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Index to notes accompanying the Consolidated Financial Statements

EXECUTIVE SUMMARY

ANALYSIS OF TOTAL STATE SECTOR OPERATING RESULT

The following financial analysis compares current year Total State Sector revenues and expenses, on an accrual accounting basis, with prior year amounts which have been adjusted for the effect of transition to Australian Equivalents to International Financial Reporting Standards (AEIFRS).

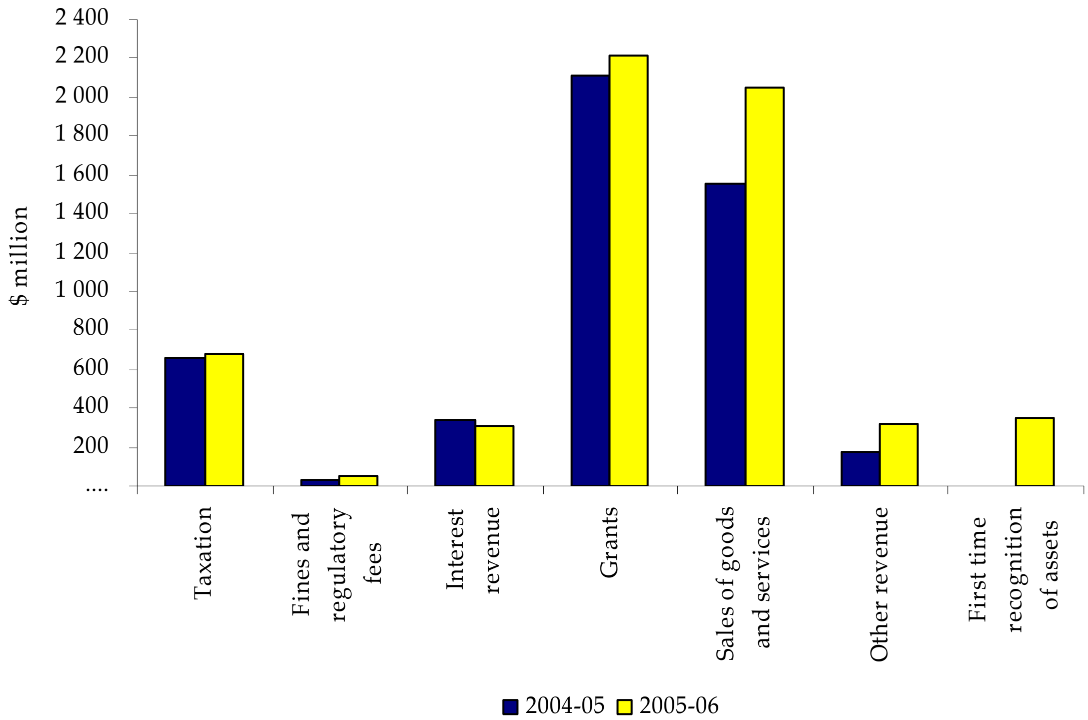
The 2005-06 operating result shows a surplus of $881 million, an increase of $1 578 million from the deficit of $697 million recorded in 2004-05. This is the result of an increase of $1 076 million in revenues, and a decrease of $500 million in expenses.

Revenues

Total revenues for the year ended 30 June 2006 were $5 960 million, an increase of $1 076 million, or 22.0 per cent, over the previous year. Increased revenue arose from increases in grants received ($98 million), taxation revenue ($17 million), fines and fees collected ($14 million), sales of goods and services ($497 million), primarily due to entry to the National Electricity Market (NEM) by a number of Public Non-Financial Corporations, and first time recognition of assets ($353 million), primarily the Tasmanian Museum and Art Gallery collection.

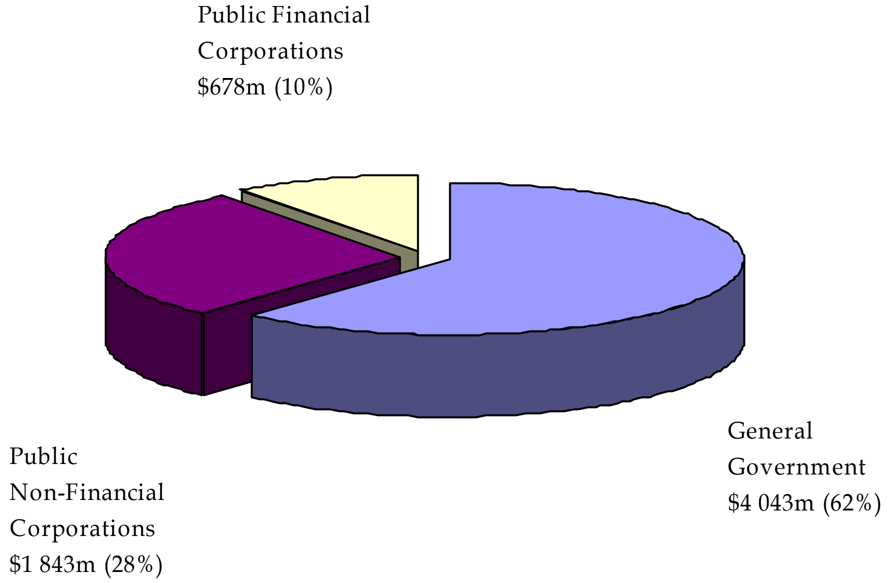
Total revenues by category for 2004-05 and 2005–06 are shown in figure 1.

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.

