Tasmania

CONSOLIDATED FINANCIAL STATEMENTS FOR THE STATE OF TASMANIA 2004-05

Department *of* Treasury *and* Finance
December 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 accrual accounting basis, with prior year amounts.

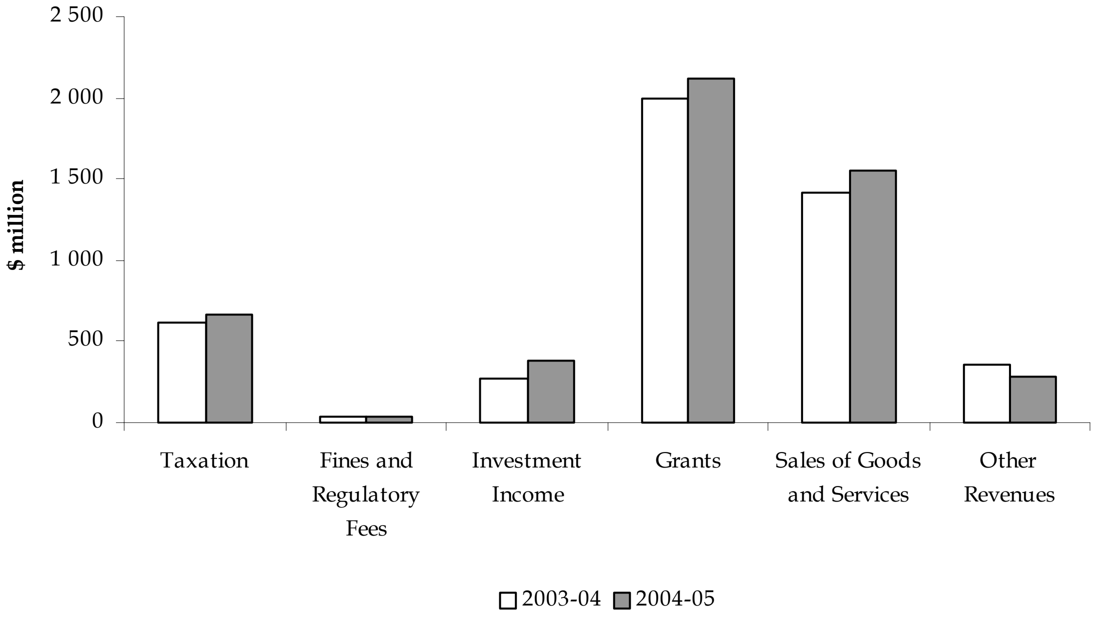
The 2004-05 operating result shows a surplus of $353 million, an increase of $164 million from the surplus of $189 million recorded in 2003-04, as a result of an increase of $348 million in revenues, offset by an increase of $183 million in expenses.

Revenues

Total revenues for the year ended 30 June 2005 were $5 026 million, an increase of $348 million, or 7.4 per cent, over the previous year. Increased revenue arose from increases in grants ($119 million), taxation revenue ($51 million), sales of goods and services ($134 million), investment income ($35 million), and fair value of assets received free of charge or for nominal consideration ($73 million). These increases were partially offset by a reduction in other revenue ($32 million).

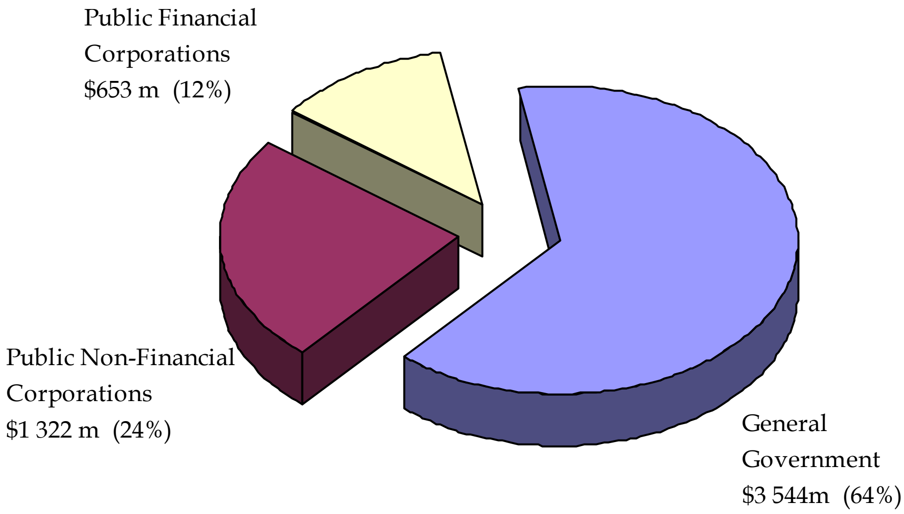
Total revenues by category for 2003–04 and 2004–05 are shown in Figure 1.

