Tasmania

CONSOLIDATED FINANCIAL STATEMENTS FOR THE STATE OF TASMANIA 2003-04

Department *of* Treasury *and* Finance
May 2005

CONTENTS

Index to notes accompanying the Consolidated Financial Statements

INTRODUCTION

ANALYSIS OF TOTAL STATE SECTOR OPERATING RESULT

The following analysis compares current year Total State Sector revenues and expenses, on an accounting basis, with prior year amounts.

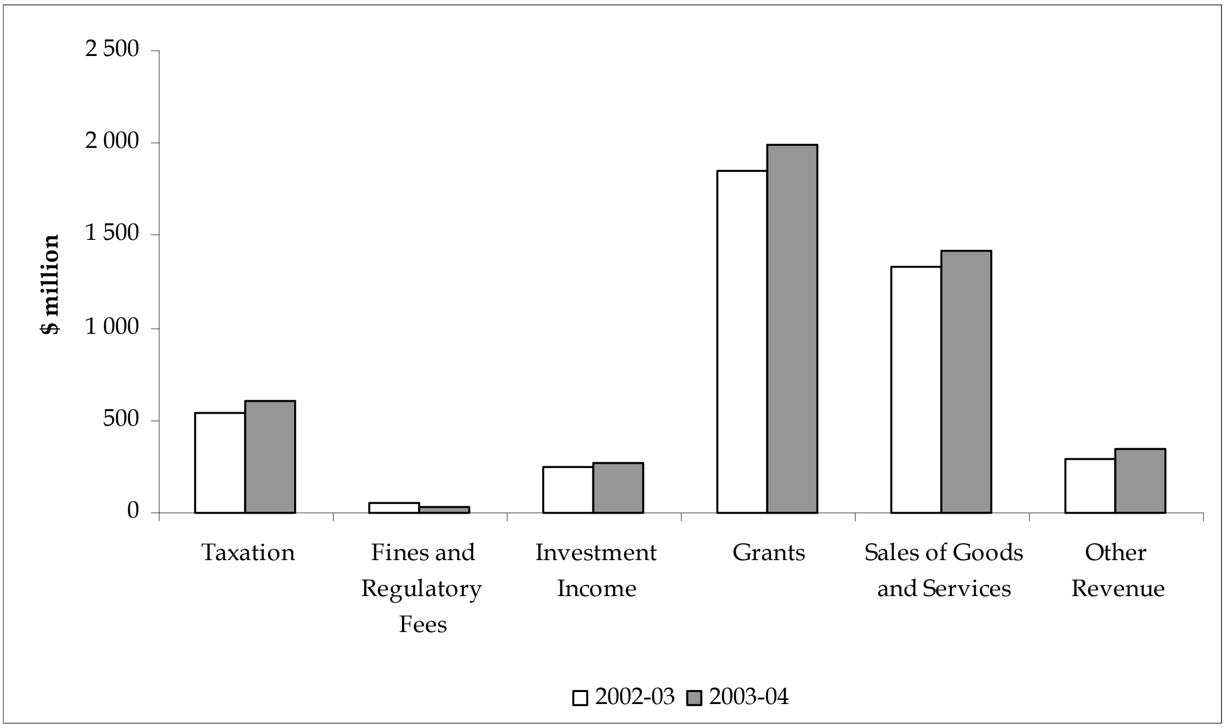
The 2003-04 operating result shows a surplus of $189 million, an increase of $167 million from the surplus of $22 million recorded in 2002-03, as a result of an increase of $350 million in revenues, offset by an increase of $183 million in expenses.

Revenues

Total revenues for the year ended 30 June 2004 were $4 678 million, an increase of $350 million, or 8.1 per cent, over the previous year. Increased revenue arose from increases in grants ($140 million), taxation revenue ($67 million), sales of goods and services ($88 million), investment income ($25 million), and other revenue ($86 million). These increases were partially offset by a reduction in fines and regulatory fees ($26 million).

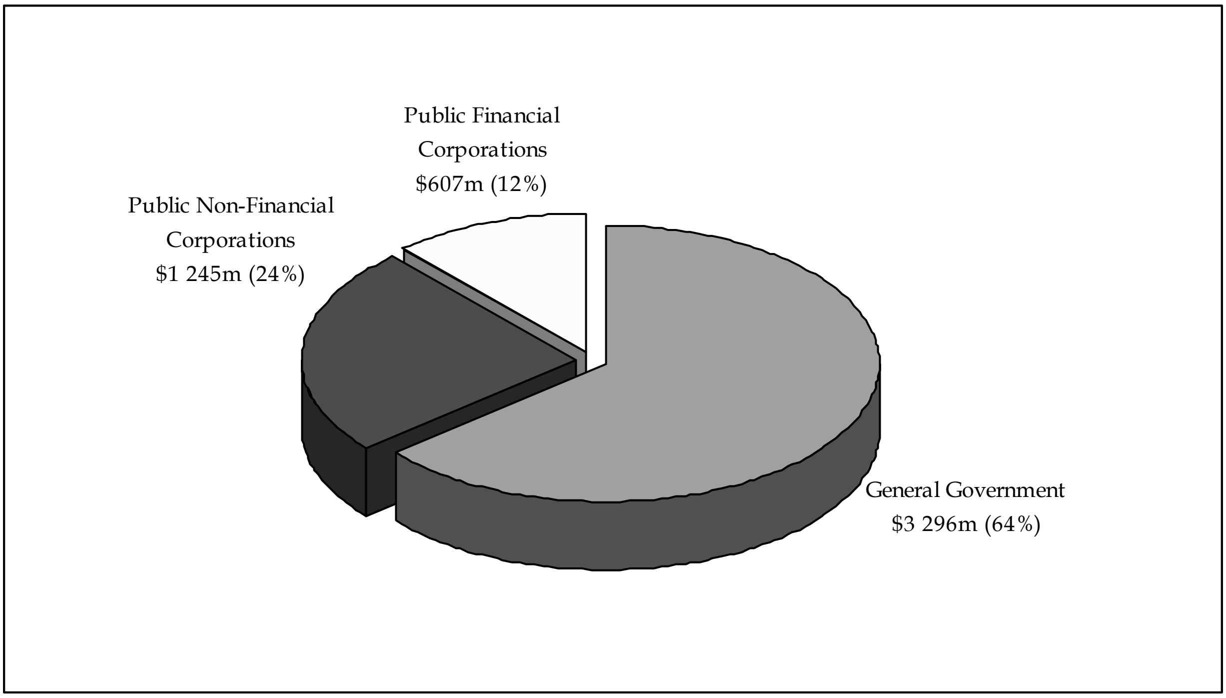
Total revenues by category for 2002–03 and 2003–04 are shown in figure 1.

Figure 1: Total revenues by category



Disaggregated revenues by sector are shown in figure 2. Additional details of sector balances are shown in the notes to the statements.

Figure 2: Disaggregated sector revenues

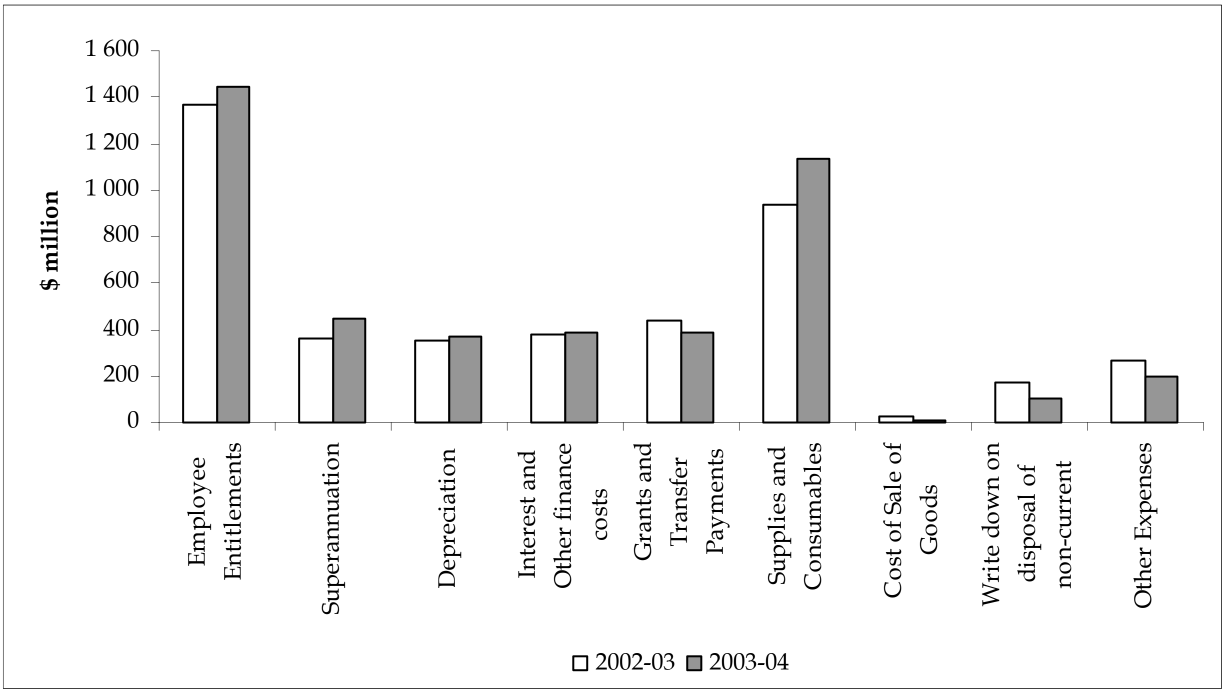


Expenses

Total expenses for the year ended 30 June 2004 were $4 489 million, an increase of $183 million, or 4.2 per cent over the previous year. The major factors contributing to the change are increases of $79 million in employee entitlements, $89 million in superannuation expenses, $18 million in depreciation, $4 million in interest and other financing costs and $199 million in supplies and consumables. These increases were partially offset by decreases of $18 million in cost of sale of goods, $68 million in write down on disposal of non-current assets, $54 million in grant expenses, and $66 million in other expenses.