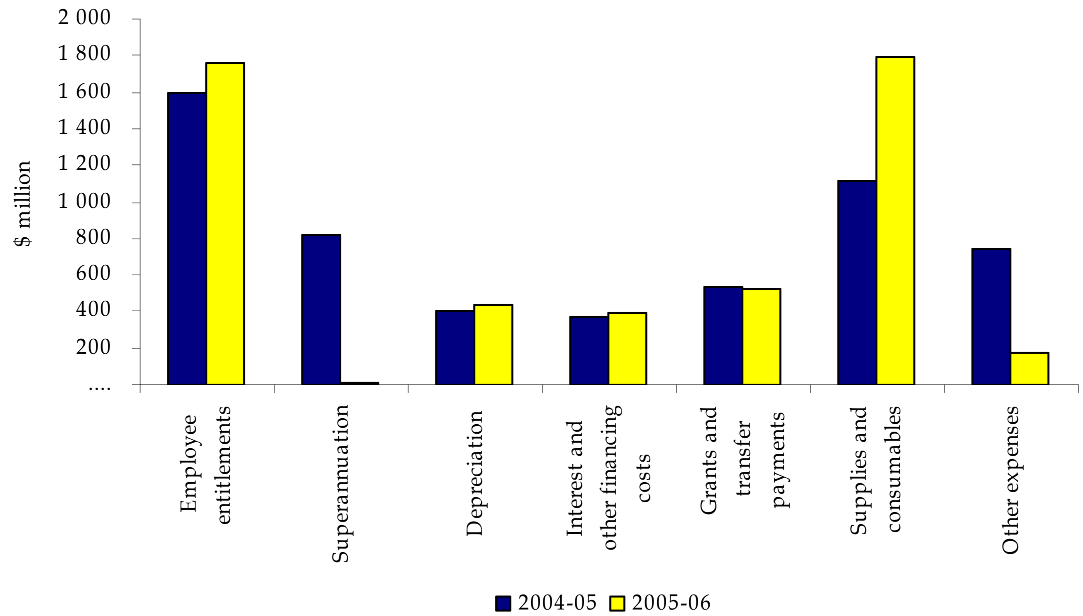
Figure 2: Disaggregated sector revenues



Expenses

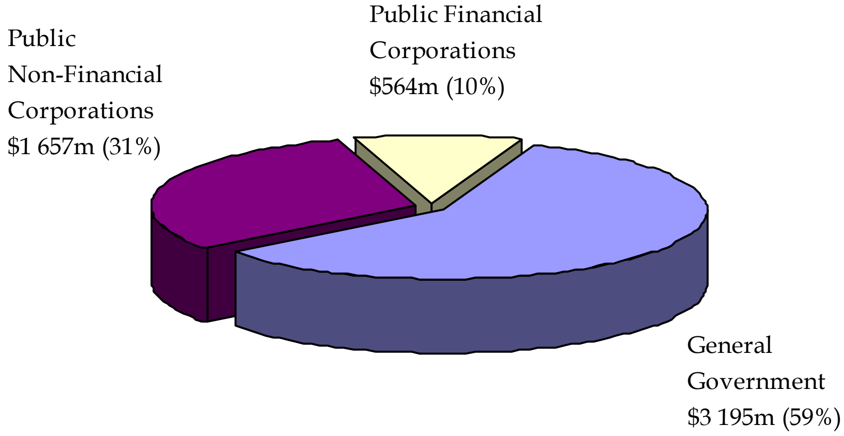
Total expenses for the year ended 30 June 2006 were $5 080 million, a decrease of $500 million, or 9.0 per cent over the previous year. The major factors contributing to the change are decreases of $812 million in the superannuation expense, primarily due to the actuarial revaluation of the superannuation liability, and $585 million in other expenses. These decreases are partially offset by increases of $171 million in employee entitlements, $29 million in depreciation, and $681 million in supplies and consumables. Expenses by category for 2004-05 and 2005-06 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



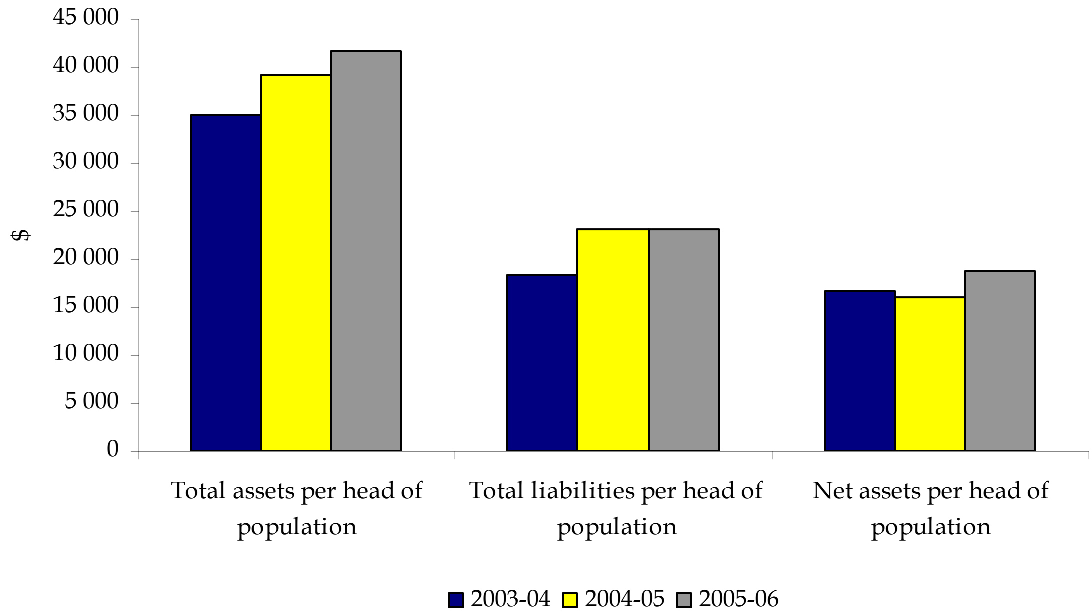
OVERVIEW OF THE STATE'S FINANCIAL POSITION