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

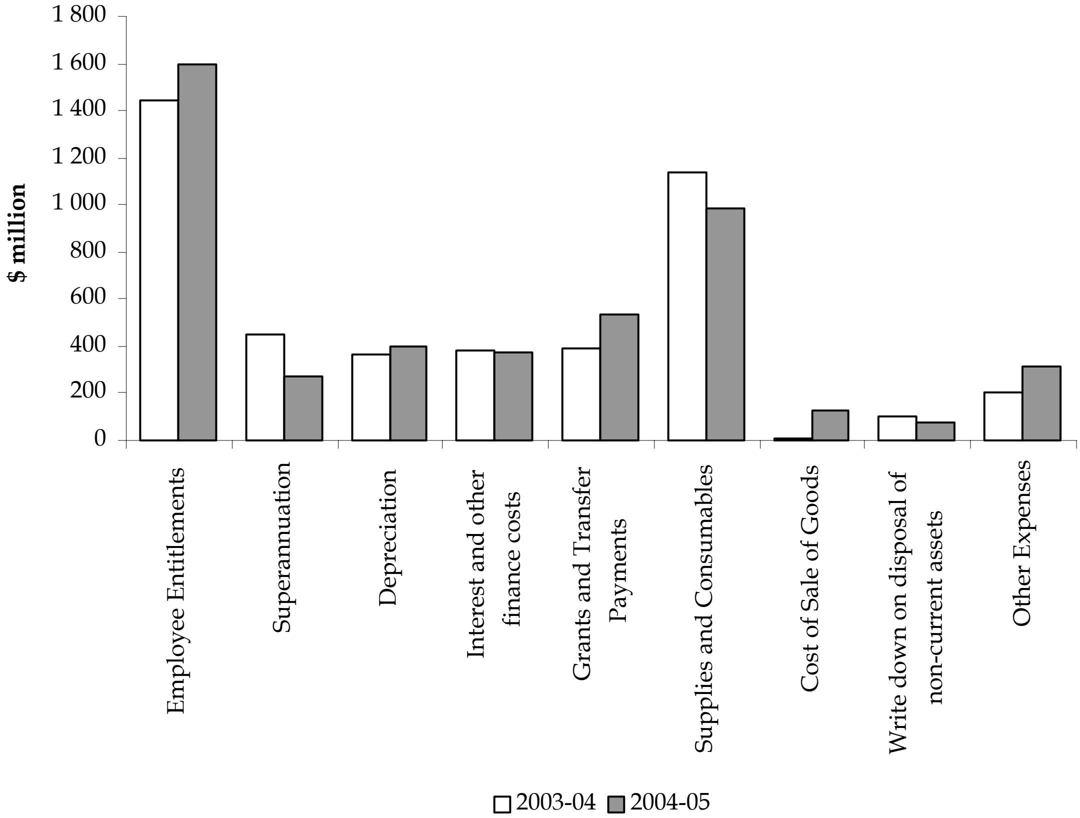


Expenses

Total expenses for the year ended 30 June 2005 were $4 672 million, an increase of $183 million, or 4.1 per cent over the previous year. The major factors contributing to the change are increases of $152 million in employee entitlements, $31 million in depreciation, $144 million in grants and transfer payments and $109 million in other expenses. These increases were partially offset by decreases of $178 million in superannuation, $33 million in write down on disposal of non-current assets, $12 million in borrowing costs and $146 million in supplies and consumables.

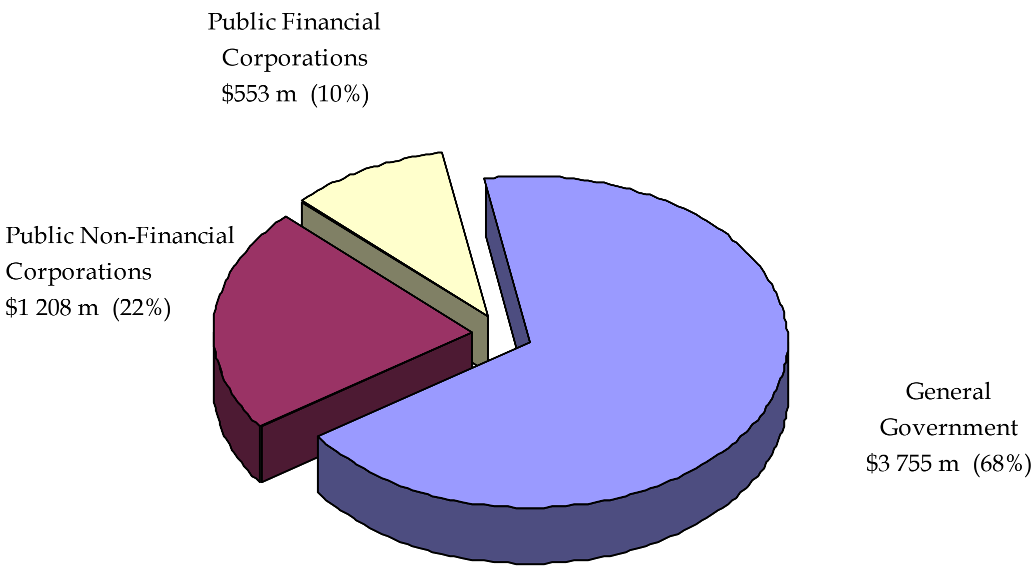
Expenses by category for 2003-04 and 2004–05 are shown in Figure 3.

Figure 3: Total expenses by category



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



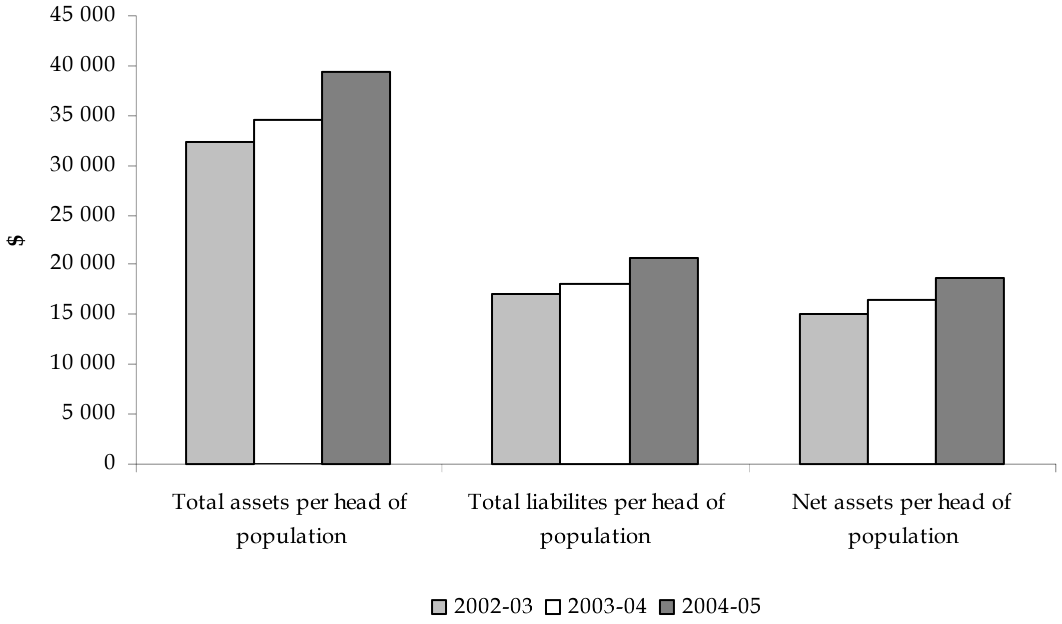
OVERVIEW OF THE STATE'S FINANCIAL POSITION

As at 30 June 2005, total assets of $19 025 million exceeded total liabilities of $9 998 million, resulting in net assets of $9 027 million. This compares with net assets of $7 961 million at 30 June 2004.

Based on a Tasmanian population of 483 952 at 30 June 2005, the net assets per head of population was $18 652, an increase of 13.0 per cent over 30 June 2004.

Figure 5 depicts net assets per head of population.