Expenses by category for 2002-03 and 2003–04 are shown in figure 3.

Figure 3: Total expenses by category

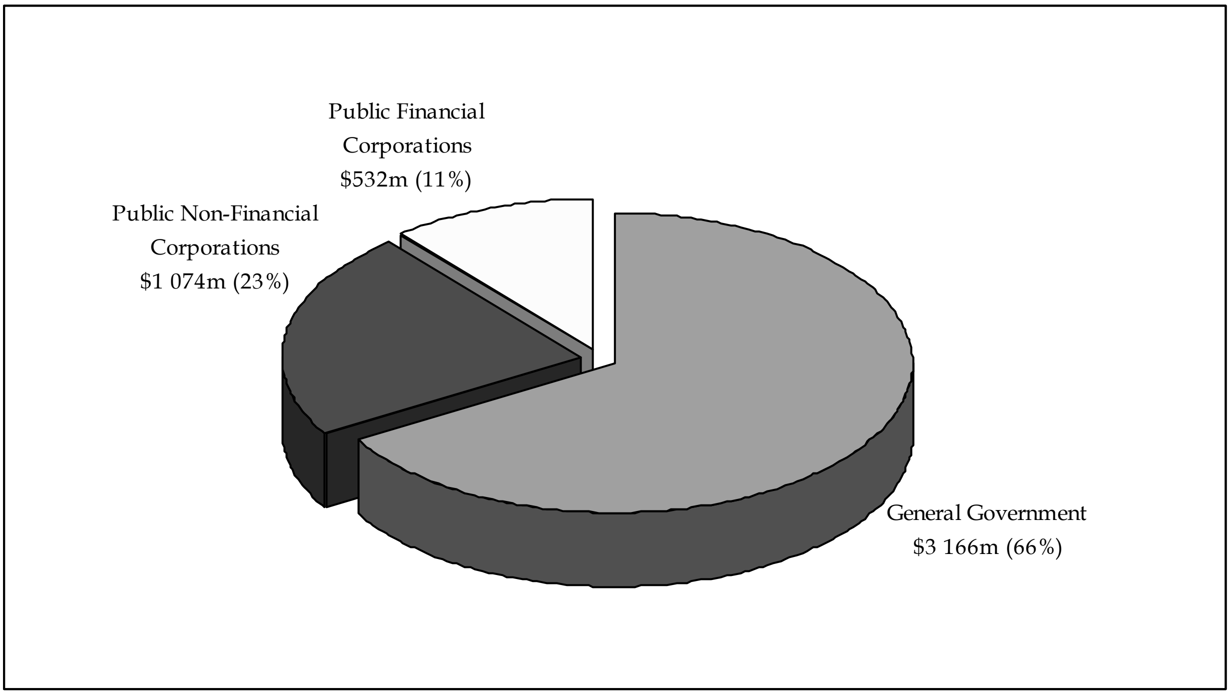


Employee Entitlements

The majority of expenses of the State relate to costs of employment. Employee entitlements primarily consist of salaries and wages and represents 32.2 per cent of total expenditure. Of the total employee entitlement expense for the State, nearly two thirds of these costs are incurred by the Department of Education (27.2 per cent), the Department of Health and Human Services (29 per cent) and the Department of Police and Public Safety (5.7 per cent).

Disaggregated sector expenses are shown in figure 4. Additional details of sector balances are shown in the notes to the statements.

Figure 4: Disaggregated sector expenses



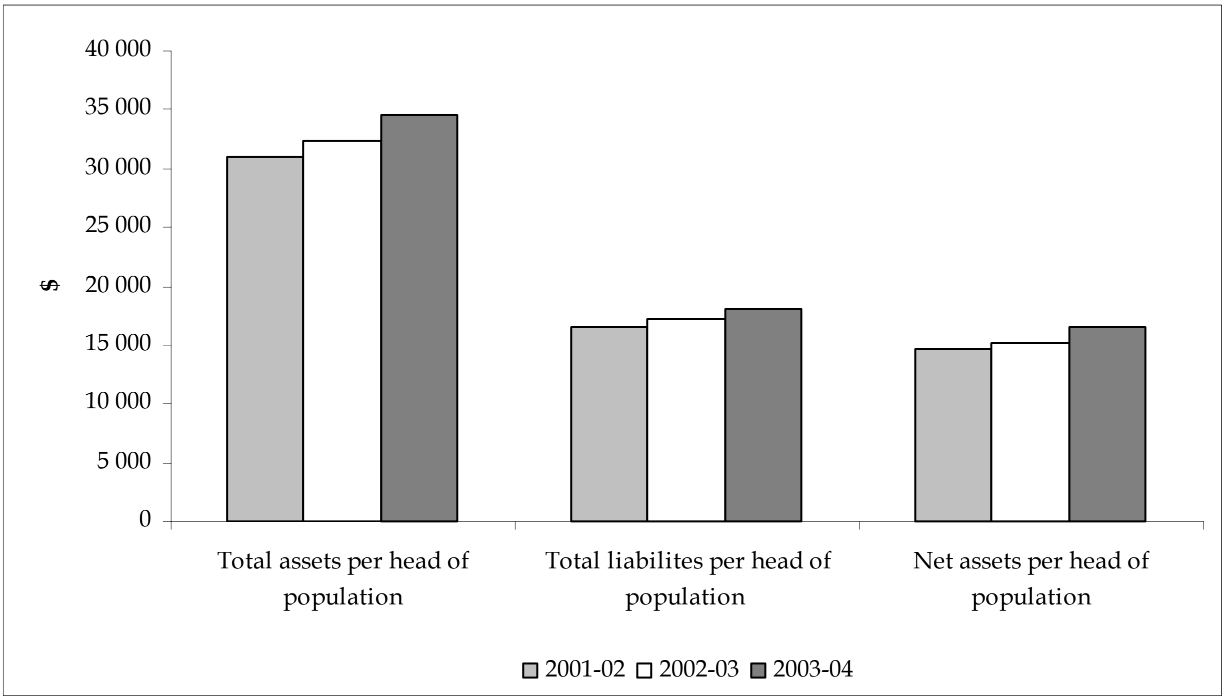
OVERVIEW OF THE STATE'S FINANCIAL POSITION

As at 30 June 2004, total assets of $16 654 million exceeded total liabilities of $8 693 million, resulting in net assets of $7 961 million. This compares with $7 229 million net assets at 30 June 2003.

Based on a Tasmanian population of 482 100 at 30 June 2004, the net assets per head of population was $16 513, an increase of 9 per cent over 30 June 2003.

Figure 5 depicts net assets per head of population.

Figure 5: Net assets per head of population

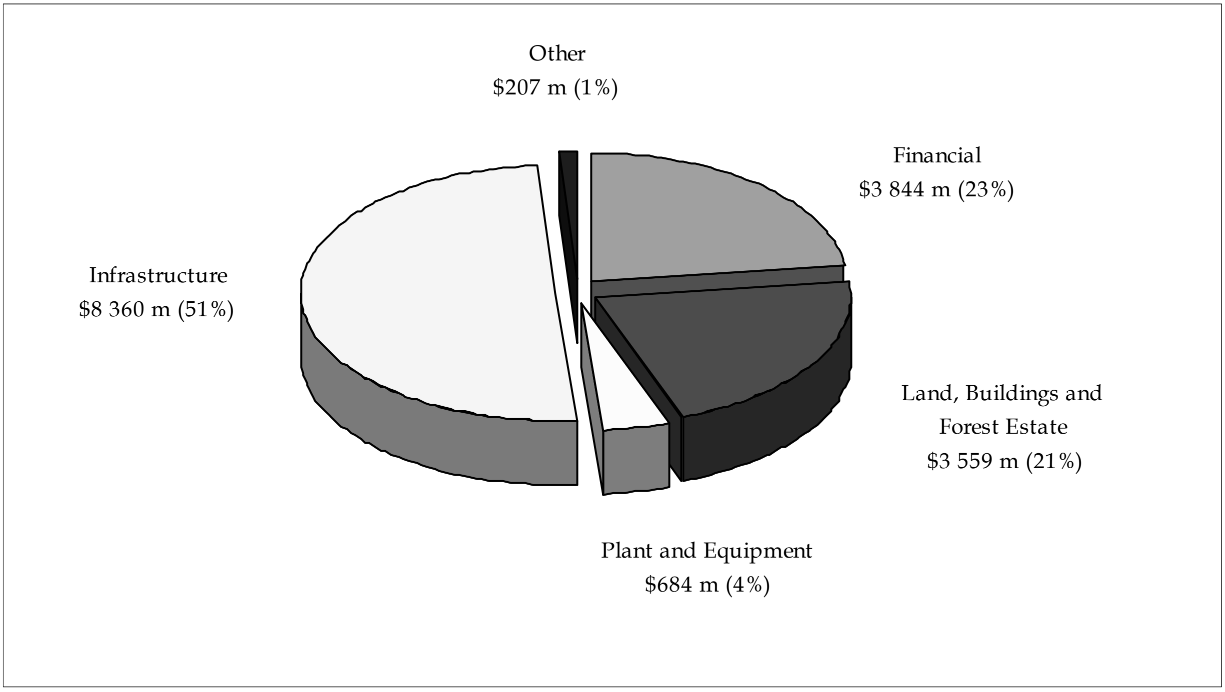


Assets

Total assets amounted to $16 654 million as at 30 June 2004, an increase of $1 231 million from 30 June 2003. Total assets consist of current assets of $1 607 million and non-current assets of $15 047 million.

Total assets, by category, are shown in figure 6.