As at 30 June 2006, total assets of $20 376 million exceeded total liabilities of $11 262 million, resulting in net assets of $9 114 million. This compares with net assets of $7 741 million at 30 June 2005.

Based on a Tasmanian population of 488 700 at 30 June 2006, the net assets per head of population was $18 649, an increase of 16.6 per cent over 30 June 2005.

Figure 5 depicts net assets per head of population.

Figure 5: Net assets per head of population

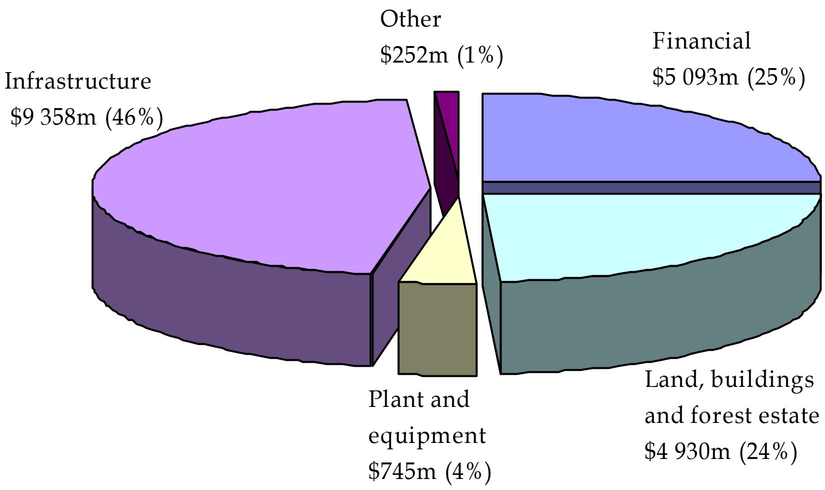


Assets

Total assets amounted to $20 376 million as at 30 June 2006, an increase of $1 420 million from 30 June 2005. Total assets consist of financial assets of $5 093 million and non-financial assets of $15 284 million.

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

Figure 6: Total assets by category

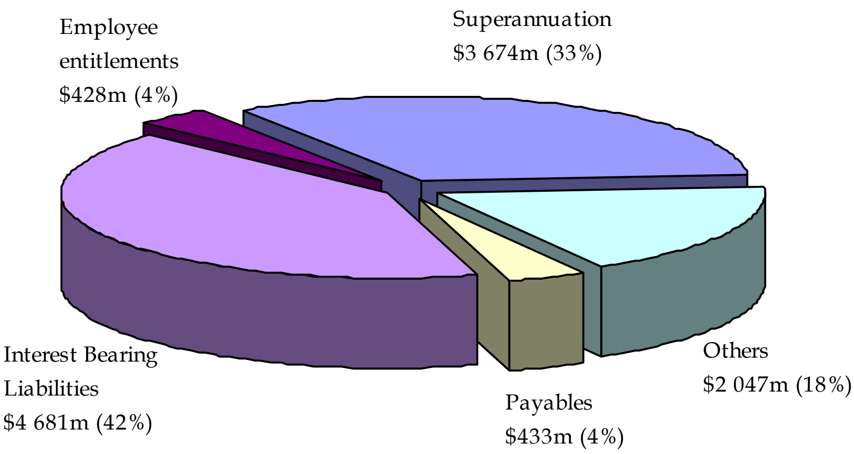


Liabilities

Total liabilities amounted to $11 262 million as at 30 June 2006, an increase of $47 million, or 0.4 per cent from 30 June 2005.

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 2005-06*, released in October 2006, presented the 2005-06 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 the disaggregated note (Note 2) of the Consolidated Financial Statements and the General Government Fiscal Surplus presented in the *Treasurer's Annual Financial Report 2005-06*.

Table 1: General Government Operating Surplus and Fiscal Surplus Reconciliation

	2005-06 Actual	2004-05 Actual
	$m	**$m**
General Government Operating Surplus (AEIFRS basis)	**848**	**(602)**
Adjusted for:		
Proceeds on disposal of non-current assets	(4)	(43)
Written down value on disposal of non-current assets	16	43
Revaluation of superannuation liability	(307)	505
Other revaluation adjustments	(25)	413
East Tamar Highway funding	(60)	….
First time recognition of assets	(353)	(79)
Expense for doubtful debts	5	2
General Government Net Operating Surplus (GFS basis)	**120**	**239**
Less: Net acquisition of non-financial assets	37	29
General Government Fiscal Surplus (GFS basis)	**83**	**211**

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 2006 and the financial position of the State as at 30 June 2006; and
- have been prepared in accordance with applicable Australian Accounting Standards, in particular AAS 31 *Financial Reporting by Governments*.

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.