Figure 5: Net assets per head of population

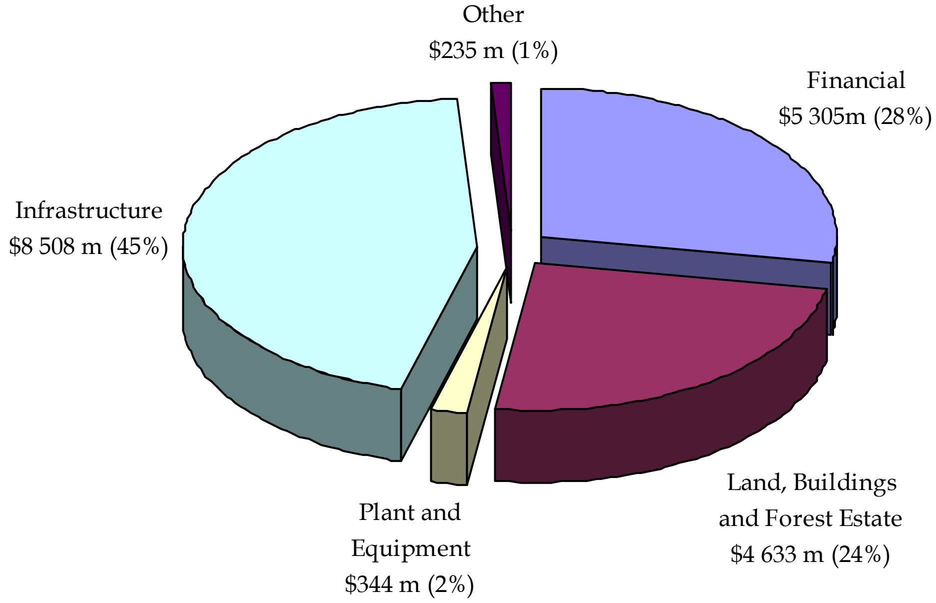


Assets

Total assets amounted to $19 025 million as at 30 June 2005, an increase of $2 371 million from 30 June 2004. Total assets consist of current assets of $3 446 million and non-current assets of $15 579 million.

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

Figure 6: Total assets by category

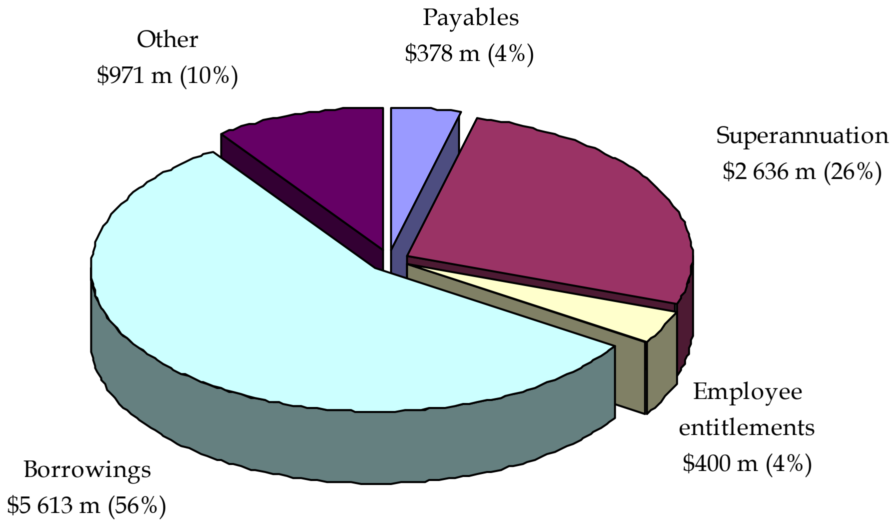


Liabilities

Total liabilities amounted to $9 998 million as at 30 June 2005, an increase of $1 305 million, or 15.0 per cent from 30 June 2004. Total liabilities consist of current liabilities of $3 844 million and non-current liabilities of $6 154 million.

Total liabilities by category are shown in Figure 7.

Figure 7: Total liabilities by category



Reconciliation between General Government 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 2004-05*, released in October 2005, presented the 2004-05 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.

The table below provides a reconciliation of the General Government Operating Surplus detailed in Note 2 of the Consolidated Financial Statements and the General Government Fiscal Surplus presented in the *Treasurer's Annual Financial Report 2004-05*.

Table 1: General Government Operating Surplus and Fiscal Surplus Reconciliation

	2004-05 Actual	2003-04 Actual
	$m	$m
General Government Operating Surplus/(Deficit) (GAAP basis)	**(211)**	**130**
Adjusted for:		
Proceeds on disposal of non-current assets	**(43)**	**(70)**
Written down value on disposal of non-current assets	**43**	**71**
Revaluation of superannuation liability	**(20)**	**161**
Other revaluation adjustments	**548**	**8**
Assets acquired below fair value	**(79)**	**(6)**
Expense for doubtful debts	**2**	**3**
General Government Net Operating Surplus (GFS basis)	**239**	**296**
Less: Net acquisition of non-financial assets	**29**	**(73)**
General Government Fiscal Surplus (GFS basis)	**211**	**369**

AUDITED FINANCIAL STATEMENTS

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 2005 and the financial position of the State as at 30 June 2005; 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

15 December 2005

OPINION OF THE AUDITOR-GENERAL

Tasmanian Audit Office

INDEPENDENT AUDIT REPORT

To the Treasurer of Tasmania

Consolidated Financial Statements for the State of Tasmania for the year ended 30 June 2005

Matters Relating to the Electronic Presentation of the Audited Consolidated Financial Statements

This audit report relates to the Consolidated Financial Statements for the State of Tasmania, published and on the website of the Department of Treasury and Finance for the year ended 30 June 2005. The Treasurer is responsible for the integrity of both the Report and the website.

The audit report refers only to the Consolidated Financial Statements. It does not provide an opinion on any other information, which may have been hyperlinked to/from the audited Consolidated Financial Statements.

If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited Consolidated Financial Statements.

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 2005.

The Department of Treasury and Finance takes 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.

Accountability on Your Behalf

I performed procedures to assess whether in all material respects, the Consolidated Financial Statements presents fairly, in accordance with Accounting Standards and other mandatory financial 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
- 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 2005, and the results of its operations and its cash flows for the year then ended.

Valuation of Land and Buildings

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1 I to the financial statements, the value of Land and Buildings is reported as being on a 'fair value' basis. However, I consider that not all of the land and buildings included in the consolidation to be up-to-date and have recommended in several instances that valuations be obtained before 30 June 2006.

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL

19 December 2005
HOBART

Accountability on Your Behalf

STATEMENT OF FINANCIAL PERFORMANCE

	Note	2004-05	2003-04
		$m	$m
Revenues			
Taxation	3	661	610
Fines and regulatory fees		34	32
Investment income	4	376	341
Grants	5	2 115	1 996
Sales of goods and services	6	1 549	1 415
Proceeds from disposal of non-current assets		74	105
Fair value of assets received free of charge or for nominal consideration		80	7
Other revenues	7	135	172
Total Revenues		5 026	4 678
Expenses			
Employee entitlements	8	1 599	1 447
Superannuation		272	450
Depreciation	9	398	367
Borrowing costs	10	374	386
Grants and transfer payments		531	387
Supplies and consumables	11	1 083	1 134
Cost of sale of goods		30	11
Write down on disposal of non-current assets		72	105
Other expenses	12	311	202
Total Expenses		4 672	4 489
OPERATING SURPLUS		353	189