Figure 6: Total assets by category

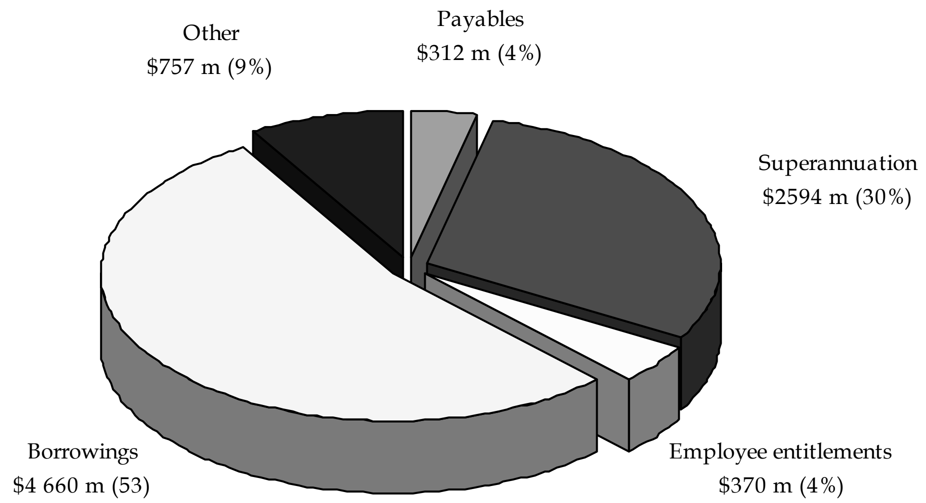


Liabilities

Total liabilities amounted to $8 693 million as at 30 June 2004, an increase of $499 million, or 6.1 per cent from 30 June 2003. Total liabilities consist of current liabilities of $2 653 million and non current liabilities of $6 040 million.

Total liabilities by category are shown in figure 7.

Figure 7: Total liabilities by category



Reconciliation between General Government Net Operating Surplus and GFS Fiscal Surplus

The Consolidated Financial Statements are prepared according to Generally Accepted Accounting Principles (GAAP). The *Treasurer's Annual Financial Report 2003-04*, released in October 2004, presented the 2003-04 outcomes for the Total State Government Sector, prepared according to the Government Finance Statistics (GFS) framework. The statements produced under each framework are substantially similar in appearance, with minor measurement and presentation differences.

An important distinction in the GFS framework from the GAAP framework, is that of "transaction flows" and "other economic flows". Transactions result directly from a mutually agreed interaction between two parties, for example, the sale of a good or service. The definition of a "transaction flow" also includes depreciation which does not involve interaction between two parties. The treatment of depreciation recognises that, in this case, one party is acting in two roles, as owner of the asset and consumer of the services provided by the assetAn "other economic flow" is a change in the volume or value of an asset or liability that does not result from a transaction. The impacts of all "other economic flows" are excluded from the GFS Operating Statement. These changes impact directly on equity in the Balance Sheet in the GFS treatment.

The Statement of Financial Peformance prepared on a GAAP basis will include both "transaction flows" and other "economic flows". Whereas the Operating Statement prepared on a GFS basis will only include "transaction flows". The table below provides a reconciliation of the General Government Operating Surplus detailed in the disaggregated note of the Consolidated Financial Statements and the General Government Fiscal Surplus presented in the *Treasurer's Annual Financial Report 2003-04*.

Table 1: General Government Operating Surplus and Fiscal Surplus Reconciliation

	2003-04 Actual $m
General Government Operating Surplus (GAAP basis)	**130**
Adjusted for:	
Revaluation of superannuation liability	161
Other revaluation adjustments	10
Assets acquired below fair value	(6)
Expense for doubtful debts	3
General Government Net Operating Surplus (GFS basis)	**296**
Less: Net acquisition of non-financial assets	(73)
General Government Fiscal Surplus (GFS basis)	**369**

AUDITED FINANCIAL STATEMENTS

STATEMENT OF CERTIFICATION

State of Tasmania

Consolidated Financial Statements 2003-04

Statement Of Certification

The Consolidated Financial Statements for the State of Tasmania have been prepared by the Department of Treasury and Finance from information provided by State entities.

In our opinion, the Statements:

- fairly present the operating results and cash flows of the State for the year ended 30 June 2004 and the financial position of the State as at 30 June 2004; and
- have been prepared in accordance with applicable Australian Accounting Standards, in particular AAS 31 *Financial Reporting by Governments* and Urgent Issues Group Consensus Views.

At the date of signing, we are not aware of any circumstances that would render any particulars included in the Consolidated Financial Statements to be misleading or inaccurate.

Paul Lennon
TREASURER

D W Challen
SECRETARY
Department of Treasury and Finance

OPINION OF THE AUDITOR-GENERAL

Tasmanian Audit Office

INDEPENDENT AUDIT REPORT

To the Treasurer of Tasmania

STATE OF TASMANIA
Consolidated Financial Statements
for the year ended 30 June 2004

Scope

The Statements and the Treasurer's responsibilities

The Consolidated Financial Statements comprises the Statement of Financial Performance, the Statement of Financial Position, the Statement of Cash Flows, accompanying notes to the financial statements, and the Statement of Certification by the Treasurer and by the Secretary of the Department of Treasury and Finance for the year ended 30 June 2004.

The Department of Treasury and Finance assumes responsibility for the preparation of the Consolidated Financial Statements from information provided by State entities.

Audit approach

I conducted an independent audit of the Consolidated Financial Statements in order to express an opinion to the Treasurer. My audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the Statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

I performed procedures to assess whether in all material respects, the Consolidated Financial Statements presents fairly, in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, a view which is consistent with my understanding of the financial position of the State of Tasmania, and of its performance as represented by the results of its operations and its cash flows.

I formed my audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the Statements; and

Accountability on Your Behalf

Tasmanian Audit Office

- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Treasurer.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting my audit, I followed applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In my opinion the Consolidated Financial Statements present fairly, in accordance with Australian Accounting Standards and other mandatory financial reporting requirements, the financial position of the State of Tasmania as at 30 June 2004, and the results of its operations and its cash flows for the year then ended.

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL

22 April 2005
HOBART

STATEMENT OF FINANCIAL PERFORMANCE

	Note	2003-04	2002-03
		$m	$m
Revenues			
Taxation	3	610	543
Fines and regulatory fees		32	58
Investment income	4	274	249
Grants	5	1 996	1 856
Sales of goods and services	6	1 415	1 327
Proceeds from disposal of non-current assets		105	142
Fair value of assets received free of charge or for nominal consideration		7	....
Other revenues	7	239	153
Total Revenues		4 678	4 328
Expenses			
Employee entitlements	8	1 447	1 368
Superannuation		450	361
Depreciation	9	367	349
Interest and other financing costs	10	386	382
Grants and transfer payments		387	441
Supplies and consumables	11	1 134	935
Cost of sale of goods		11	29
Write down on disposal of non-current assets		105	173
Other expenses	12	202	268
Total Expenses		4 489	4 306
OPERATING SURPLUS		189	22

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

	Note	2003-04	2002-03
		$m	$m
Assets			
Current assets			
Cash		58	73
Investments	13	1 233	396
Receivables	14	240	251
Prepayments		14	10
Accrued revenue		9	7
Tax assets		12	24
Other current assets	15	41	122
Total current assets		1 607	883
Non-current assets			
Investments	13	2 202	2 428
Receivables	14	76	17
Land, buildings and forest estate	16	3 559	3 778
Plant and equipment	17	684	714
Infrastructure	18	8 360	7 567
Other non-current assets	15	166	36
Total non-current assets		15 047	14 540
Total assets		16 654	15 423
Liabilities			
Current liabilities			
Payables	20	312	112
Borrowings	21	1 706	1 761
Employee entitlements	22	170	186
Superannuation	23	189	181
Accrued expenses		122	153
Tax liabilities		9	16
Other current liabilities	24	145	245
Total current liabilities		2 653	2 654
Non-current liabilities			
Payables	20	....	87
Borrowings	21	2 954	2 605
Employee entitlements	22	200	185
Superannuation	23	2 405	2 141
Other non-current liabilities	24	481	522
Total non-current liabilities		6 040	5 540
Total liabilities		8 693	8 194
NET ASSETS		7 961	7 229
Accumulated Surplus		3 158	2 969
Reserves		4 803	4 260
Total equity	32	7 961	7 229

The Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	Note	2003-04	2002-03
		$m	$m
Cash flows from operating activities			
Receipts			
Taxation		615	558
Fines and regulatory fees		33	66
Interest received		17	24
Grants		1 957	1 856
Sales of goods and services		1 560	1 360
GST receipts		210	200
Other receipts		115	279
Payments			
Employee entitlements		(1 387)	(1 333)
Superannuation		(179)	(125)
Interest paid		(22)	(13)
Grants and transfer payments		(379)	(558)
Supplies and consumables		(1 292)	(1 029)
GST payments		(199)	(206)
Other payments		(187)	(245)
Net Cash from Operating Activities	29	862	834
Cash flows from investing activities			
Proceeds from sales of land, buildings and forest estate		1	39
Purchase of land, buildings and forest estate		(71)	(64)
Proceeds from sales of plant and equipment		6	98
Purchase of plant and equipment		(362)	(198)
Purchase of infrastructure		(179)	(170)
Proceeds from other assets		76	1
Purchase of other assets		(3)	(8)
Net purchase of investments		47	(15)
Net customer loans repaid		59	11
Net Cash used in Investing Activities		(426)	(306)
Cash flows from financing activities			
Repayment of borrowings		(189)	(11)
Finance lease principal repayments		0	(2)
Net Cash used in Financing Activities		(189)	(13)
Net Cash flows from Financial Institutions	30	(262)	(469)
Net increase/(decrease) in Cash Held		(15)	46
Cash at beginning of reporting period		73	27
CASH HELD AT 30 JUNE 2004	31	58	73

The Statement of Cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Statement of significant accounting policies

The following summary sets out the significant accounting policies adopted in preparing the Consolidated Financial Statements:

A. Compliance framework

These statements are a general purpose financial report, and are the audited Consolidated Financial Statements for the State of Tasmania (the State). They have been prepared in accordance with generally accepted accounting principles, including relevant Australian Accounting Standards, in particular Australian Accounting Standard AAS 31 *Financial Reporting by Governments*.