Michael Aird
TREASURER

D W Challen
SECRETARY
Department of Treasury and Finance

19 December 2006

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 2006

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 on the website of the Department of Treasury and Finance for the year ended 30 June 2006. 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 income statement, balance sheet, cash flow statement, statement of recognised income and expenses, 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 2006.

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. 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

Accountability on Your Behalf

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 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:

a) Present fairly, in all material respects, the financial position of the State of Tasmania as at 30 June 2006, and the results of its operations, cash flows and changes in equity for the year then ended; and

b) Are in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL

22 December 2006
HOBART

Accountability on Your Behalf

INCOME STATEMENT

	Note	2005-06	2004-05
		$m	$m
Revenues			
Taxation	3	679	661
Fines and regulatory fees		48	34
Investment income	4	307	337
Grants	5	2 213	2 115
Sales of goods and services	6	2 051	1 554
Gain (loss) on sale of non-financial assets		(13)	2
First time recognition of assets		353	7
Other revenue	7	322	172
Total Revenues		5 960	4 884
Expenses			
Employee entitlements	8	1 762	1 591
Superannuation		7	819
Depreciation	9	433	404
Borrowing costs	10	396	374
Grants and transfer payments		526	531
Supplies and consumables	11	1 796	1 115
Other expenses	12	161	746
Total Expenses		5 080	5 580
OPERATING SURPLUS		881	(697)

The Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET

	Note	2005-06	2004-05
		$m	$m
Assets			
Financial assets			
Cash		29	75
Investments	13	4 305	4 784
Receivables	14	462	367
Prepayments		15	13
Accrued revenue		16	51
Tax assets		14	16
Other financial assets	15	251	122
Total financial assets		5 093	5 428
Non-financial assets			
Inventory	16	56	55
Investment property	17	31	8
Assets held for sale	18	118	9
Intangibles	19	47	18
Land, buildings and forest estate	20	4 930	4 621
Plant and equipment	21	745	361
Infrastructure	22	9 358	8 456
Total non-financial assets		15 284	13 528
Total assets		20 376	18 956
Liabilities			
Payables	24	386	380
Interest bearing liabilities	25	4 681	5 677
Employee entitlements	26	428	387
Superannuation	27	3 674	3 841
Accrued expenses		47	35
Tax liabilities		2	5
Other liabilities	28	2 045	890
Total liabilities		11 262	11 216
NET ASSETS		9 114	7 741
Accumulated surplus		4 670	3 789
Reserves		4 444	3 952
Total equity	36	9 114	7 741

The Balance Sheet should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

	Note	2005-06	2004-05
		$m	$m
Cash flows from operating activities			
Receipts			
Taxation		680	657
Fines and regulatory fees		37	32
Interest received		7	11
Grants		2 257	2 087
Sales of goods and services		2 194	1 471
GST receipts		131	206
Other receipts		372	365
Payments			
Employee entitlements		(1 736)	(1 495)
Superannuation		(193)	(205)
Interest paid		(12)	(13)
Grants and transfer payments		(547)	(510)
Supplies and consumables		(1 802)	(1 325)
GST payments		(140)	(227)
Other payments		(377)	(205)
Net Cash from Operating Activities	33	871	848
Cash flows from investing activities			
Proceeds from sales of property plant and equipment		57	50
Purchase of property plant and equipment		(667)	(565)
Net purchase of investments		8	....
Net customer loans repaid		(45)	13
Net Cash used in Investing Activities		(647)	(502)
Cash flows from financing activities			
Increase/(Decrease) in borrowings		6	91
Net Cash from Financing Activities		6	91
Net Cash flows from/(to) Public Financial Institutions	34	(588)	335
Net increase/(decrease) in Cash Held		(358)	772
Cash at beginning of reporting period		830	58
CASH AND CASH EQUIVALENTS HELD AT 30 JUNE 2006	35	472	830

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	2005-06	2004-05
		$m	$m
Income and expenses recognised directly in equity			
Increase/(Decrease) in Asset Revaluation Reserve	37	548	904
Other movements	36	(57)	121
Net income recognised directly in equity		491	1 025
Net surplus/(deficit) for the period		881	(697)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD		1 372	328

The Statement of Recognised Income and Expense 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.

The Australian Accounting Standards Board (AASB) adopted the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005 by issuing Australian Equivalents to International Financial Reporting Standards (AEIFRS) which comprise a Framework for the Preparation and Presentation of Financial Statements, Australian Accounting Standards (AAS) and Urgent Issues Group (UIG) Interpretations. These are the first Consolidated Financial Statements prepared on an AEIFRS basis by the State. The date of transition was 1 July 2004 and the Consolidated Financial Statements have been prepared in accordance with AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards*. Existing AASB standards that have no AEIFRS equivalent will continue to apply, in particular AAS 31 *Financial Reporting by Governments.*

A statement of compliance with International Financial Reporting Standards cannot be made due to the application of not-for-profit entity requirements contained in AEIFRS (no equivalent standard exists in IFRS).

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 in accordance with the historic cost convention, 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.

The Financial Statements are presented in Australian dollars.

C. Government reporting entity

The government reporting entity includes government departments, government statutory authorities, Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC). The State of Tasmania is a not-for-profit reporting entity for accounting purposes.

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 39.

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 2006, or for part of the financial year ended on that date.

Uniform Presentation Framework

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.

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.

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, 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 Income Statement 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. Where dissimilar accounting policies are implemented by individual State controlled entities that result in material differences, to ensure consistent accounting policies for the State, the differences will be adjusted in these consolidated financial statements. Commitments and contingent liabilities of reporting entities are consolidated and are disclosed in Notes 29 and 30 respectively.