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

STATEMENT OF FINANCIAL POSITION

	Note	2004-05	2003-04
		$m	$m
Assets			
Current assets			
Cash		75	58
Investments	13	2 883	1 233
Receivables	14	340	240
Prepayments		13	14
Accrued revenue		51	9
Tax assets		16	12
Other current assets	15	68	41
Total current assets		3 446	1 607
Non-current assets			
Investments	13	1 900	2 202
Receivables	14	27	76
Land, buildings and forest estate	16	4 633	3 559
Plant and equipment	17	344	684
Infrastructure	18	8 508	8 360
Other non-current assets	15	165	166
Total non-current assets		15 579	15 047
Total assets		19 025	16 654
Liabilities			
Current liabilities			
Payables	20	377	312
Borrowings	21	2 759	1 706
Employee entitlements	22	181	170
Superannuation	23	200	189
Accrued expenses		99	122
Tax liabilities		4	9
Other current liabilities	24	224	145
Total current liabilities		3 844	2 653
Non-current liabilities			
Payables	20	1	....
Borrowings	21	2 854	2 954
Employee entitlements	22	219	200
Superannuation	23	2 436	2 405
Other non-current liabilities	24	644	481
Total non-current liabilities		6 154	6 040
Total liabilities		9 998	8 693
NET ASSETS		9 027	7 961
Accumulated Surplus		3 511	3 158
Reserves		5 516	4 803
Total equity	32	9 027	7 961

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

STATEMENT OF CASH FLOWS

	Note	2004-05	2003-04
		$m	$m
Cash flows from operating activities			
Receipts			
Taxation		657	615
Fines and regulatory fees		32	33
Interest received		11	17
Grants		2 087	1 957
Sales of goods and services		1 471	1 560
GST receipts		206	210
Other receipts		365	115
Payments			
Employee entitlements		(1 495)	(1 387)
Superannuation		(205)	(179)
Interest paid		(13)	(22)
Grants and transfer payments		(510)	(379)
Supplies and consumables		(1 325)	(1 292)
GST payments		(227)	(199)
Other payments		(205)	(187)
Net Cash from Operating Activities	29	848	862
Cash flows from investing activities			
Proceeds from sales property plant and equipment		50	83
Purchase of property plant and equipment		(565)	(615)
Net purchase of investments		....	47
Net customer loans repaid		13	59
Net Cash used in Investing Activities		(502)	(426)
Cash flows from financing activities			
Increase/(Decrease) in borrowings		91	(189)
Finance lease principal repayments		....	....
Net Cash used in Financing Activities		91	(189)
Net Cash flows from/(to) Financial Institutions	30	335	(262)
Net increase/(decrease) in Cash Held		772	(15)
Cash at beginning of reporting period		58	73
CASH AND CASH EQUIVALENTS HELD AT 30 JUNE 2005	31	830	58

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 (GAAP), 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 (PNFC) and Public Financial Corporations (PFC).

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 34.

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 2005, or for part of the financial year ended on that date.

Uniform Presentation Framework

(a) General Government Sector

The General Government Sector comprises those agencies of government, the primary function of which is to provide public services which are mainly non-market in nature, for the collective consumption of the community, or which involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies.

(b) Public Non-Financial Corporations Sector

The PNFC Sector comprises those entities that aim to cover the majority of their expenses by revenue from the sales of goods and services and which are mainly market, non-regulatory and non-financial in nature. Generally, this Sector covers the State-owned Companies (SOCs) and Government Business Enterprises (GBEs). These entities have a variety of functions and responsibilities, are established in varying ways and also have different relationships with the Budget.

(c) Public Financial Corporations Sector

The PFC Sector comprises those entities that perform central bank functions or have the authority to incur financial liabilities and acquire financial assets in the market on their own account. In Tasmania, there are two organisations in this Sector. These are the Tasmanian Public Finance Corporation and the Motor Accidents Insurance Board.

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 will 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

Revenues are recognised in the Statement of Financial Performance when it is probable that the inflow or other enhancement or saving in outflows of future economic benefits has occurred and can be measured reliably.

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.

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 Australian Government 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 in the Statement of Financial Performance when it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred and the consumption or loss of future economic benefits can be measured reliably.

Employee entitlements

Employee entitlements include entitlements to wages and salaries, annual leave, sick leave, long service leave, and other post-employment benefits (other than superannuation).

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

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of their service potential.

Land, being an asset with an unlimited useful life, is not depreciated.

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.

Other 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 buildings, plant and equipment are generally 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 2004-05:

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

Borrowing costs

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

Borrowing costs include:

- interest on bank overdrafts and short term and long term borrowings;
- amortisation of discounts or premiums related to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- finance lease charges.

Grants and transfer payments

Grants are recognised to the extent that:

- the services required to be performed by the grantee have been performed; or
- the grant eligibility criteria have been satisfied.

A liability is recorded when the State has a binding agreement to make the grant but services have not been performed or criteria satisfied. Where grant monies are paid in advance of performance or eligibility, a prepayment is recognised.

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

Assets are recognised in the Statement of Financial Position when it is probable that the future economic benefits embodied in the asset will eventuate and the asset possesses a cost or other value that can be measured reliably.

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 at the amounts receivable as they are due for settlement. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubts exist as to collection.

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

The majority of land, buildings, infrastructure, heritage and cultural assets are 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.

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. In 2004-05, the policy for accounting for the native forest class of assets was changed. In the past the Australian Accounting Standard AAS 35 *Self-Generating and Regenerating* Assets was applied to value the assets. However, the native forest estate is deemed more in the nature of property plant and equipment. This change does not impact on hardwood or softwood plantations which remain appropriately accounted for under AAS 35. Roads are valued at written down replacement cost. For more detail on the forest estate valuation, refer to the 2004-05 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 assets; 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.

Electricity generation assets are recorded on a fair value basis. Fair value is determined on the basis of estimated future cash flows using assumptions based on commercial judgement and calculated by the application of expert knowledge from sources both internal and external to the Government. Fair values are reviewed at the end of each year to ensure that the carrying value of electricity generation assets is not materially different from their fair value.

The electricity transmission network assets are valued using the depreciated optimised replacement cost (DORC) methodology. For further details on this methodology, refer to Transend Networks Pty Ltd's 2004-05 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

Finance leases are leases that effectively transfer to the Government substantially all the risks and benefits incidental to ownership of the leased items. Finance leases are initially recognised as assets and liabilities equal in amount to the present value of the minimum lease payments. The assets are disclosed as Plant, Equipment and Vehicles under lease, and are amortised to the Statement of Financial Performance over the period during which the Government is expected to benefit from the use of leased assets. Minimum lease payments are allocated between interest expense and reduction of the lease liability, according to the interest rate implicit in the lease.

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 receivable 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 currency swap receivables in Note 15 and Note 1(N).

J. Liabilities

Liabilities are recognised in the Statement of Financial Position when it is probable that the future sacrifice of economic benefits will be required and the amount of the liability can be measured reliably.