B. Basis of accounting and measurement

Accrual accounting principles are employed in the preparation of these financial statements so as to recognise the financial effects of transactions and other events in the period in which they occur.

These financial statements are prepared on an historical cost basis, although most non-current physical assets are revalued at least every five years to recognise the current value of their remaining service potential (under a "fair value" approach).

Certain liabilities, most notably superannuation, workers' compensation, and insurance claims are calculated with regard to actuarial assumptions.

C. Government reporting entity

The government reporting entity includes government departments, government statutory authorities, Public Non-Financial Corporations and Public Financial Corporations.

These entities are classified according to the Uniform Presentation Framework and disaggregated information is presented in Note 2. Specific details of the entities consolidated by the State are shown in Note 35.

In accordance with Australian Accounting Standards, the financial statements include all assets, liabilities, equities, revenues and expenses of the State, including those of entities controlled by the State as at 30 June 2004, or for part of the financial year ended on that date.

Uniform Presentation Framework

(a) General Government Sector

The primary function of entities within the General Government Sector is to provide public services (outputs). These outputs are mainly non-market in nature and are for the collective consumption of the community. They may involve the transfer or redistribution of income for public policy purposes and are financed mainly through taxes and other compulsory levies.

(b) Public Non-Financial Corporations Sector

The primary function of enterprises in the Public Non-Financial Corporations Sector is to provide goods and services within a competitive market which is non-regulatory and non-financial in nature. Such enterprises are financed mainly through sales to the consumer of goods and services.

(c) Public Financial Corporations Sector

The Public Financial Corporations Sector comprises enterprises which are government controlled and which have one or more of the following characteristics:

- perform a central banking function;
- accept call, term or savings deposits; or
- have the ability to incur liabilities and acquire financial assets in the market on their own account.

D. Basis of consolidation

Reporting entities controlled by the State are consolidated within these Consolidated Financial Statements.

Where control of an entity is obtained during a financial year, the results of that entity are included in the Statement of Financial Performance from the date on which control commenced. Where control of an entity ceases during a financial year, the entity's results are included for that part of the year for which control existed.

In the process of reporting the State as a single economic entity, all material transactions and balances between government controlled entities are eliminated. Commitments and contingent liabilities of reporting entities are consolidated and are disclosed in Notes 25 and 26 respectively.

E. Disaggregated information

The State's consolidated financial information has been disaggregated between the following sectors:

- General Government;
- Public Non-Financial Corporations; and
- Public Financial Corporations.

This information is provided as there is dissimilarity between General Government activities and those of entities in the Public Non-Financial Corporations and the Public Financial Corporations Sectors. Disclosure of this information is to assist users of these financial statements in determining the effects of differing activities on the financial position of the State. It will also assist users in identifying the resources used in the provision of a range of goods and services and the extent to which the State has recovered the costs of those resources from revenues attributable to those activities.

For the purposes of presenting disaggregated financial information, the expected future income tax equivalents receivable from the Public Non-Financial Corporations and Public Financial Corporations Sectors has been recognised in the statements for the General Government Sector.

F. Accounting periods

The reporting period for most reporting entities is the year ended 30 June. For those entities with a reporting date other than 30 June, the most recent financial year results are used.

G. Revenues

Taxation

State taxation and fee revenue is recognised upon the first occurrence of either:

(a) receipt by the State of a taxpayer's self-assessed taxes and fees; or

(b) the time the taxpayer's obligation to pay arises, pursuant to the issue of an assessment.

Interest is charged on outstanding amounts and is brought to account, where possible, on an accrual basis, otherwise as it is received. The collectability of debts is assessed at balance date and specific provision is made for doubtful debts.

Fines and regulatory fees

Revenue is recognised at the time the fine or regulatory fee is issued.

Investment income

Investment income includes interest, dividends and other income earned during the financial year from bank term deposits, shares and other investments. Interest income is recognised on an accrual basis and dividend income is recognised when dividends are publicly declared. Net realised and unrealised gains/losses on the revaluation of investments form part of investment income. The only entity within the consolidation to bring net unrealised gains/losses to account is the Motor Accidents Insurance Board.

Grants

These mainly consist of general and specific purpose Commonwealth grants to the State. Grants are recognised when the State gains control of the underlying assets. Where grants are reciprocal, revenue is recognised as performance occurs under the grant. Non-reciprocal grants are recognised as revenue when the grant is received or receivable. Conditional grants may be reciprocal or non-reciprocal depending on the terms of the grant.

Sales of goods and services

Amounts earned in exchange for the provision of goods or services are recognised when the good or service is provided.

H. Expenses

Expenses are recognised on an accrual basis, that is, when incurred, and are reported in the financial period to which the expenses relate.

Employee entitlements

These expenses include all costs related to employment (other than superannuation) including salaries and wages, fringe benefits tax, workers' compensation, leave entitlements and redundancy payments.

Superannuation

Any change in the unfunded superannuation liability of the State, together with superannuation contributions paid or accrued, are recognised as superannuation expenses in the period in which they occur.

Depreciation

Depreciation recognises the consumption of the service potential of non-current physical assets as an expense. All infrastructure, buildings, plant and equipment and other non-current physical assets that have a limited useful life are depreciated. Land is not depreciated because it is considered to have an infinite useful life. Depreciation is not recognised in respect of heritage assets and collections as their service potential has not, in any material sense, been consumed during the reporting period. Depreciation rates and methods are reviewed annually.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time that an asset is held ready for use.

Depreciation of plant and equipment is calculated on a straight line basis.

Leasehold improvements are depreciated over the estimated useful lives of the improvements or the unexpired period of the lease, whichever is the shorter.

Road infrastructure is depreciated on a straight line basis over its estimated useful life.

The State has a wide variety of assets within each class, which have varying useful lives. The following are typical estimated useful lives for the different asset classes in 2003-04.

Asset Class	*Useful Life*
Buildings	3 - 120 years
Computer equipment	3 - 7 years
Motor vehicles	2 - 6 years
Office equipment	2 - 15 years
Plant and equipment	2 - 20 years
Infrastructure assets	20 - 50 years
Roads	15 - 100 years

Interest and other financing costs

Interest on outstanding borrowings and other finance costs directly related to borrowings are recognised when incurred.

Grants and transfer payments

Payments to third parties are recognised as an expense when incurred and include transactions such as grants, subsidies and transfer payments made to non-government entities.

Supplies and consumables

These represent the costs, other than employee related costs, incurred in the normal operation of entities. These items are recognised as an expense when incurred.

I. Assets

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes "at call" deposits with banks net of bank overdrafts, highly liquid investments with short periods to maturity, and advances at call which are subject to insignificant risk of changes in value and borrowings and deposits from clients at call.

Investments

Investments are carried at face value adjusted for unamortised discounts or premiums and unrealised exchange gains or losses. Discounts and premiums are amortised over the life of the related instrument on the basis of yield at purchase, with the amortisation being treated as an expense in the Statement of Financial Performance. Any permanent diminution in the market value of an investment is treated as an expense in the Statement of Financial Performance.

Entities required to report under Australian Accounting Standard AAS 26 *Financial Reporting of General Insurance Activities* have valued their investments at net market value. Any movements in the value of investments between reporting dates are recognised as revenues or expense in the Statement of Financial Performance.

Loan advances

Loan advances are recognised net of any provision for non-performing debts and therefore disclose the amounts expected to be ultimately collected.

Receivables

Receivables are recognised net of any provision for bad and doubtful debts and therefore disclose the amounts expected to be ultimately collected.

Capitalisation of non-current physical assets

All non-current physical assets in the General Government Sector with a value above $5 000 are capitalised. The capitalisation value of assets belonging to entities within the Public Non-Financial Corporations and Public Financial Corporations Sectors varies between $500 and $5 000.

Valuation of non-current physical assets

Over time, all land, buildings, infrastructure, heritage and cultural assets will be measured at their fair value, unless stated otherwise. All other classes of non-current assets are valued on the historic cost basis.

Land, buildings and forest estate

Land and buildings are initially recognised at historical cost. When revalued, the fair value methodology is applied.

All Crown Land and National Parks and Conservation Areas are valued at the Valuer-General's latest valuation. Valuations are carried out on a five year cycle.

The forest estate is comprised of timber resource (being land and standing timber) and roads. The forest crop is valued using a discounted cash flow method to derive a net present value in compliance with Australian Accounting Standard AAS 35 *Self-Generating and Regenerating Assets*. Roads are valued at written down replacement cost. For more detail on the forest estate valuation, refer to the 2003-04 financial statements of Forestry Tasmania.

Plant and equipment

Plant and equipment is recognised at historical cost or valuation. When revalued, plant and equipment is recognised at written-down replacement cost.

Infrastructure

Infrastructure assets include such items as:

- road infrastructure;
- bridge infrastructure;
- electricity generation dams;
- water supply systems and reservoirs; and
- electricity transmission network.

Road infrastructure valuation is based on replacement value, being the cost to provide a new road of the existing standard. Road condition surveys are conducted each financial year. Land under roads and within road reserves is valued at the Valuer-General's latest valuation.

Bridge infrastructure valuations are based on replacement values calculated for different bridge types.

The electricity transmission network assets are valued upon the depreciated optimised replacement cost (DORC) methodology. For further details on this methodology, refer to Transend Networks Pty Ltd's 2003-04 Annual Report.

Heritage assets and collections

Heritage assets and collections are defined as those non-current physical assets that the State intends to preserve because of their unique historical, cultural or environmental attributes. This category primarily consists of the State Library's Tasmaniana collection. The collection is recognised at fair value. In view of the fact that these items will not lose value, no depreciation has been applied.

Museum collections

Parliamentary museum and library collections have not been included in the valuation of non-current assets as no standard methodology for the valuation of such assets has been established.

The Tasmanian Museum and Art Gallery collections fall under the control of Trustees of the Tasmanian Museum and Art Gallery. They have no values disclosed in the Consolidated Financial Statements as values cannot be reliably determined. However, a $40 million insurance cover has been made in respect of the collections.