E. New accounting standards issued but not effective

The following accounting standards, amendments and Urgent Issues Group Interpretations have been issued, but are not yet effective, and have not been adopted:

- AASB 7 Financial instruments disclosures;
- AASB 119 Employee Benefits;
- AASB 2004-03 Amendments to Australian Accounting Standards [AASB 1, 101 & 124];
- AASB 2005-01 Amendments to Australian Accounting Standards [AASB 139];
- AASB 2005-5 Amendments to Australian Accounting Standards [AASB 1 & AASB 139];

- AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132];
- AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 138];
- AASB 2006-1 Amendments to Australian Accounting Standards [AASB 121]; and
- UIG 4, 5, 6, and 7.

It is considered impracticable to presently determine the impact of adopting these standards.

F. 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.

G. 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.

H. Income

Income is recognised in the Income Statement when an increase in future economic benefits related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably.

Taxation

Revenue from State taxation and from fees and fines 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 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 revenue 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 are recognised as part of other revenue. The only entity within the consolidation to bring net unrealised gains/losses to account is the Motor Accidents Insurance Board.

Grants

Grants payable by the Australian Government are recognised as revenue 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 are recognised when the good is provided and title has passed. Revenue from the provision of services is recognised when the service has been provided.

Gain (Loss) from the sale of non-financial assets

A gain or loss from the sale of non-financial assets is recognised when control of the asset has passed to the buyer.

I. Expenses

Expenses are recognised in the Income Statement when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that 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 is 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 2005-06:

Asset Class	*Useful Life*
Buildings	30 - 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;
- unwinding of discounting of provisions;
- 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.

J. Assets

Assets are recognised in the Balance Sheet when it is probable that the future economic benefits will flow to the State and the asset has a cost or other value that can be measured reliably.

Cash and cash equivalents

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

Receivables

Trade receivables are recognised at the amounts receivable as they are due for settlement. Impairment of receivables is reviewed on an annual basis. Impairment losses are recognised when there is an indication that there is a measurable decrease in the collectability of receivables.

Investments

Having adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* on 1 July 2005, the State has taken the available exemption under AASB 1 to not restate comparative amounts for the previous year for these standards. The accounting policies for the periods ended 30 June 2006 and 30 June 2005 are stated below:

Financial assets in the scope of AASB 139 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale investments, as appropriate. When financial assets are initially recognised they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. All routine purchases and sales of financial assets are recognised on the trade date i.e. the date that the State commits to purchase the asset.

Financial assets held for trading

Financial assets classified as held for trading are stated at fair value through the Income Statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the Income Statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the State has the intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held to maturity are subsequently measured at amortised cost. For investments carried at amortised cost, gains and losses are recognised in the Income Statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Income Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the preceding categories. After initial recognition, available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Income Statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

Entities required to report under Australian Accounting Standard AASB 1023 *General Insurance Contracts* have valued their investments at net market value. Any movements in the value of investments between reporting dates are recognised as gains or losses in the Income Statement.

Other Financial Assets

Other financial assets are initially recorded at fair value. Other financial assets consist primarily of derivative transactions that were entered into as designated hedges of underlying physical positions or as designated hedges of portfolio interest rate risk. Derivative financial instruments are recorded in the Balance Sheet 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. Derivative financial instrument receivables are the opposite of this.

Inventories

Inventories held for resale are valued at the lower of cost and net realisable value. Inventories held for distribution are valued at the lower of cost and current replacement cost.

Assets held for sale

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Investment Property

Investment property is recorded at fair value. Property interests held under operating leases are not classified and accounted for as investment property. Changes in the fair value of investment property are recorded as income or expenses in the Income Statement. Investment property is not depreciated.

Intangibles

An intangible asset is recognised where:

- it is probable that an expected future benefit attributable to the asset will flow to the State; and
- the cost of the asset can be reliably measured.

Intangible assets held by the State are valued at fair value where an active market exists and are amortised on a straight line basis over their estimated useful life. Where no active market exists, intangibles are recorded at cost less amortisation and impairment losses.

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. Assets held by the Tasmanian Ports Corporation Pty Ltd and electricity generation assets held by Hydro Tasmania are valued at cost or deemed cost.

All other classes of non-current assets, including plant and equipment are valued at historic cost.

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. Increases or decreases in revaluations of native forests are recognised in the Asset Revaluation Reserve. Increments or decrements in the net market value of the plantation forest asset are recognised as revenues or expenses in the financial year in which they occur. The net increment or decrement in total net present value is determined as the difference between the net present value at the beginning of the year and at the end of the year after adding back the net present value of forest harvested during the year.

Plant and equipment

Plant and equipment is recognised at historical 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 at cost less accumulated depreciation and accumulated impairment. The transitional "deemed" cost adopted for hydro generation assets, which had previously been reported at fair value, was the fair value reported at 30 June 2004 after transitional adjustments.

Electricity transmission and distribution network assets are measured at fair value based on the depreciated optimised replacement cost (DORC) methodology. For further details on this methodology, refer to the annual reports of Transend Networks Pty Ltd and Aurora Energy Pty Ltd.

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 have an infinite life, no depreciation has been applied.

Museum collections

The Tasmanian Museum and Art Gallery collections fall under the control of Trustees of the Tasmanian Museum and Art Gallery. During 2006, a valuation of the collections of the Tasmanian Museum and Art Gallery was conducted and the collection was valued as at 30 June 2004, 2005 and

2006. This is the first year that a value for the collection has been disclosed in the Consolidated Financial Statements and therefore they have not been depreciated.