Payables

Payables, including goods received and services incurred but not yet invoiced, are recognised when the State becomes obliged to make future payments as a result of a purchase of assets or services.

Borrowings

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

- loans raised by the Australian Government 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

Bank loans and other loans are recorded at historic cost.

Discounts and premiums are amortised over the life of the related financial instrument on the basis of yield at purchase, with the amortisation being taken to the Statement of Financial Performance as part of borrowing costs.

Employee entitlements

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at expected pay rates in respect of employees' services up to that date.

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

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 currency swap payables disclosed in Note 24 and Note 1(N).

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

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date. Associated gains and losses are not material.

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 disclosed at amortised cost and are not recognised in the Statement of Financial Position, 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. Where the result of expressing amounts to the nearest million dollars would result in an amount of zero, the financial statement will contain a note expressing the amount to the nearest whole dollar. 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

A number of significant differences in accounting policies will arise from the adoption of Australian Equivalents to International Financial Reporting Standards (AEIFRS) by all State Government entities. Some differences arise because AEIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AEIFRS.

It is also noted that, under AEIFRS, there are requirements that apply specifically to not-for-profit entities. Australian governments and their General Government Sector entities are considered to be not-for-profit entities because their objectives are incompatible with generating profit as a principal objective. The Department of Treasury and Finance is managing the transition to the 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.

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 AEIFRS 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 5 *Non-Current Assets Held for Sale* requires the re-classification and re-measurement of non-current assets classified as held for sale if its carrying amount will be recovered principally through its sale rather than through continuing use. Assets that meet the 'held for sale' criteria under the standard will be measured at the lower of carrying amount and fair value less costs to sell. Assets will cease to be depreciated while they are classified as held for sale. Under previous GAAP these assets were either classified as inventories at cost and/or property, plant and equipment at fair value. Accumulated depreciation (property, plant and equipment) will be de-recognised from the date of re-classification. The effect of this change is not expected to materially impact on equity.

- AASB 102 *Inventories* for not-for-profit entities requires inventories "held for distribution" at no, or nominal, cost to be valued at the lower of cost and current replacement cost rather than the lower of cost and net realisable value. This may increase the amount of inventories recognised.

- 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 reallocated.

- AASB 117 *Leases* requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensed in the financial year incurred.

- 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 assessment at each reporting date whether there is an indication that an asset is impaired. If such an indication exists, the entity must estimate 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 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 Instruments: 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. Tasmanian Government entities will apply the exemption provided in AASB 1, which allows the application of AASB 139 from 1 July 2005 without restatement of 2004-05 comparatives.

- AASB 140 *Investment Property* requires investment property to be measured at cost or fair value. The Treasurer's Instructions currently mandate the use of fair value. Investment property recognised at fair value is not depreciated and changes in fair value are recognised in the Statement of Financial Performance.
- AASB 112 *Income Taxes* requires a balance sheet approach where the entity must identify differences between the accounting and tax value of assets and liabilities. The previous approach was to account for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach will amend the level of deferred tax liability and tax assets recognised, in particular, a tax liability will now be recognised for revalued assets. This impact will only be reflected in the disaggregated financial information for the State as the impact will be eliminated in preparing the Consolidated Financial Statements for the State of Tasmania.

Financial Impact of Implementation of AEIFRS

The adoption of Australian Equivalents to International Financial Reporting Standards (AEIFRS) is expected to result in the following impact on the Consolidated Financial Statements for the State of Tasmania.

The amounts disclosed are the best estimates of the quantitative impact of the changes as at the date of preparing the 2004-05 financial report. The actual effects of transition to AEIFRS may differ from the estimates disclosed due to ongoing work being undertaken to assess the impact, potential amendments to AEIFRS, emerging accepted practice in the interpretation and application of AEIFRS and the resolution of any adjustments required to consolidate for-profit entities in a not-for-profit government entity.

	Note	2004-05
		$m
Statement of Financial Performance		
Net operating surplus – Current GAAP		**354**
Unfunded superannuation expense	(i)	(317)
Impairment loss	(ii)	(542)
Depreciation expense	(iii)	(7)
Net operating surplus – AEIFRS		**(512)**
Statement of Financial Position		
Net assets (liabilities) - Current GAAP		**9 027**
(Increase) decrease Unfunded superannuation liability	(i)	(985)
Increase (decrease) Fixed Asset values	(iii)	(31)
Other differences		(5)
Net assets (liabilities) - AEIFRS		**8 006**

Under AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards* any adjustment to Balance Sheet items, resulting from the first time adoption of AEIFRS, shall be recognised directly within retained earnings. Therefore, there will not be any effect upon the Statement of Financial Performance in 2004-05.

(i) The introduction of AEIFRS has resulted in a number of changes to the calculation of the Unfunded Superannuation Liability, which directly impacts upon the calculation of the corresponding Superannuation expense.

(ii) Under AEIFRS, asset impairment must be recognised as an expense in the current year whereas, under GAAP, the revaluation decrement has been applied against the Asset Revaluation Reserve.

(iii) The introduction of AEIFRS will impact on the carrying value of assets and as a consequence impact on depreciation charges.

Note 2 Disaggregated information

Disaggregated Statement of Financial Performance

	General Government		Public Non-Financial Corporations		Public Financial Corporations		Inter-Sector Eliminations		Consolidated	
	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Revenues										
Taxation	686	631	....	....	....	....	(24)	(21)	662	610
Fines and regulatory fees	34	32	....	....	....	....	....	....	34	32
Investment income	230	213	13	5	512	486	(379)	(363)	376	341
Grants	2 115	1 997	50	54	....	....	(51)	(55)	2 115	1 996
Sales of goods and services	250	234	1 223	1 107	114	92	(38)	(18)	1 549	1 415
Proceeds from disposal of non-current assets	43	70	4	7	27	28	....	....	74	105
Fair value of assets received free of charge or for nominal consideration	79	7	1	....	....	....	....	....	80	7
Other revenues	107	112	30	72	....	1	(2)	(13)	135	172
Total revenues	**3 544**	**3 296**	**1 322**	**1 245**	**653**	**607**	**(494)**	**(470)**	**5 026**	**4 678**
Expenses										
Employee entitlements	1 326	1 206	286	253	4	4	(6)	(6)	1 599	1 447
Superannuation	221	393	51	56	1	1	....	...	272	450
Depreciation	183	166	214	200	....	1	....	....	398	367
Borrowing costs	49	67	124	121	408	387	(207)	(189)	374	386
Grants and transfer payments	574	430	13	11	....	....	(56)	(54)	531	387
Supplies and consumables	738	793	278	354	2	2	(29)	(15)	988	1 134
Cost of sale of goods	2	....	124	11	....	....	....	....	125	11
Write down on disposal of non-current assets	43	71	12	6	17	28	....	....	72	105
Other expenses	620	40	106	62	121	109	(536)	(9)	311	202
Total expenses	**3 755**	**3 166**	**1 208**	**1 074**	**553**	**532**	**(845)**	**(283)**	**4 672**	**4 489**
Operating Surplus before Income Tax Equivalents and Dividends	**(211)**	**130**	**114**	**171**	**100**	**75**	**351**	**(187)**	**354**	**189**
Income tax equivalents	....	....	(75)	(77)	(33)	(22)	109	99	....	....
Dividends	....	....	(73)	(73)	(6)	(6)	79	79	....	....
Operating Surplus after Income Tax Equivalents and Dividends	**(211)**	**130**	**(34)**	**21**	**61**	**47**	**539**	**(9)**	**354**	**189**