Leases

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

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

Operating lease payments are recognised as an expense in the Statement of Financial Performance systematically over the term of the lease.

The cost of leasehold improvements is capitalised as an asset and amortised over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

Details of commitments in relation to operating leases, which by their nature do not give rise to liabilities, are disclosed in Note 25B.

Other Assets

Derivative Financial Instruments are recorded in the Statement of Financial Position as receivables where the gross amount receivables is in excess of the gross amount payable and there is an intention by both parties to settle the transaction on a net basis. This relates to cross current receivables in note 15.

J. Liabilities

Payables

This item consists predominantly of creditors and other sundry liabilities.

Borrowings

The State's borrowings represent funds raised from the following sources:

- loans raised by the Commonwealth on behalf of the State;
- domestic and overseas borrowings via the Tasmanian Public Finance Corporation; and
- overdraft facilities obtained by Public Non-Financial Corporations and Public Financial Corporations from the commercial banking sector.

Valuation of borrowings

Borrowings are recognised at either historical capital cost (i.e. historical cost adjusted for amortisation of discount and premium) or at historical cost.

Reporting within sectors reflects different accounting policies with respect to the valuation of borrowings. The General Government Sector values its borrowing portfolio at historical capital cost.

The Public Non-Financial Corporations Sector values its borrowings at historical cost. The majority of the Public Financial Corporations Sector values its borrowings at face value adjusted for unamortised discounts or premiums and unrealised exchange gains or losses.

Employee entitlements

The Statement of Financial Position reports provisions for entitlements not taken at the reporting date in respect of wages and salaries, annual leave and long service leave. Liabilities for wages and salaries and annual leave are recognised and measured as the amount unpaid at the reporting date at expected pay rates in respect of employees' services up to that date. The liability for sick leave is not material and has not been recognised.

Superannuation

An unfunded superannuation liability is recognised in respect of the State's defined benefit schemes. To ensure compliance with AAS 30 *Accounting for Employee Entitlements*, this liability is measured as the difference between the actuarial calculation of the present value of forecast employees accrued benefits at balance date and the estimated net market value of the superannuation schemes assets at that date. The present value of accrued benefits takes into consideration the expected future wage and salary levels, expected future investment earning rates, the estimated growth rate in the Consumer Price Index and estimated periods of service. Further detail on the superannuation liability is provided in Note 23.

Other liabilities

Other liabilities are recognised at the estimated amounts payable. However, a significant proportion of other liabilities relates to outstanding motor accident and workers' compensation claims - claims reported but not yet paid, claims incurred but not reported and the anticipated direct and indirect costs of settling those claims.

The liability for outstanding claims is based on an actuarial valuation, measured as the present value of the expected future payments using statistics based on past experience and trends.

Derivative Financial Instruments are recorded in the Statement of Financial Position as payables where the gross amount payable is in excess of the gross amount receivable and there is an intention by both parties to settle the transaction on a net basis. This relates to cross current payables in note note 24.

K. Commitments

Commitments include those operating and capital commitments arising from non-cancellable contractual or statutory sources.

L. Contingent liabilities

Contingent liabilities arise from guarantees and any other forms of support provided by the State. Contingent liabilities also arise from legal disputes and other claims against the State.

Details of quantifiable and non-quantifiable contingent liabilities are contained in Note 26.

M. Foreign currency balances/transactions

Foreign currency transactions (including hedging arrangements) are translated to Australian currency at the rate of exchange prevailing at the dates of the transactions. All exchange gains and losses are brought to account in the Statement of Financial Performance in the same period as the exchange differences on the items covered by the hedge transactions arise.

Foreign currency receivables and payables at balance date are translated at exchange rates at balance date.

N. Derivative financial instruments

Risk management

Certain of the State's controlled entities, particularly those within the Public Financial Corporations Sector, enter into derivative financial instruments to manage the financial risks inherent in the State's financial asset and liability management activities. Those entities principally use interest rate swaps, forward rate agreements, interest rate options and exchange traded futures contracts to manage the risks relating to the State's interest rate exposures.

In accordance with Urgent Issues Group pronouncement UIG Abstract 29 – *Early Termination of Interest Rate Swaps*, Hydro Tasmania amortises the realised gains and losses on interest rate swaps over the life of the underlying physical loan. Where the loan is terminated prior to maturity, any unamortised gains or losses are transferred to the Statement of Financial Position.

Currency swaps and foreign currency forward contracts are also entered into by certain entities controlled by the State to manage the currency risks relating to offshore funding and investment programs and to ensure that there is no material residual currency exposure.

Recognition

Derivative financial instruments are recognised at amortised cost and are not recognised in the Balance Sheet, as they have no carrying value. Details of the fair value of unrecognised financial instruments are disclosed at Note 28.

Gains and losses on derivatives used as hedges are accounted for on the same basis as the underlying physical exposures they are hedging.

O. Rounding

All amounts in the financial statements have been rounded to the nearest million dollars unless otherwise stated. As a consequence, rounded figures may not add to totals.

P. Comparative information

Where significant changes have occurred in presentation during the year, the previous year's comparatives have been adjusted to reflect the changes.

Q. Adoption of Australian Equivalents to International Financial Reporting Standards

The Department of Treasury and Finance is managing the transition to the Australian Equivalents to International Financial Reporting Standards (AEIFRS), for Whole of Government Reporting, by analysing pending standards, Urgent Issues Group Abstracts and changes to Treasurer's Instructions to identify key areas regarding policies.

Key tasks to be undertaken by the Department for managing the transition, in regard to Whole of Government Reporting, are:

- Analysis of AEIFRS and the change in requirements from the current Australian Accounting Standards Board (AASB); and
- Determining new AEIFRS policies, including mandating policies where appropriate.

Once these changes to accounting policies and standards have been identified, the Department will determine changes to its procedures, systems and financial impacts as a result of the transition.

The Department will then develop a strategy for implementing any necessary changes to financial systems. Strategies for training staff, providing advice to agencies, and informing stakeholders of major changes will then be implemented.

The accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the standard is yet to be finalised and the impact cannot be assessed with certainty until the standard is issued.

The Department has already identified a number of significant differences in accounting policies that will arise from adopting AEIFRS. Some differences arise because AEIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AEIFRS.

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

- AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.
- AASB 116 *Property, Plant and Equipment* requires the value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated.
- AASB 119 *Employee Benefits* requires the defined benefit obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. This will increase the amount and the future volatility of the unfunded superannuation liability and the volatility of the employee benefit expense.
- AASB 136 *Impairment of Assets* requires an entity to assess at each reporting date whether there is any indication that an asset is impaired and if such indication exists, the entity must estimate and report the recoverable amount.
- AASB 138 *Intangibles* requires that all research costs must be expensed and restricts capitalisation of development costs. Some previously recognised internally generated intangible assets may need to be derecognised. Further, intangible assets can only be revalued where there is an active market, which is unlikely to occur in relation to State Government intangibles. As a result, it is likely that any revaluation increments will need to be derecognised and intangible assets recognised at cost.
- AASB 139 *Financial Instrument Recognition and Measurement* results in the recognition of financial instruments that were previously not disclosed in the Statement of Financial Position, including derivatives. The Standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit or loss or equity, respectively. Current Australian Accounting Standards require recognition of derivatives at cost. This may increase the volatility of the operating result.
- AASB 140 *Investment Property* requires investment property to be measured at cost or fair value. This will mean an investment property recognised at fair value will no longer be depreciated and changes in fair value will be recognised directly in the Statement of Financial Performance.

Other standards to a lesser degree will have an impact on the Tasmanian public sector agencies adopting the AEIFRS for financial reporting purposes. Therefore on consolidation, this will also impact the whole of government reporting.

Note 2 Disaggregated information

Disaggregated Statement of Financial Performance for the year ended 30 June 2004

	General Government	Public Non-Financial Corporations	Public Financial Corporations	Inter-Sector Eliminations	Consolidated
	$m	$m	$m	$m	$m
Revenues					
Taxation	631	....	....	(21)	610
Fines and regulatory fees	32	....	....	....	32
Investment income	213	5	419	(363)	274
Grants	1 997	54	....	(55)	1 996
Sales of goods and services	234	1 107	92	(18)	1 415
Proceeds from disposal of non-current assets	70	7	28	....	105
Fair value of assets received free of charge or for nominal consideration	7	....	....	....	7
Other revenues	112	72	68	(13)	239
Total revenues	3 296	1 245	607	(470)	4 678
Expenses					
Employee entitlements	1 206	253	4	(16)	1 447
Superannuation	393	56	1	…	450
Depreciation	166	200	1	....	367
Interest and other financing costs	67	121	387	(189)	386
Grants and transfer payments	430	11	....	(54)	387
Supplies and consumables	793	354	2	(15)	1 134
Cost of sale of goods	....	11	....	....	11
Write down on disposal of non-current assets	71	6	28	....	105
Other expenses	40	62	109	(9)	202
Total expenses	3 166	1 074	532	(283)	4 489
Operating Surplus before Extraordinary Items, Income Tax Equivalents and Dividends	130	171	75	(187)	189
Income tax equivalent	….	(77)	(22)	99	….
Dividends	….	(73)	(6)	79	….
OPERATING SURPLUS/(DEFICIT) AFTER EXTRAORDINARY ITEMS, INCOME TAX EQUIVALENTS AND DIVIDENDS	130	21	47	(9)	189

Note 2 – Disaggregated information (continued)