Leases

Finance leases are leases that effectively transfer to the State 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. 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 29B.

Impairment of Assets

Property, plant and equipment, infrastructure and intangible assets are tested for any indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount of the asset is estimated. Where the recoverable amount is less than the carrying amount, the asset is written down to the recoverable amount and an impairment loss is recognised. As the State reports on the basis of a not-for-profit sector, unless an asset has been identified as a surplus asset, the recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated or where the replacement cost is falling. Each relevant class of asset is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

Intangible assets not yet available for use or with an indefinite useful life are tested for impairment each reporting period irrespective of whether there is any indication of impairment.

K. Liabilities

Liabilities are recognised in the Balance Sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

Payables

Payables, including goods received and services incurred but not yet invoiced, are recognised at the nominal amount when an obligation exists to make future payments as a result of a purchase of assets or services.

Interest Bearing Liabilities

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

Having adopted AASB 132 and AASB 139 on 1 July 2005, the State has taken the available exemption under AASB 1 to not restate comparative amounts for the previous year for these standards. The accounting policies for the periods ending 30 June 2006 and 30 June 2005 are stated below:

Accounting Policy applicable for the year ended 30 June 2006

Borrowings are predominantly conducted by the Tasmanian Public Finance Corporation which operates within the capital markets as the central financing authority of the State. Borrowings are initially recognised at cost, being the fair value of the net proceeds received. Subsequent fair value measurements are based upon the market value of current lending rates for similar borrowings with remaining maturities consistent with the debt being valued. Unrealised gains or losses arising from changes in fair value are recognised in the Income Statement.

Accounting Policy applicable for the year ended 30 June 2005

Borrowings were measured at face value adjusted for unamortised discount or premium, unrealised exchange gains or losses and accrued interest applicable to each item. The discount or premium was amortised over the life of the related instrument on the basis of yield at purchase, with the amortisation expensed as interest.

Employee entitlements

Liabilities for wages and salaries and annual leave are recognised when the employee becomes entitled to receive the benefit. Those liabilities expected to be realised within 12 months are measured as the amount expected to be paid. Other employee entitlements are measured as the present value of the benefit at 30 June 2006, where the impact of discounting is material, and at the amount expected to be paid if discounting is not material.

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 AASB 119 *Employee Benefits*, 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 27.

Other liabilities

Other liabilities are recognised at the estimated amounts payable. However, a significant proportion of other liabilities relates to derivative financial instruments in relation to Basslink and outstanding motor accident and workers' compensation claims – claims reported but not yet paid. The accounting treatment for derivative financial instruments is outlined below

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.

L. Derivative financial instruments

Certain of the State's controlled entities enter into derivative financial instruments to manage the financial risks associated with particular financial exposures such as foreign currency and interest rates, inherent in the State's financial asset and liability management activities. Those entities entered into derivative financial instruments including electricity price swaps, interest rate swaps, futures, options, forward rate agreements and foreign exchange contracts to manage the risks relating to the State's financial exposures.

Having adopted AASB 132 and AASB 139 on 1 July 2005, the State has taken the available exemption under AASB 1 to not restate comparative amounts for the previous year for these standards. The accounting policies for the periods ending 30 June 2006 and 30 June 2005 are stated below:

Accounting Policy applicable for the year ended 30 June 2006

Derivatives are initially recognised at fair value on the date the transaction is entered into and are subsequently remeasured to their fair value. Any change in fair value is recognised through the Income Statement.

Accounting Policy applicable for the year ended 30 June 2005

Gains and losses on derivatives used as hedges were accounted for on the same basis as the underlying physical exposures they were hedging. Accordingly, hedge gains and losses were included in the Income Statement when the gains and losses arising from the related underlying physical exposures were recognised in the Income Statement.

M. Commitments

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

N. 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 30.

O. 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 at balance date. Associated gains and losses are not material.

P. 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.

Q. Comparative information

Comparative information has been restated, with the exception of the requirements of AASB 139 which is only applicable from 1 July 2005.

The Income Statement and Balance Sheet for the year ended 30 June 2005 have been restated on an AEIFRS basis. Financial instrument comparative information is presented on the previous Australian Generally Accepted Accounting Principles (AGAAP) basis.

R. Accounting judgments, estimates and assumptions

In the preparation of the consolidated financial statements, public sector entities are required to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported revenue and costs during the reported period.

On an ongoing basis the public sector and its controlled entities evaluate estimates and judgements in relation to assets, liabilities, contingent liabilities, revenue and costs based on historical experience and on various other factors (such as discount rates used in estimating provisions and estimating the useful life of key assets) that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Note 2 Disaggregated information