Note 2 – Disaggregated information (continued)

Disaggregated Statement of Financial Position

	General Government		Public Non-Financial Corporations		Public Financial Corporations		Inter-Sector Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets										
Current assets										
Cash	623	685	46	82	57	3	(651)	(712)	75	58
Investments	24	35	250	33	3 585	2 414	(976)	(1 249)	2 883	1 233
Receivables	125	360	222	140	3	....	(10)	(260)	340	240
Prepayments	5	8	8	6	....	....	....	....	13	14
Accrued revenue	8	8	27	13	62	....	(46)	(12)	51	9
Tax assets	172	11	10	10	....	....	(166)	(9)	16	12
Other current assets	12	10	47	38	10	102	....	(109)	68	41
Total current assets	**969**	**1 117**	**609**	**322**	**3 716**	**2 519**	**(1 849)**	**(2 351)**	**3 446**	**1 607**
Non-current assets										
Investments	3 810	4 248	26	20	3 456	3 548	(5 392)	(5 614)	1 900	2 202
Receivables	25	47	3	29	....	....	....	....	27	76
Land, buildings and forest estate	3 847	2 729	775	820	11	10	....	....	4 633	3 559
Plant and equipment	179	182	164	501	1	1	....	....	344	684
Infrastructure	3 633	3 412	4 875	4 948	....	....	....	....	8 508	8 360
Tax assets	....	....	113	112	....	....	(113)	(112)	....	....
Other non-current assets	22	11	52	69	90	86	....	....	165	166
Total non-current assets	**11 518**	**10 629**	**6 008**	**6 499**	**3 558**	**3 645**	**(5 505)**	**(5 726)**	**15 579**	**15 047**
TOTAL ASSETS	**12 487**	**11 746**	**6 617**	**6 821**	**7 275**	**6 164**	**(7 354)**	**(8 077)**	**19 025**	**16 654**
Liabilities										
Current liabilities										
Payables	41	51	193	99	150	162	(6)	....	377	312
Borrowings	307	262	120	301	3 652	2 494	(1 319)	(1 351)	2 760	1 706
Employee entitlements	136	125	45	44	1	1	....	....	181	170
Superannuation	147	141	53	48	....	....	....	....	200	189
Accrued expenses	32	31	43	52	65	78	(40)	(39)	99	122
Tax liabilities	1	13	33	30	5	....	(34)	(34)	4	9
Other current liabilities	54	67	41	42	135	146	(7)	(110)	224	145
Total current liabilities	**717**	**690**	**527**	**616**	**4 007**	**2 881**	**(1 406)**	**(1 534)**	**3 844**	**2 653**
Non-current liabilities										
Payables	1	....	....	....	....	....	....	....	1	....
Borrowings	341	615	1 918	1 574	2 518	2 663	(1 922)	(1 898)	2 854	2 954
Employee entitlements	193	185	26	15	....	....	....	....	219	200
Superannuation	2 146	2 101	289	303	1	1	....	....	2 436	2 405
Tax liabilities	....	....	232	233	19	2	(251)	(235)	....	....
Other non-current liabilities	81	65	26	32	537	486	(1)	(102)	644	481
Total non-current liabilities	**2 762**	**2 966**	**2 491**	**2 157**	**3 075**	**3 152**	**(2 174)**	**(2 235)**	**6 154**	**6 040**
TOTAL LIABILITIES	**3 478**	**3 656**	**3 018**	**2 773**	**7 082**	**6 033**	**(3 580)**	**(3 769)**	**9 998**	**8 693**
NET ASSETS	**9 009**	**8 090**	**3 599**	**4 048**	**193**	**131**	**(3 774)**	**(4 308)**	**9 027**	**7 961**

Note 3 Taxation revenue

	2004-05	2003-04
	$m	$m
Payroll tax	175	152
Financial transaction taxes	169	168
Gambling taxes	81	78
Land tax	44	27
Motor vehicle tax and fees	119	112
Fire service levies	25	39
Other taxation receipts	49	34
TOTAL	661	610

Note 4 Investment income

	2004-05	2003-04
	$m	$m
Interest	322	263
Dividends	15	11
Gains/losses on investments	39	67
TOTAL	376	341

Note 5 Grants revenue

	2004-05	2003-04
	$m	$m
Commonwealth General Purpose Grants		
GST Revenue	1 444	1 396
Competition Payments	20	17
Total Commonwealth General Purpose Grants	1 464	1 413
Commonwealth Specific Purpose Grants	424	379
Commonwealth Capital Grants	45	29
Other Grants and Subsidies	182	176
TOTAL	2 115	1 996

Note 6 Sales of goods and services

	2004-05	2003-04
	$m	$m
Sales of goods	233	191
Sales of services	1 316	1 224
TOTAL	1 549	1 415

Note 7 Other revenues

	2004-05	2003-04
	$m	$m
Revenue on revaluation of non-current assets	45	25
Other revenue	90	147
TOTAL	135	172

Note 8 Employee entitlements

	2004-05	2003-04
	$m	$m
Salaries and wages	1 552	1 399
Long service leave	15	21
Workers' compensation contributions	5	8
Other	27	19
TOTAL	1 599	1 447

Note 9 Depreciation

	2004-05	2003-04
	$m	$m
Depreciation in respect of:		
Buildings	69	51
Plant and equipment	75	77
Infrastructure	251	225
Other	3	14
TOTAL	398	367

Note 10 Borrowing costs

	2004-05	2003-04
	$m	$m
Interest on borrowings	374	386
TOTAL	374	386

Note 11 Supplies and consumables

	2004-05	2003-04
	$m	$m
Advertising and promotion	36	31
Consultants	43	34
Maintenance and property services	167	146
Communications	37	40
Information technology	59	55
Travel and transport	49	55
Medical, surgical and pharmacy supplies	105	92
Other	587	681
TOTAL	1 083	1 134

Note 12 Other expenses

	2004-05	2003-04
	$m	$m
Asset write downs	118	....
MAIB specific expenses	119	108
Other	74	94
TOTAL	311	202