Disaggregated Statement of Financial Performance for the year ended 30 June 2003

	General Government	Public Non-Financial Corporations	Public Financial Corporations	Inter-Sector Eliminations	Consolidated
	$m	$m	$m	$m	$m
Revenues					
Taxation	638	....	....	(95)	543
Fines and regulatory fees	58	....	....	....	58
Investment income	127	6	408	(292)	249
Grants	1 849	52	....	(45)	1 856
Sales of goods and services	228	1 050	96	(47)	1 327
Proceeds from disposal of non-current assets	67	75	....	....	142
Fair value of assets received free of charge or for nominal consideration	....	....	....	....	....
Other revenues	262	21	15	(145)	153
Total revenues	3 229	1 204	519	(624)	4 328
Expenses					
Employee entitlements	1 138	226	3	....	1 368
Superannuation	327	34	1	....	361
Depreciation	162	186	1	....	349
Interest and other financing costs	79	135	371	(202)	382
Grants and transfer payments	489	....	3	(51)	441
Supplies and consumables	657	299	2	(23)	935
Cost of sale of goods	....	29	....	....	29
Write down on disposal of non-current assets	92	81	....	....	173
Other expenses	123	63	111	(31)	268
Total expenses	3 068	1 053	492	(307)	4 306
Operating Surplus before Extraordinary Items, Income Tax Equivalents and Dividends	162	151	27	(317)	22
Income tax equivalent	....	(74)	3	71	....
Dividends	....	....	(6)	6	....
OPERATING SURPLUS/(DEFICIT) AFTER EXTRAORDINARY ITEMS, INCOME TAX EQUIVALENTS AND DIVIDENDS	162	77	24	(240)	22

Note 2 – Disaggregated information (continued)

Disaggregated Statement of Financial Position as at 30 June 2004

	General Government	Public Non-Financial Corporations	Public Financial Corporations	Inter-Sector Eliminations	Consolidated
	$m	$m	$m	$m	$m
Assets					
Current assets					
Cash	685	82	3	(712)	58
Investments	35	33	2 414	(1 249)	1 233
Receivables	360	140	....	(260)	240
Prepayments	8	6	....	....	14
Accrued revenue	8	13	....	(12)	9
Tax assets	11	10	....	(9)	12
Other current assets	10	38	102	(109)	41
Total current assets	1 117	322	2 519	(2 351)	1 607
Non-current assets					
Investments	4 248	20	3 548	(5 614)	2 202
Receivables	47	29	....	....	76
Land, buildings and forest estate	2 729	820	10	....	3 559
Plant and equipment	182	501	1	....	684
Infrastructure	3 412	4 948	....	....	8 360
Tax assets	....	112	....	(112)	....
Other non-current assets	11	69	86	....	166
Total non-current assets	10 629	6 499	3 645	(5 726)	15 047
TOTAL ASSETS	11 746	6 821	6 164	(8 077)	16 654
Liabilities					
Current liabilities					
Payables	51	99	162	....	312
Borrowings	262	301	2 494	(1 351)	1 706
Employee entitlements	125	44	1	....	170
Superannuation	141	48	....	....	189
Accrued expenses	31	52	78	(39)	122
Tax liabilities	13	30	....	(34)	9
Other current liabilities	67	42	146	(110)	145
Total current liabilities	690	616	2 881	(1 534)	2 653
Non-current liabilities					
Borrowings	615	1 574	2 663	(1 898)	2 954
Employee entitlements	185	15	....	....	200
Superannuation	2 101	303	1	....	2 405
Tax liabilities	....	233	2	(235)	....
Other non-current liabilities	65	32	486	(102)	481
Total non-current liabilities	2 966	2 157	3 152	(2 235)	6 040
TOTAL LIABILITIES	3 656	2 773	6 033	(3 769)	8 693
NET ASSETS	8 090	4 048	131	(4 308)	7 961

Note 2 – Disaggregated information (continued)

Disaggregated Statement of Financial Position as at 30 June 2003

	General Government	Public Non-Financial Corporations	Public Financial Corporations	Inter-Sector Eliminations	Consolidated
	$m	$m	$m	$m	$m
Assets					
Current assets					
Cash	441	58	3	(429)	73
Investments	38	86	931	(659)	396
Receivables	259	152	1	(160)	251
Prepayments	5	5	….	(1)	10
Accrued revenue	2	5	….	….	7
Tax assets	23	11	….	(10)	24
Other current assets	10	40	72	….	122
Total current assets	778	357	1 007	(1 259)	883
Non-current assets					
Investments	1 140	46	4 341	(3 097)	2 428
Receivables	22	1	1	(7)	17
Land, buildings and forest estate	2 910	818	50	….	3 778
Plant and equipment	195	518	2	….	714
Infrastructure	2 809	4 757	….	….	7 567
Tax assets	….	106	17	(124)	….
Other non-current assets	….	4	33	….	36
Total non-current assets	7 076	6 250	4 444	(3 228)	14 540
TOTAL ASSETS	7 854	6 607	5 451	(4 487)	15 423
Liabilities					
Current liabilities					
Payables	61	76	2	(28)	112
Borrowings	244	367	2 392	(1 241)	1 761
Employee entitlements	134	51	1	….	186
Superannuation	130	51	….	….	181
Accrued expenses	38	77	70	(33)	153
Tax liabilities	….	58	1	(43)	16
Other current liabilities	77	35	140	(7)	245
Total current liabilities	684	715	2 606	(1 352)	2 654
Non-current liabilities					
Payables	….	87	….	….	87
Borrowings	819	1 366	2 315	(1 895)	2 605
Employee entitlements	172	13	….	….	185
Superannuation	1 878	262	1	….	2 141
Tax liabilities	….	196	….	(196)	….
Other non-current liabilities	61	19	442	….	522
Total non-current liabilities	2 930	1 943	2 758	(2 091)	5 540
TOTAL LIABILITIES	3 614	2 658	5 364	(3 443)	8 194
NET ASSETS	4 240	3 949	87	(1 044)	7 229

Note 3 Taxation revenue

	2003-04	2002-03
	$m	$m
Payroll tax	152	146
Financial transaction taxes	168	142
Gambling taxes	78	73
Land tax	27	25
Motor vehicle tax and fees	112	99
Fire service levies	39	35
Other taxation receipts	34	24
TOTAL	610	543

Note 4 Investment income

	2003-04	2002-03
	$m	$m
Interest	263	238
Dividends	11	11
TOTAL	274	249

Note 5 Grants revenue

	2003-04	2002-03
	$m	$m
Commonwealth General Purpose grants	1 825	1 390
Commonwealth Specific Purpose grants	156	421
Commonwealth Capital grants	15	35
Other	....	10
TOTAL	1 996	1 856

Note 6 Sales of goods and services

	2003-04	2002-03
	$m	$m
Sales of goods	191	184
Sales of services	1 224	1 143
TOTAL	1 415	1 327

Note 7 Other revenues

	2003-04	2002-03
	$m	$m
Revenue on revaluation of non-current assets	25	21
Gains/losses on financial assets	67	1
Other revenue	147	131
TOTAL	239	153

Note 8 Employee entitlements

	2003-04	2002-03
	$m	$m
Salaries and wages	1 399	1 336
Long service leave	21	27
Workers' compensation contributions	8	2
Other	19	3
TOTAL	1 447	1 368

Note 9 Depreciation

	2003-04	2002-03
	$m	$m
Depreciation in respect of:		
Buildings	51	49
Plant and equipment	77	71
Infrastructure	225	219
Other	14	9
Amortisation of assets under finance lease	....	1
TOTAL	367	349

Note 10 Interest and other financing costs

	2003-04	2002-03
	$m	$m
Interest on borrowings	386	382
TOTAL	386	382

Note 11 Supplies and consumables

	2003-04	2002-03
	$m	$m
Advertising and promotion	31	25
Consultants	34	34
Maintenance and property services	146	177
Communications	40	48
Information technology	55	49
Travel and transport	55	34
Medical, surgical and pharmacy supplies	92	99
Other	681	470
TOTAL	1 134	935

Note 12 Other expenses

	2003-04	2002-03
	$m	$m
Asset write downs	....	20
MAIB specific expenses	108	109
Other	94	139
TOTAL	202	268

Note 13 Investments

	2003-04	2002-03
	$m	$m
Current investments		
Loan advances	40	78
Short term deposits, bills and other securities	324	84
Equity investments	469	178
Government and institutional securities	400	56
Total current investments	1 233	396
Non-current investments		
Loan advances	677	443
Long term deposits, bills and other securities	1 512	1 904
Equity investments	13	81
Total non-current investments	2 202	2 428
TOTAL	3 435	2 824

Note 14 Receivables

	2003-04	2002-03
	$m	$m
Current receivables		
Trade receivables	227	281
Other	47	....
Less provision for doubtful debts	(34)	(30)
Total current receivables	240	251
Non-current receivables		
Trade receivables	46	6
Other	30	11
Less provision for doubtful debts	....	....
Total non-current receivables	76	17
TOTAL	316	268

Note 15 Other assets

	2003-04	2002-03
	$m	$m
Current other assets		
Forest estate inventories	21	20
Other inventories	10	23
Deferred buy back losses	....	1
Accrued interest	8	72
Cross currency swap receivables	2	…
Other	0	6
Total current other assets	41	122
Non-current other assets		
Cross currency swap receivables	47	16
Swap prepayments	22	15
Other	97	5
Total non-current other assets	166	36
TOTAL	207	158

Note 16 Land, buildings and forest estate

	2003-04	2002-03
	$m	$m
Land at cost or valuation	696	771
Buildings at cost or valuation	2 958	2 979
Less accumulated depreciation	(748)	(686)
	2 210	2 293
Forest estate at valuation	653	808
Less accumulated depreciation	....	(94)
	653	714
TOTAL	3 559	3 778

Note 17 Plant and equipment

	2003-04	2002-03
	$m	$m
Plant and equipment at cost or valuation	1 066	1 023
Less accumulated depreciation	(382)	(309)
TOTAL	684	714

Note 18 Infrastructure

	2003-04	2002-03
	$m	$m
Infrastructure at cost or valuation	13 344	12 326
Less accumulated depreciation	(4 984)	(4 759)
TOTAL	8 360	7 567