Disaggregated Income Statement

	General Government		Public Non-Financial Corporations		Public Financial Corporations		Inter-Sector Eliminations		Consolidated	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Revenues										
Taxation	703	686	….	….	….	….	(24)	(25)	679	661
Fines and regulatory fees	48	34	….	….	….	….	….	….	48	34
Investment Income	221	230	15	13	420	512	(349)	(418)	307	337
Grants	2 215	2 115	75	50	….	….	(77)	(50)	2 213	2 115
Sales of goods and services	298	250	1 675	1 228	118	114	(40)	(38)	2 051	1 554
Gain (loss) on sale of non-financial assets	…	…	(14)	(7)	….	10	1	(1)	(13)	2
First time recognition of assets	353	6	…	…	….	….	….	1	353	7
Other revenue	205	109	92	28	140	….	(115)	35	322	172
Total revenues	**4 043**	**3 430**	**1 843**	**1 312**	**678**	**636**	**(603)**	**(496)**	**5 960**	**4 884**
Expenses										
Employee entitlements	1 474	1 324	285	267	4	4	(1)	(4)	1 762	1 591
Superannuation	(1)	706	8	112	…	1	….	….	7	819
Depreciation	206	183	227	221	…	….	….	….	433	404
Borrowing costs	28	49	118	124	420	408	(170)	(207)	396	374
Grants and transfer payments	592	574	11	13	…	….	(77)	(56)	526	531
Supplies and consumables	829	740	1 006	399	2	2	(41)	(26)	1 796	1 115
Other expenses	68	456	2	677	108	(2)	(17)	(385)	161	746
Total expenses	**3 195**	**4 033**	**1 657**	**1 813**	**534**	**413**	**(306)**	**(678)**	**5 080**	**5 580**
Operating Surplus before Income Tax Equivalents and Dividends	**848**	**(602)**	**186**	**(501)**	**144**	**223**	**(297)**	**183**	**881**	**(697)**
Income tax equivalents	….	….	(51)	98	(40)	(73)	91	(25)	….	….
Dividends	….	….	(73)	(73)	(19)	(6)	92	79	….	….
Operating Surplus after Income Tax Equivalents and Dividends	**848**	**(602)**	**61**	**(476)**	**84**	**144**	**(113)**	**237**	**881**	**(697)**

Note 2 Disaggregated information (continued)

Disaggregated Balance Sheet

	General Government		Public Non-Financial Corporations		Public Financial Corporations		Inter-Sector Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets										
Fianncial assets										
Cash	607	623	74	55	2	57	(653)	(660)	29	75
Investments	3 106	2 953	207	267	6 164	7 041	(5 172)	(5 477)	4 305	4 784
Receivables	163	150	284	224	16	3	(1)	(10)	462	367
Prepayments	9	5	7	8	…	….	(1)	….	15	13
Accrued revenue	14	8	2	27	17	62	(17)	(47)	16	51
Tax assets	854	884	72	165	5	5	(917)	(1 038)	14	16
Other financial assets	16	1	170	22	65	100	….	(1)	251	122
Total financial assets	**4 769**	**4 625**	**816**	**769**	**6 268**	**7 268**	**(6 760)**	**(7 234)**	**5 093**	**5 428**
Non-Financial assets										
Inventory	13	11	43	44	…	….	….	….	56	55
Investment property	10	8	8	…	12	….	….	….	31	8
Assets held for sale	8	9	110	1	…	….	….	(1)	118	9
Intangibles	7	4	40	14	….	….	….	….	47	18
Land, buildings and forest estate	4 125	3 835	804	775	….	11	….	….	4 930	4 621
Plant and equipment	557	197	185	163	1	1	….	….	745	361
Infrastructure	3 916	3 633	5 442	4 823	…	….	….	….	9 358	8 456
Total non-financial assets	**8 637**	**7 697**	**6 633**	**5 819**	**13**	**12**	**1**	**(1)**	**15 284**	**13 528**
Total assets	**13 405**	**12 321**	**7 449**	**6 588**	**6 281**	**7 280**	**(6 759)**	**(7 235)**	**20 376**	**18 956**
Liabilities										
Payables	72	42	241	194	73	149	….	(5)	386	380
Interest bearing liabilities	405	647	1 930	2 038	5 128	6 169	(2 782)	(3 177)	4 681	5 677
Employee entitlements	356	319	71	67	1	2	….	(1)	428	387
Superannuation	3 199	3 331	472	509	2	2	1	(1)	3 674	3 841
Accrued expenses	17	32	44	14	…	….	(14)	(11)	47	35
Tax liabilities	1	1	861	977	58	26	(918)	(999)	2	5
Other liabilities	237	145	1 057	98	751	747	....	(100)	2 045	890
Total Liabilities	**4 287**	**4 517**	**4 675**	**3 897**	**6 013**	**7 095**	**(3 713)**	**(4 294)**	**11 262**	**11 216**
NET ASSETS	**9 118**	**7 804**	**2 774**	**2 691**	**268**	**185**	**(3 046)**	**(2 939)**	**9 114**	**7 741**

Note 3 Taxation revenue

	2005-06	2004-05
	$m	$m
Payroll tax	197	175
Financial transaction taxes	152	169
Gambling taxes	79	81
Land tax	49	44
Motor vehicle tax and fees	121	119
Fire service levies	41	40
Other taxation receipts	39	34
TOTAL	679	661

Note 4 Investment income

	2005-06	2004-05
	$m	$m
Interest	306	322
Dividends	1	15
TOTAL	307	337

Note 5 Grants revenue

	2005-06	2004-05
	$m	$m
General Purpose Payments		
GST Revenue	1 504	1 444
Competition Payments	19	20
Total General Purpose Payments	1 523	1 464
Specific Purpose Payments	443	424
Australian Government Capital Grants	46	45
Other Grants and Subsidies	202	182
TOTAL	2 213	2 115

Note 6 Sales of goods and services

	2005-06	2004-05
	$m	$m
Sales of goods	356	233
Sales of services	1 696	1 321
TOTAL	2 051	1 554

Note 7 Other revenue

	2005-06	2004-05
	$m	$m
Revenue on revaluation of non-current assets	16	45
Gains on investments	177	39
Other revenue	130	88
TOTAL	322	172

