Land Sales	17,508	19,822
Rendering of Services	185	220
	17,693	20,042
Land Sales include:		
Developed Land	1,105	2,684
Undeveloped Land	12,139	14,550
Land sold to Government agencies	4,264	2,588
	17,508	19,822
(b) Investment Revenue		
Interest on land sales	42	6
Rents	5	9
	47	15
(c) Other Revenue		
Other	44	23
	44	23

Land Development Working Account

Notes to the Financial Statements
For the year ended 30 June 2008

3. EXPENSES

	2008 $`000	2007 $`000
(a) Other Operating Expenses		
Cost of sales	7,708	7,699
Selling costs	126	194
Valuation expenses	11	35
Property expenses	125	64
Inventory costs written down	30	-
Audit fees	15	3
Administration expenses	56	56
Bad debts expense	88	57
Contractors and consultants	253	266
Management/Support fees	1,063	1,048
	9,475	9,422

Management/Support fees represent charges by Department of Lands for the cost of operational management and corporate support services. Total audit fee for the 2008 audit is $15,400 (2007 $15,200).

(b) Depreciation		
Depreciation	3	2

4. CASH AND CASH EQUIVALENTS

Cash at Bank	30,520	26,091

5. TRADE AND OTHER RECEIVABLES

Debtors	3,073	950
Less: Allowance for impairment	(142)	(55)
	2,931	895

Movement in the allowance for impairment:

Balance at 1 July	55	-
Amounts written off during the year	-	-
Amounts recovered during the year	-	-
Increase/(decrease) in allowance recognised in profit or loss	88	55
Balance at 30 June	142	55

Notes to the Financial Statements
For the year ended 30 June 2008

6. INVENTORIES

	2008	2007
	$`000	$`000
Land Held for Sale		
Current	2,621	2,276
Non-current	3,542	3,733
	6,163	6,009
Land Held for Sale includes:		
Acquisition Cost - Land	4,705	4,549
Direct Development expenses capitalised (Work in Progress)	1,458	1,460
Carrying Amount	6,163	6,009
The basis for inventory valuation is set out in Note 1(i)		

7. PLANT AND EQUIPMENT

At Fair Value	13	13
Accumulated Depreciation & Impairment	(5)	(2)
Net Carrying Amount	8	11

Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the financial year is set out below.

Net Carrying amount at start of year	11	-
Additions	-	13
Disposals	-	-
Depreciation Expense	(3)	(2)
Net Carrying Amount	8	11

8. TRADE AND OTHER PAYABLES

	2008 $`000	2007 $`000
Due to other Government agencies (Note 1(f))	2,520	2,649
Creditors	836	1,066
Revenue received in advance	176	341
	3,532	4,056

9. CONTRIBUTIONS PAYABLE

	2008 $`000	2007 $`000
Contribution to the NSW Treasury (Note1(r))		
Balance at 1 July	9,000	6,500
Payments made during the year	(9,000)	(6,500)
Provided during the year	9,000	9,000
Balance at 30 June	9,000	9,000

10. CURRENT LIABILITIES OTHER

Amount due to Crown Leaseholds Entity		
Balance at 1 July	8,073	6,313
Value of Land transferred in	7,834	6,285
Payments made during the year	-	(4,525)
Balance at 30 June	15,907	8,073

Land Development Working Account

Notes to the Financial Statements
For the year ended 30 June 2008

11. NOTES TO CASH FLOW STATEMENTS

(a) Reconciliation of cash and cash equivalents

For the purpose of the Cash Flow Statement, cash includes cash held at bank. Cash & cash equivalents at the end of the Financial Year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2008	2007
	$`000	$`000
Cash at bank	30,520	26,091

(b) Reconciliation of profit for the year to net cash flows from operating activities

Profit for the Year	8,306	10,656
Adjustment for Non-Cash Items		
Depreciation	3	2
Movement in assets and liabilities		
(Increase)/Decrease in Inventories	(154)	(546)
(Decrease)/Increase in Creditors	(524)	1,486
(Decrease)/Increase in Amount Due to the Crown Leaseholds Entity	7,834	2,851
(Increase)/Decrease in Receivables	(2,036)	48
Net cash provided by/used in operating activities	13,429	14,497

12. EQUITY

Balance at the beginning of the year	11,877	10,221
Changes in Equity - transactions with owners as owners		
Contribution to the NSW Treasury	(9,000)	(9,000)
Changes in Equity - other than transactions with owners as owners		
Surplus / (Deficit) for the Year	8,306	10,656
Closing Balance	11,183	11,877

Land Development Working Account

Notes to the Financial Statements
For the year ended 30 June 2008

13. PRIOR PERIOD ERRORS

The following prior period errors were identified during 2008:

(a) 33 land parcels sold during 2007, for $544,133, were incorrectly transferred to inventory, rather than recognised as revenue, with corresponding expenses. This has been corrected and the 2007 comparatives restated.