Note 19 Reconciliation of non-current assets

	Land, Buildings and Forest Estates	Plant and Equipment	Infrastructure	Total
	$m	$m	$m	$m
Carrying amount at 1 July 2003	3 778	714	7 567	12 059
Add asset purchases	58	60	213	331
Less asset sales	(89)	(6)	(6)	(101)
Add/(Less) asset revaluations	368	3	220	591
Less depreciation expense	(51)	(77)	(225)	(353)
Other movements	(497)	(126)	452	(171)
Work in progress	(8)	116	139	247
Carrying amount at 30 June 2004	3 559	684	8 360	12 603

Note 20 Payables

	2003-04	2002-03
	$m	$m
Trade creditors	94	98
Other	218	101
TOTAL	312	199

Note 21 Borrowings

	2003-04	2002-03
	$m	$m
Current borrowings		
Non-Commonwealth	1 692	1 717
Debt due to Commonwealth	13	42
Finance leases	1	2
Total current borrowings	1 706	1 761
Non-current borrowings		
Non-Commonwealth	2694	2 274
Debt due to Commonwealth	260	273
Finance leases	0	58
Total non-current borrowings	2 954	2 605
TOTAL	4 660	4 366

Note 22 Employee entitlements

	2003-04	2002-03
	$m	$m
Current employee entitlements		
Accrued salaries and wages	17	37
Annual leave	108	101
Long service leave	44	46
Other employee entitlements	1	2
Total current employee entitlements	170	186
Non-current employee entitlements		
Annual leave	15	2
Long service leave	185	182
Other employee entitlements	0	1
Total non-current employee entitlements	200	185
TOTAL	370	371

Note 23 Superannuation

The liability for employee superannuation resides in the State's public sector superannuation funds. These funds are not consolidated as they are not "controlled" by the State, however, the major proportion of unfunded superannuation liabilities is the responsibility of the State and is recognised accordingly.

Each year, the State Actuary conducts a valuation of the benefits accrued within contributory funds by members up to the reporting date. Any shortfall between the value of these accrued benefits and the net market value of fund assets determines the value of any unfunded superannuation liability, and is shown as a liability in the Statement of Financial Position.

The funding status of the State's share of defined benefit and defined contribution funds at 30 June 2004, based on actuarial valuations, is summarised as follows:

2003-04

	Retirement Benefits Act 1993	Parliamentary Superannuation Fund	Parliamentary Retiring Benefits Fund	Judges' Contributory Pensions Act 1968	Total
	$ m	$ m	$ m	$ m	$ m
Vested benefits	**3 981**	**18**	**7**	**22**	**4 028**
Accrued benefits	**3 625**	**18**	**7**	**24**	**3 674**
Less net market value of plan Assets	**(1 068)**	**(6)**	**(6)**	**…**	**(1 080)**
Deficit	**2 557**	**12**	**1**	**24**	**2 594**
Classified as:					
Current	**187**	**2**	**....**	**....**	**189**
Non-current	**2 370**	**10**	**1**	**24**	**2 405**
TOTAL	**2 557**	**12**	**1**	**24**	**2 594**

Unfunded superannuation liability is calculated by deducting the net market value of plan assets from the gross accrued benefit liability for each superannuation scheme.

The funding status of the State's share of defined benefit and defined contribution funds at 30 June 2003, based on actuarial valuations, is summarised as follows:

2002-03

	Retirement Benefits Act 1993	Parliamentary Superannuation Fund	Parliamentary Retiring Benefits Fund	Judges' Contributory Pensions Act 1968	Total
	$ m	$ m	$ m	$ m	$ m
Vested benefits	**3 765**	**18**	**7**	**21**	**3 811**
Accrued benefits	**3 211**	**18**	**7**	**22**	**3 258**
Less net market value of plan Assets	**(924)**	**(5)**	**(7)**	**....**	**(936)**
Deficit	**2 287**	**13**	**....**	**22**	**2 322**
Classified as:					
Current	**176**	**2**	**....**	**3**	**181**
Non-current	**2 110**	**11**	**....**	**19**	**2 141**
TOTAL	**2 287**	**13**	**....**	**22**	**2 322**

The accrued benefit liability represents the total discounted value of all employees' entitlements as at 30 June 2004. Accrued benefits liability is determined using a discounted cash flow technique similar to that used to calculate past service liability, but the rate of discount is prescribed under the Australian Accounting Standards.

Note 24 Other liabilities

	2003-04	2002-03
	$m	$m
Current other liabilities		
Revenue received in advance	20	19
Provision for outstanding and unreported claims in MAIB	77	87
Cross Currency swap payables	14	0
Other	34	139
Total current other liabilities	145	245
Non-current other liabilities		
Provision for outstanding and unreported claims in MAIB	459	442
Cross currency swap payables	6	7
Other	16	73
Total non-current other liabilities	481	522
TOTAL	626	767

Note 25 Commitments

A Commitments for capital expenditure

At 30 June 2004, the State had entered into a number of contracts for capital expenditure. These contractual commitments have not been recognised as liabilities in the Statement of Financial Position.

	2003-04	2002-03
	$m	$m
Not later than 1 year	303	139
Later than 1 year and no later than 5 years	59	131
Later than 5 years	3	3
TOTAL	365	273

B Operating lease commitments

At the reporting date, the Government had the following obligations under non-cancellable operating leases:

	2003-04	2002-03
	$m	$m
Not later than 1 year	66	69
Later than 1 year and no later than 5 years	192	158
Later than 5 years	157	180
TOTAL	415	407

Operating lease commitments relate to the lease of: information technology and office equipment; specialised machinery, plant and equipment; motor vehicles; land, buildings, premises mainly for office accommodation; and for services such as maintenance and communications services.

C Finance lease commitments

At the reporting date, the Government had the following obligations under finance leases:

	2003-04	2002-03
	$m	$m
Not later than 1 year	....	3
Later than 1 year and no later than 5 years	1	....
Later than 5 years	....	....
Minimum lease payments	....	....
Less future finance charges	....	....
TOTAL	1	3

D Other commitments

At the reporting date, the Government had the following obligations under arrangements other than finance and operating leases and capital commitments:

	2003-04	2002-03
	$m	$m
Not later than 1 year	77	84
Later than 1 year and no later than 5 years	70	178
Later than 5 years	2	53
TOTAL	149	315

Note 26 Contingent liabilities

Contingent liabilities represent items that, at 30 June 2004, are not recognised in the Statement of Financial Position because there is significant uncertainty at that date as to the necessity for the entity to receive or make payments in respect of them. Following are details of the more significant of these contingent liabilities. Reference should be made to individual entity financial statements for additional information.

The quantifiable estimates, when presented, require careful interpretation. They represent the maximum potential exposure of the quantifiable contingent liabilities of the State, without any explicit assessment of the likelihood of any contingent liabilities being converted to actual liabilities in the future.

Contingent liabilities - quantifiable

2003-04

	General Government Entities	Public Non-Financial Corporations	Public Financial Corporations	Total
	$m	$m	$m	$m
Guarantees	1	5	....	6
Claims relating to insurance (excluding claims by employees for personal injuries)	....	....	....	....
Deferred start swaps:				
Receive fixed	....	....	28	28
Pay fixed	....	....	292	292
Other	....	2	(19)	(17)
Total contingent liabilities - quantifiable	1	7	301	309

2002-03

	General Government Entities	Public Non-Financial Corporations	Public Financial Corporations	Total
	$m	$m	$m	$m
Guarantees	....	2	....	2
Claims relating to insurance (excluding claims by employees for personal injuries)	....	....	....	....
Deferred start swaps:				
Receive fixed	....	....	15	15
Pay fixed	....	....	259	259
Total contingent liabilities - quantifiable	....	2	274	276

Contingent liabilities - not quantifiable

Legal proceedings and disputes

A number of legal actions have been brought against the State and its agencies. Notification has also been received of a number of other cases that are not yet subject to Court action but which may result in subsequent litigation. The legal actions include:

- Claims against the Department of Health and Human Services relating to:
  - Public liability claims by former patients; and
  - Hepatitis C claims.
- Claims against the Department of Infrastructure, Energy and Resources relating to:
  - Limited access compensation;
  - Personal injury or damage caused to property (including vehicles) allegedly due to road works or road condition; and
  - Other constructual disputes.
- Claims against the Department of Education relating to personal injury on the Department's premises.

- Claims against the former Department of State Development (now the Department of Economic Development) relating to:
  - litigation with Mack Investments Pty Ltd (Argo Pty Ltd), George Peter Wright, Natureland of Tasmania Pty Ltd and Michael Winston Tatlow, in an action seeking damages over rights to harvest, process and sell peat moss. The Director of Public Prosecutions has advised that proceedings have been halted pending plaintiff action to obtain leave to proceed; and
  - litigation with K M Booth and K D Conochie in a claim for negligent advice. The Director of Public Prosecutions has previously advised that in his opinion, the Department of Economic Development would not have any liability in relation to the claim. As the last correspondence received regarding this matter was dated April 1996 the file in now considered inactive.
- Hydro Tasmania is defending Supreme Court proceedings in relation to trade practices claims relating to false and misleading tender information.

Due to the wide variety and the nature of the claims and the uncertainty of any potential liability, no value has been attributed to the claims in the financial statements.

Note 27 Compliance with Appropriation

In conformity with Australian Accounting Standard AAS 29 *Financial Reporting by Government Departments*, General Government Sector entities have included details of compliance with Parliamentary appropriations in their financial statements for the period.

Information about compliance with such appropriations can be obtained from entity financial statements and from the *Treasurer's Financial Statements* for the year ended 30 June 2004.

Note 28 Additional financial instruments disclosure

Interest rate risk

Several entities utilise derivative financial arrangements to manage financial risks inherent in their management activities. These instruments include swaps, forward interest rate agreements and other hedging instruments to manage fluctuations in interest or exchange rates.