Note 13 Investments

	2004-05	2003-04
	$m	$m
Current investments		
Loan advances	37	40
Short term deposits, bills and other securities	2 057	324
Equity investments	444	469
Government and institutional securities	345	400
Total current investments	2 883	1 233
Non-current investments		
Loan advances	313	322
Long term deposits, bills and other securities	1 571	1 867
Equity investments	17	13
Total non-current investments	1 900	2 202
TOTAL	4 784	3 435

Note 14 Receivables

	2004-05	2003-04
	$m	$m
Current receivables		
Trade receivables	356	227
Other	19	47
Less provision for doubtful debts	(35)	(34)
Total current receivables	340	240
Non-current receivables		
Trade receivables	16	46
Other	11	30
Less provision for doubtful debts	....	....
Total non-current receivables	27	76
TOTAL	367	316

Note 15 Other assets

	2004-05	2003-04
	$m	$m
Other current assets		
Forest estate inventories	26	21
Other inventories	29	10
Swap prepayment	8	
Accrued interest	....	8
Cross currency swap receivables	2	2
Other	4	0
Total other current assets	68	41
Other non-current assets		
Cross currency swap receivables	53	47
Swap prepayments	37	22
Other	75	97
Total other non-current assets	165	166
TOTAL	233	207

Note 16 Land, buildings and forest estate

	2004-05	2003-04
	$m	$m
Land at valuation	1 640	929
Buildings at valuation	2 914	2 958
Less accumulated depreciation	(261)	(748)
	2 653	2 210
Forest estate at valuation	340	420
TOTAL	4 633	3 559

Note 17 Plant and equipment

	2004-05	2003-04
	$m	$m
Plant and equipment at cost	758	1 066
Less accumulated depreciation	(414)	(382)
TOTAL	344	684

Note 18 Infrastructure

	2004-05	2003-04
	$m	$m
Infrastructure at valuation	10 710	11 396
Less accumulated depreciation	(2 202)	(3 036)
TOTAL	8 508	8 360

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 2004	3 559	684	8 360	12 603
Add asset purchases	118	120	359	597
Less asset sales	(23)	(41)	(5)	(69)
Add/(Less) asset revaluations	960	....	(322)	638
Less depreciation expense	(65)	(75)	(251)	(386)
Other movements	65	(337)	363	79
Work in progress	20	(6)	6	20
Carrying amount at 30 June 2005	4 633	344	8 508	13 485

Note 20 Payables

	2004-05	2003-04
	$m	$m
Trade creditors	221	94
Other	157	218
TOTAL	377	312

Note 21 Borrowings

	2004-05	2003-04
	$m	$m
Current borrowings		
Non-Commonwealth	2 746	1 692
Debt due to Commonwealth	13	13
Finance leases	....	1
Total current borrowings	2 759	1 706
Non-current borrowings		
Non-Commonwealth	2 606	2 694
Debt due to Commonwealth	248	260
Finance leases	1	....
Total non-current borrowings	2 854	2 954
TOTAL	5 613	4 660

Note 22 Employee entitlements

	2004-05	2003-04
	$m	$m
Current employee entitlements		
Accrued salaries and wages	23	17
Annual leave	113	108
Long service leave	40	44
Other employee entitlements	5	1
Total current employee entitlements	181	170
Non-current employee entitlements		
Annual leave	2	15
Long service leave	212	185
Other employee entitlements	6	....
Total non-current employee entitlements	219	200
TOTAL	400	370

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 2005, based on actuarial valuations, is summarised as follows:

2004-05

	Retirement Benefits Act 1993	Parliamentary Superannuation Fund	Parliamentary Retiring Benefits Fund	Judges' Contributory Pensions Act 1968	Total
	$ m	**$ m**	**$ m**	**$ m**	**$ m**
Vested benefits	**4 177**	**18**	**8**	**25**	**4 228**
Accrued benefits	**3 791**	**18**	**7**	**27**	**3 843**
Less net market value of plan Assets	**(1 194)**	**(6)**	**(7)**	**....**	**(1 207)**
Deficit	**2 597**	**12**	**....**	**27**	**2 636**
Classified as:					
Current	**196**	**2**	**....**	**4**	**200**
Non-current	**2 403**	**10**	**....**	**23**	**2 436**
TOTAL	**2 597**	**12**	**....**	**27**	**2 636**

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 accrued benefit liability represents the total discounted value of all employees' entitlements as at 30 June 2005. 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.

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

Note 24 Other liabilities

	2004-05	2003-04
	$m	$m
Current other liabilities		
Revenue received in advance	87	20
Provision for outstanding and unreported claims in MAIB	73	77
Cross Currency swap payables	3	14
Other	61	34
Total current other liabilities	224	145
Non-current other liabilities		
Provision for outstanding and unreported claims in MAIB	528	459
Cross currency swap payables	1	6
Other	114	16
Total non-current other liabilities	644	481
TOTAL	868	626

Note 25 Commitments

A Commitments for capital expenditure

At 30 June 2005, 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.

	2004-05	2003-04
	$m	$m
Not later than 1 year	216	303
Later than 1 year and no later than 5 years	192	59
Later than 5 years	3	3
TOTAL	411	365

B Operating lease commitments

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

	2004-05	2003-04
	$m	$m
Not later than 1 year	72	66
Later than 1 year and no later than 5 years	189	192
Later than 5 years	152	157
TOTAL	414	415

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:

	2004-05	2003-04
	$m	$m
Not later than 1 year	....	....
Later than 1 year and no later than 5 years	1	1
Later than 5 years	....	....
Minimum lease payments	....	....
Less future finance charges	....	....
TOTAL	1	1

D Other commitments

At the reporting date, the Government had the following obligations under arrangements other than finance and operating leases and capital commitments. From 2004-05, Other commitments includes forecast Basslink Facility Fee payments totalling $2 300 million as recognised by Hydro Tasmania.

	2004-05	2003-04
	$m	$m
Not later than 1 year	162	77
Later than 1 year and no later than 5 years	457	70
Later than 5 years	2 019	2
TOTAL	2 638	149

Note 26 Contingent liabilities

Contingent liabilities represent items that, at 30 June 2005, 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

2004-05

	General Government Entities	Public Non-Financial Corporations	Public Financial Corporations	Total
	$m	$m	$m	$m
Guarantees	....	155	....	155
Claims relating to insurance (excluding claims by employees for personal injuries)	....	....	....	....
Deferred start swaps:				
Receive fixed	....	....	34	34
Pay fixed	....	....	282	282
Other	....	2	....	2
Total contingent liabilities - quantifiable	....	157	316	473

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**

Contingent liabilities - not quantifiable

Contingent liabilities represent items that, at 30 June 2005, 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 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.