(b) Accrued revenue totaling $332,156 was not recognised for land acquisition sales to other State and Local Government entities during 2005 and 2006

(c) A land parcel for the value of $308,500 that has been transferred to another government agency, was incorrectly recorded as inventory

(d) The book value of $782,697 for 11 surplus government properties for sale by LDWA, was transferred from the Crown Leaseholds Entity incorrectly. This has been corrected in the opening equity as at 1 July 2006.

The impact of these errors on prior period figures is set out below:

Operating Statement

	Previously reported figure for 2006-07 $'000	Difference $'000	Comparative figure reported in 2007-08 $'000
Revenue			
Sale of Goods and Services (a)	19,498	544	20,042
Total Revenues	**19,537**	**544**	**20,081**
Expenses			
Other Operating Expenses (a)	8,878	544	9,422
Total Expenses	**8,880**	**544**	**9,424**
Surplus / (Deficit)	10,656	-	10,656

Balance Sheet

	Previously reported figure for 2006-07 $'000	Difference $'000	Comparative figure reported in 2007-08 $'000
Current Assets			
Trade and Other Receivables (a)(b)	19	876	895
Inventories (a)(b)(c)	3,460	(1,184)	2,276
Total Current Assets	**29,570**	**(308)**	**29,262**
TOTAL ASSETS	**33,314**	**(308)**	**33,006**
Current Liabilities			
Other (c)(d)	9,164	(1,091)	8,073
Total Current Liabilities	**22,220**	**(1,091)**	**21,129**
TOTAL LIABILITIES	**22,220**	**(1,091**	**21,129**
NET ASSETS	**11,094**	**783**	**11,877**
Equity			
Retained Earnings (d)	11,094	783	11,877
TOTAL EQUITY	**11,094**	**783**	**11,877**

14. COMMITMENTS FOR EXPENDITURE

(a) Capital Commitments

At 30 June 2008 there were no capital commitments (2007 - NIL).

(b) Other Expenditure Commitments

Aggregate other expenditure for audit fees contracted for at balance date and not provided for:

	2008	2007
	$`000	$`000
Not later than one year	14	14
Later than one year and not later	-	-
than five years	-	-
Later than five years	-	-
Total (including GST)	14	14

The total 'other expenditure commitments' amount above includes input tax credits of $1,240 (2007 - $1,229) that are expected to be recoverable from the Australian Taxation Office."

(c) Operating Lease Commitments

At 30 June 2008 there were no operating lease commitments (2007 – NIL).

15. CONTINGENT LIABILITIES AND COMMITMENTS

Nedoni
In March 2004 the Land and Environment Court directed the Minister Assisting the Minister for Natural Resources (Lands) to acquire a parcel of land owned by Nedoni Pty Ltd. The land is located at Byron Bay. It is intended that the Minister for Lands will acquire the parcel of land on behalf of the Crown. This matter may not be concluded until early 2011. The potential liability to LDWA has been estimated at approximately $1 million, being the land value and other costs of acquisition. Due to unresolved issues concerning the amount of land to be acquired, a reliable land valuation estimate cannot be determined at this stage and a liability has therefore not been recognised.

Dunghetti Crescent Head Agreement
In 1996, a native title claim on a proposed residential development site at Crescent Head resulted in a consent determination being made in the Federal Court. The general terms of the consent determination required that if the land in Lot B had not been developed within 10 years of the anniversary of the deed of agreement attached to the consent determination, the State would pay the market value of the land, as determined by the Valuer-General, to a Native Title body corporate, established for the purpose of holding the compensation. At the time of the 10th anniversary of the deed of agreement, the Valuer-General determined the land had a value of $4.7 million. It is understood that while the Native Title body corporate has been established, its composition has yet to be formulated. Payment of compensation cannot be made until the formulation of the body corporate has been set and the body corporate formally seeks payment of the compensation from the State. Lands has no knowledge as to the likely time by which these actions will be completed. As a result, a liability has not yet been recognised.