The State's exposure as at 30 June 2004 and 30 June 2003 to interest rate risk and the effective interest rates of financial assets and financial liabilities is shown in the following tables:

2003-04

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Maturing In: 1 Year or Less	Over 1 Year to 5 Years	More than 5 Years	Non-Interest Bearing	Total
		$m	$m	$m	$m	$m	$m
Financial Assets							
Cash	N/A	56	1	....	....	1	58
Investments	5.43	1 275	886	527	726	21	3 435
Receivables	N/A	18	....	....	....	298	316
Cross currency swap receivables	(5.74)	24	2	61	(38)	....	49
		1 373	889	588	688	320	3 858
Financial Liabilities							
Payables	N/A	161	....	....	....	151	312
Borrowings	7.65	266	1 423	2 081	890	....	4 660
Finance leases	5.87	1	....	....	....	....	1
Basslink facility fee instrument	7.4	599			(599)		….
Cross currency swap payables	5.65	28	....	(67)	58	....	19
		1 055	1 423	2 014	349	151	4 992

2002-03

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Maturing In: 1 Year or Less	Over 1 Year to 5 Years	More than 5 Years	Non-Interest Bearing	Total
		$m	$m	$m	$m	$m	$m
Financial Assets							
Cash	N/A	64	7	....	....	2	73
Investments	4.98	1 402	785	391	218	28	2 824
Receivables	N/A	17	3	....	1	247	268
Cross currency swap receivables	(4.84)	295	....	(178)	(100)	....	16
		1 778	795	213	119	277	3 181
Financial Liabilities							
Payables	N/A	3	....	....	....	196	199
Borrowings	5.70	1 084	555	2 027	198	502	4 366
Basslink facility fee instrument	6.34	3	....	....	....	....	3
Cross currency swap payables	6.45	279	....	....	(136)	(136)	7
		1 369	555	2 027	62	562	4 575

Foreign exchange risk

To effectively manage the exposure of foreign currency borrowings and offshore investments to fluctuation in exchange rates, both cross currency swaps and forward foreign exchange contracts are used. Offshore borrowings are required to provide access to additional sources of funding and to diversify risk exposure.

The following table summarises the effect of cross currency swaps at balance date:

	Borrowings	Investments	Swaps	Net exposure
	$m	$m	$m	$m
2003-04				
Japanese Yen	283	41	(324)	....
US Dollars	....	202	(202)	....
Euros	....	44	(44)	....
TOTAL	283	287	(570)	....
2002-03				
Japanese Yen	268	24	(244)	....
US Dollars	....	207	207	....
German Deutschmarks	....	43	43	....
TOTAL	268	274	6	....

Liquidity risk

Liquidity risk arises from the possibility that the individual entities may be unable to settle a transaction on the due date. The Government's central borrowing authority, the Tasmanian Public Finance Corporation, has a US$20 million standby facility and intra-day standby lines of A$80 million to cover this possibility.

Credit risk

Financial instruments - on balance sheet

The credit risk on recognised financial assets, excluding investments, is the carrying amount of these assets in the Consolidated Statement of Financial Position. The market value at balance dates is the credit exposure to investments.

Financial instruments - off balance sheet

The credit exposure for derivative contracts entered into by the Government's central borrowing authority, the Tasmanian Public Finance Corporation, is calculated after taking into account the current market value, duration, time to maturity and interest rate and/or exchange rate volatility.

Credit exposure related to derivative financial instruments is:

Type of instrument	2003-04 Exposure	2002-03 Exposure
	$m	$m
Interest rate swaps	179	75
Basslink facility fee instrument	92	6
Foreign exchange contracts	108	89
Forward Rate Agreement	32	….
TOTAL	411	170

Net fair value

The carrying amounts and estimated fair values of recognised financial instruments held at 30 June 2004 and 30 June 2003 are as follows:

2003-04

	2003-04 Net fair value	2003-04 Carrying value
	$m	$m
Financial assets		
Cash	58	58
Investments	3 455	3 435
Receivables	316	316
TOTAL	3 829	3 809
Financial liabilities		
Payables	312	312
Borrowings	4 682	4 660
Finance leases	1	1
TOTAL	4 995	4 973
Unrecognised Financial instruments		
Interest rate swaps	(40)	....
Cross currency swaps	(19)	....
Forward Rate Agreement	32	....
Basslink Financial Facility Fee & Service Agreement	(675)	…
TOTAL	(702)	…

2002-03

	2002-03 Net fair value	2002-03 Carrying value
	$m	$m
Financial assets		
Cash	73	73
Investments	2 824	2 902
Receivables	268	268
TOTAL	**3 165**	**3 243**
Financial liabilities		
Payables	199	199
Borrowings	4 366	4 476
Finance leases	3	3
TOTAL	**4 568**	**4 678**
Financial instruments		
Interest rate swaps	(15)	....
Foreign exchange	2	2
Cross currency swaps	(2)	....
TOTAL	**(15)**	**2**

Note 29 Reconciliation of Net Cash Flows from Operating Activities to Operating Surplus

	2003-04	2002-03
	$m	$m
Operating Surplus	189	22
Non-cash movements		
Depreciation and amortisation	367	350
Gross proceeds from sale of fixed assets	(105)	(142)
Written down value of assets sold	105	174
Increase/(decrease) in payables	113	59
Increase/(decrease) in employee entitlements	(63)	40
Increase/(decrease) in superannuation	273	213
Increase/(decrease) in accrued expenses	(31)	38
Increase/(decrease) in other liabilities	(79)	91
(Increase)/decrease in receivables	(48)	(37)
(Increase)/decrease in prepayments	(4)	(1)
(Increase)/decrease in accrued revenue	(2)	26
(Increase)/decrease in other assets	(49)	(4)
(Increase)/decrease in tax assets	12	(12)
Adjustment for other non-cash items	86	(50)
Net Cash from Operating Activities (including financial institutions)	764	767
Less Financial Institutions Net Cash from Operating Activities	(98)	(78)
Net Cash from Operating Activities	862	834

Note 30 Statement of Net Cash Flows from Financial Institutions

	2003-04	2002-03
	$m Inflows (Outflows)	$m Inflows (Outflows)
Cash Flow from Operating Activities		
Receipts		
Interest received	235	313
Other receipts	131	1
Payments		
Employee entitlements	(3)	(2)
Interest paid	(368)	(390)
Other payments	(93)	(2)
Net Cash used in Operating Activities	(98)	(78)
Cash Flows from Investing Activities		
Net purchase of investments	(660)	(354)
Net Cash used in Investing Activities	(660)	(354)
Cash Flows from Financing Activities		
Net increase/(decrease in deposits)	....	....
Net borrowings	496	(37)
Net Cash used in Financing Activities	496	(37)
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	(262)	(469)

Note 31 Closing cash and cash equivalents

	2003-04	2002-03
	$m	$m
DEPOSITS AT CALL		
Financial institutions	....	....
Other entities	58	73
CASH AND CASH EQUIVALENTS HELD AT 30 JUNE 2004	58	73

Note 32 Reconciliation of changes in equity

	Total	Accumulated Surplus	Asset Revaluation Reserve	Other Reserves
	$m	$m	$m	$m
Balance at 1 July 2003	7 229	2 969	3 165	1 095
Operating surplus / (deficit)	189	189	....	....
Transfers to reserves	12	12	....	....
Transfers from reserves	(12)	(12)	....	....
Revaluation increments	593	....	593	....
Revaluation decrements	....	....	....	....
Other movements	(50)	....	....	(50)
Balance at 30 June 2004	7 961	3 158	3 758	1 045

Note 33 Asset revaluation reserve

	Opening Balance	Revaluation Increments	Revaluation Decrements	Closing Balance
	$m	$m	$m	$m
Land, buildings and forest estates	695	368	0	1 063
Plant and equipment	11	3	0	14
Infrastructure	2 441	220	0	2 661
Other	18	2	0	20
TOTAL	3 165	593	0	3 758

Note 34 Significant Items

During 2003-04, the sales of the Civil Construction Services Corporation, the Stanley Cool Stores Board and the Tasmanian Grain Elevators Board were completed.

The divestment of these businesses followed the Government's decision to free up its non-core assets for reinvestment in new social and economic infrastructure. Proceeds from the sale of these businesses were transferred to the Economic and Social Infrastructure Fund (ESIF) in 2003-04. Further information in relation to the ESIF is provided in the Treasurer's Annual Financial Report 2003-04. The proceeds for divestment from Sale of Government Assets has been included as part of Other Revenue.

Note 35 Details of controlled entities

The following controlled entities of the State are included in the Consolidated Financial Statements for the year ended 30 June 2004:

General Government entities
Department of Economic Development
Department of Education
Department of Health and Human Services
Department of Infrastructure, Energy and Resources
Department of Justice
Department of Police and Public Safety
Department of Premier and Cabinet
Department of Primary Industries, Water and Environment
Department of Tourism, Parks, Heritage and the Arts
Department of Treasury and Finance
House of Assembly
Inland Fisheries Service
Legislative Council
Legislature-General
Marine and Safety Tasmania
Office of the Governor
Royal Tasmanian Botanical Gardens
State Fire Commission
TAFE Tasmania
Tasmanian Audit Office
The Nominal Insurer

Public Non-Financial Corporations
Aurora Energy Pty Ltd
Burnie Port Corporation Pty Ltd
Forestry Tasmania
Hobart Ports Corporation Pty Ltd
Hydro Tasmania
Metro Tasmania Pty Ltd
Port Arthur Historic Site Management Authority
Port of Devonport Corporation Pty Ltd
Port of Launceston Pty Ltd
Printing Authority of Tasmania
Private Forests Tasmania
Rivers and Waters Supply Commission
Southern Regional Cemetery Trust
Tasmanian International Velodrome Management Authority
The Public Trustee
Tote Tasmania Pty Ltd
Transend Networks Pty Ltd
TT-Line Company Pty Ltd

Public Financial Corporations
Motor Accidents Insurance Board (MAIB)
Tasmanian Public Finance Corporation

Entities not consolidated

Certain entities that administer superannuation and like funds and/or hold private funds of a trust or fidelity nature, have not been included in this financial report because the assets are not available for the benefit of the State. The University of Tasmania, certain professional, occupational and marketing boards and Local Government authorities have not been included in this financial report because they are not controlled.

Other Government bodies that are controlled but are not considered material, for whole-of-government purposes, are also excluded from this financial report.