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 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 the action cannot proceed unless, and until, the plaintiff obtains leave to proceed. The application for such leave is likely to be heard in the Supreme Court during 2005-06 ; and
  - Recovery action against Watts Communications (Canada) as parent company and guarantor of a financial assistance package provided to Watts Communication (Australia) in connection with

the Devonport Call Centre Facility. Crown Law is overseeing proceedings against the guarantor to recover funds advanced for failure to comply with terms and conditions of the package.

- Claims against the Department of Education relating to a personal injury on the Department's premises.
- Claims against the Department of Health and Human Services relating to public liability claims by former patients.
- 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;
  - Unresolved dispute in relation to the Westbury-Hagley bypass; and
  - Other contractual disputes.
- Claims against the Department of Police and Public Safety relating to usage of the mobile radio network. This dispute is with Ericsson and is brought jointly against the Crown (DPPS) and Hydro Tasmania.
- Claims against the Department of Tourism, Parks, Heritage and the Arts relating to personal injury and contractual claims.
- Claims against the Department of Treasury and Finance relating to a number of warranties under various sale agreements relating to the divestment of Government businesses.
- 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 Annual Financial Report* for the year ended 30 June 2005.

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 2005 and 30 June 2004 to interest rate risk and the effective interest rates of financial assets and financial liabilities is shown in the following tables:

2004-05

	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	72	1	....	....	2	75
Investments	5.96	1 584	2 290	356	546	8	4 784
Receivables	n/a	18	....	....	....	348	367
Cross currency swap receivables	6.01	108	0	(53)	....	....	55
		1 782	2 292	303	546	358	5 280
Financial Liabilities							
Payables	n/a	144	10	....	....	224	378
Borrowings	5.49	354	2 484	1 955	821	0	5 614
Basslink facility fee instrument	7.40	599	....	....	(599)	....	....
Cross currency swap payables	5.86	(6)	33	....	(30)	....	(4)
		1 091	2 526	1 955	192	224	5 988

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	7.40	599			(599)		....
Cross currency swap payables	5.65	28	....	(67)	58	....	19
		1 055	1 423	2 014	349	151	4 992

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
2004-05				
Japanese Yen	147	12	(159)	....
US Dollars	....	182	(182)	....
Euros	....	40	(40)	....
TOTAL	147	234	(381)	....
2003-04				
Japanese Yen	283	41	(324)	....
US Dollars	....	202	(202)	....
Euros	....	44	(44)	....
TOTAL	283	287	(570)	....

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	2004-05 Exposure	2003-04 Exposure
	$m	$m
Interest rate swaps	**122**	**179**
Basslink facility fee instrument	**64**	**92**
Foreign exchange contracts	**174**	**108**
Forward Rate Agreement	**15**	**32**
TOTAL	**375**	**411**

Net fair value

The carrying amounts and estimated fair values of recognised financial instruments held at 30 June 2005 and 30 June 2004 are as follows:

2004-05

	2004-05 Net fair value	2004-05 Carrying value
	$m	$m
Financial assets		
Cash	75	75
Investments	4 815	4 784
Receivables	367	367
TOTAL	5 256	5 225
Financial liabilities		
Payables	378	378
Borrowings	5 658	5 614
Finance leases	1	1
TOTAL	6 037	5 993
Unrecognised Financial instruments		
Interest rate swaps	38	....
Foreign Exchange	1	....
Cross currency swaps	44	....
Basslink Financial Facility Fee and Service Agreement	710	....
TOTAL	793	....

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 and Service Agreement	(675)	...
TOTAL	(702)	...

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

	2004-05	2003-04
	$m	$m
Operating Surplus	354	189
Non-cash movements		
Depreciation and amortisation	398	367
Gross proceeds from sale of fixed assets	(74)	(105)
Written down value of assets sold	72	105
Increase/(decrease) in payables	66	113
Increase/(decrease) in employee entitlements	31	(63)
Increase/(decrease) in superannuation	41	273
Increase/(decrease) in accrued expenses	(23)	(31)
Increase/(decrease) in other liabilities	127	(79)
(Increase)/decrease in receivables	(51)	(48)
(Increase)/decrease in prepayments	2	(4)
(Increase)/decrease in accrued revenue	(42)	(2)
(Increase)/decrease in other assets	(22)	(49)
(Increase)/decrease in tax assets	(4)	12
Assets acquired below fair value	(80)	....
Adjustment for other non-cash items	(56)	86
Net Cash from Operating Activities (including financial institutions)	739	764
Less Financial Institutions Net Cash from Operating Activities	(109)	(98)
Net Cash from Operating Activities	848	862

Note 30 Statement of Net Cash Flows from/(to) Financial Institutions

In accordance with AAS 31 *Financial Reporting by Governments*, the net cash flows of financial institutions are disclosed in the Consolidated Statement of Cash Flows separately to other cash flows from operating, investing and financing activities. The net cash flows of public sector financial institutions comprise:

	2004-05	2003-04
	$m	$m
	Inflows	Inflows
	(Outflows)	(Outflows)
Cash Flow from Operating Activities		
Receipts		
Interest received	263	235
Other receipts	....	131
Payments		
Employee entitlements	....	(3)
Interest paid	(370)	(368)
Other payments	(2)	(93)
Net Cash used in Operating Activities	(109)	(98)
Cash Flows from Investing Activities		
Purchase of property plant and equipment	27	....
Net Customer Loans (Granted)/Repaid	(9)	....
Net purchase of investments	(269)	(660)
Net Cash used in Investing Activities	(251)	(660)
Cash Flows from Financing Activities		
Net borrowings	695	496
Net Cash used in Financing Activities	695	496
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS	335	(262)

Note 31 Closing cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash includes cash on hand, cash at bank and investments in highly liquid money market instruments. The definition of cash for the purposes of the Consolidated Statement of Cash Flows is defined differently to cash reported in the Consolidated Statement of Financial Position.

	2004-05	2003-04
	$m	$m
Cash as per Statement of Financial Position	75	58
Investments included as cash on the Statement of Cash Flows	755	....
Cash as per the Statement of Cash Flows	830	58

Note 32 Reconciliation of changes in equity

	Total	Accumulated Surplus	Asset Revaluation Reserve	Other Reserves
	$m	$m	$m	$m
Balance at 1 July 2004	**7 961**	**3 158**	**3 758**	**1 045**
Operating surplus / (deficit)	353	353	....	....
Revaluation increments (decrements)	638	....	638	
Other movements	75	....	....	75
Balance at 30 June 2005	**9 027**	**3 511**	**4 396**	**1 120**

Note 33 Asset revaluation reserve

	Opening Balance	Revaluation Increments/ (Decrements)	Closing Balance
	$m	$m	$m
Land, buildings and forest estates	1 063	960	2 023
Plant and equipment	14	....	14
Infrastructure	2 661	(322)	2 339
Other	20	....	20
TOTAL	3 758	638	4 396

Note 34 Details of controlled entities

The following controlled entities of the State are included in the Consolidated Financial Statements for the year ended 30 June 2005:

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 Water 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.