16. NATIVE TITLE

Under the provisions of the Commonwealth's *Native Title Act 1993* claims may be lodged in respect of land currently held as inventories. However, inventories are not offered for sale until such time as Native Title interests are extinguished through compulsory acquisitions or the granting of a non-claimant application by the Native Title Tribunal. The nature and value of possible claims, under the provisions of the Native Title legislation, are complex issues and are not directly related to the inventory value disclosed in the financial report. In accordance with the legislation, any future compensation claim which might arise in regard to land disposals is accepted by the Crown rather than LDWA. Therefore, there is no impact on the value of inventories disclosed in the financial report.

17. FINANCIAL INSTRUMENTS

LDWA's principal financial instruments are outlined below. These financial instruments arise directly from the LDWA operations or are required to finance the LDWA operations. The entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. LDWA's main risks arising from financial instruments are outlined below, together with its objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout this financial report.

The Secretary of the Treasury has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the LDWA, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the Audit Committee on an ongoing basis.

(a) Financial instrument categories

	Notes	Category	2008 \$'000 Carrying Amount	2007 \$'000 Carrying Amount
Financial Assets				
Cash and Cash Equivalents	4	N/A	30,520	26,091
Receivables[1]	5	Receivables measured at cost	2,897	894
Financial Liabilities				
Payables[2]	8	Payables measured at cost	2,804	3,438

Notes
1. Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).
2. Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

17. FINANCIAL INSTRUMENTS (continued)

(b) Credit Risk

Credit risk arises when there is the possibility of the LDWA's debtors defaulting on their contractual obligations, resulting in a financial loss to the LDWA. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the LDWA, including cash and receivables. The LDWA has not granted any financial guarantees. Credit risk associated with the LDWA's financial assets, is managed through the selection of counterparties, establishment of minimum credit rating standards and management of customer credit arrangements.

Cash
Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate, adjusted for a management fee. It is paid directly to the Crown Entity and not to LDWA.

Receivables - trade debtors
All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance or impairment).

The LDWA is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Credit is usually only provided to State and Local Government entities on land acquisitions. Payment for undeveloped land and development land sales is due on settlement of land transactions. Debtors that are passed due and 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	
2008					
Receivables	942	8	-	792	142
2007					
Receivables	945	3	-	887	55

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

17. FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

Liquidity risk is the risk that the LDWA will be unable to meet its payment obligations when they fall due. The LDWA continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets. The objective is to maintain a balance between continuity of funding and flexibility without the need for the use of overdrafts, loans and other advances.

The LDWA has no existing loans, or credit standby arrangements. The LDWA's exposure to liquidity risk is deemed insignificant based on prior period data and current assessment of risk.

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

The table below summarises the maturity profile of the Lands Development Working Account financial liabilities, together with the interest rate exposure.

	Weighted Average Effective Interest Rate	Nominal Amount	Interest Rate Exposure			Maturity Dates	
			Fixed Interest Rate	Variable Interest Rate	Non-Interest Bearing	1 year or less	1 to 5 years
	%	$'000	$'000	$'000	$'000	$'000	$'000
2008							
Trade and other payables	-	2,804	-	-	2,804	2,804	-
Total Financial Liabilities		**2,804**	**-**	**-**	**2,804**	**2,804**	**-**
2007							
Trade and other payables	-	3,438	-	-	3,438	3,438	-
Total Financial Liabilities		**3,438**	**-**	**-**	**3,438**	**3,438**	**-**

Notes:

1. The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities;
2. The amounts exclude statutory liabilities; revenue received in advance, accrued wages and salaries.

17. FINANCIAL INSTRUMENTS (continued)

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The LDWA has no exposure to foreign currency risk and does not enter into commodity contracts.

Interest rate risk
The LDWA does not account for any fixed rate financial instruments at fair value through the Profit and Loss or as available for sale. Therefore, for these financial instruments a change in interest rates would not affect surplus, deficit or equity. A reasonable possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The LDWA's exposure to interest risk is set out below.

		-1%		1%	
	Carrying Amount	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000
2008					
Financial Assets:					
Cash and Cash Equivalents	30,520	(305)	-	305	-
Receivables	2,897	-	-	-	-
Financial Liabilities:					
Payables	2,804	-	-	-	-
2007					
Financial Assets:					
Cash and Cash Equivalents	26,091	(261)	-	261	-
Receivables	894	-	-	-	-
Financial Liabilities:					
Payables	3,438	-	-	-	-

18. AFTER BALANCE DATE EVENTS

There are no after balance date events.

End of Audited Financial Report