Note 8 Employee entitlements

	2005-06	2004-05
	$m	$m
Salaries and wages	1 722	1 552
Long service leave	12	15
Other	28	24
TOTAL	1 762	1 591

Note 9 Depreciation

	2005-06	2004-05
	$m	$m
Depreciation in respect of:		
Buildings	72	69
Plant and equipment	71	75
Infrastructure	279	257
Other	10	3
TOTAL	433	404

Note 10 Borrowing costs

	2005-06	2004-05
	$m	$m
Interest on borrowings	332	374
Losses on financial assets and liabilities	64	....
TOTAL	396	374

Note 11 Supplies and consumables

	2005-06	2004-05
	$m	$m
Advertising and promotion	29	36
Consultants	31	43
Maintenance and property services	264	167
Communications	31	37
Information technology	55	59
Travel and transport	42	49
Medical, surgical and pharmacy supplies	118	105
Cost of sales of goods and services	657	125
Other	569	493
TOTAL	1 796	1 115

Note 12 Other expenses

	2005-06	2004-05
	$m	$m
MAIB specific expenses	108	119
Impairment losses	2	548
Workers' compensation contributions	4	5
Other	46	74
TOTAL	161	746

Note 13 Investments

	2005-06	2004-05
	$m	$m
Current investments		
Loan advances	177	37
Short term deposits, bills and other securities	3 286	2 057
Equity investments	613	444
Government and institutional securities	57	345
Total current investments	4 133	2 883
Non-current investments		
Loan advances	84	313
Long term deposits, bills and other securities	2	1 571
Equity investments	86	17
Total non-current investments	172	1 900
TOTAL	4 305	4 784

Note 14 Receivables

	2005-06	2004-05
	$m	$m
Current receivables		
Trade receivables	423	356
Other	60	19
Less provision for doubtful debts	(37)	(35)
Total current receivables	446	340
Non-current receivables		
Trade receivables	....	16
Other	16	11
Less provision for doubtful debts	....	....
Total non-current receivables	16	27
TOTAL	462	367

Note 15 Other financial assets

	2005-06	2004-05
	$m	$m
Other current financial assets		
Derivative financial instruments	87	100
Other	19	4
Total other current financial assets	106	104
Other non-current financial assets		
Derivative financial instruments	145	....
Other	....	19
Total other non-current financial assets	145	19
TOTAL	251	122

Note 16 Inventory

	2005-06	2004-05
	$m	$m
Forestry estate inventories	21	26
Other inventories	35	29
TOTAL	56	55

Note 17 Investment property

	2005-06	2004-05
	$m	$m
Land	6	4
Buildings	25	4
Infrastructure	1	....
TOTAL	31	8

Note 18 Assets held for sale

	2005-06	2004-05
	$m	$m
Current assets		
Land	8	9
Infrastructure	110	....
TOTAL	118	9

Note 19 Intangibles

	2005-06	2004-05
	$m	$m
a) Carrying amount		
Intangible assets	**112**	**73**
Less Accumulated amortisation	**(65)**	**(55)**
TOTAL	**47**	**18**
b) Reconciliation of movements		
Carrying amount 1 July	**18**	**21**
Additions	**39**	**4**
Amortisation expense	**(10)**	**(7)**
Carrying amount 30 June	**47**	**18**

Note 20 Land, buildings and forest estate

	2005-06	2004-05
	$m	$m
Land		
Land at fair value	**1 681**	**1 613**
Land at cost	**44**	**27**
Total land	**1 725**	**1 640**
Buildings		
Buildings at fair value	**2 862**	**2 805**
Buildings at cost	**111**	**100**
Less accumulated depreciation	**(105)**	**(261)**
Less provision for impairment	**(3)**	**(3)**
Total Buildings	**2 865**	**2 641**
Forest Estate	**339**	**340**
TOTAL	**4 930**	**4 621**

Note 21 Plant and equipment

	2005-06	2004-05
	$m	$m
Plant and equipment at cost	860	775
Less accumulated depreciation	(115)	(414)
TOTAL	745	361

Note 22 Infrastructure

	2005-06	2004-05
	$m	$m
Infrastructure at fair value	9 603	10 658
Less accumulated depreciation	(245)	(2 202)
TOTAL	9 358	8 456

Note 23 Reconciliation of non-current assets

	Land, buildings and forest estates	Plant and equipment	Infrastructure	Total
	$m	$m	$m	$m
Carrying amount at 1 July 2005	4 621	361	8 456	13 437
Add Asset purchases	245	61	399	705
Add Tasmanian Museum and Art Gallery Collection	....	344	....	344
Less asset sales	(32)	(18)	(152)	(202)
Add/(Less) Asset revaluations	185	1	362	548
Add Hydro Tasmania's restatement of assets	....	....	748	748
Less Impairment losses	....	(3)	(32)	(35)
Transfer to Assets held for sale	(5)	....	(110)	(115)
Less Depreciation expense	(105)	(115)	(212)	(433)
Other movements	22	113	(101)	34
Carrying amount at 30 June 2006	4 930	745	9 358	15 032

Note 24 Payables

	2005-06	2004-05
	$m	$m
Trade creditors	295	223
Other	91	157
TOTAL	386	380

Note 25 Interest bearing liabilities

	2005-06	2004-05
	$m	$m
Current borrowings		
Domestic and foreign borrowings	1 934	2 746
Debt due to Australian Government	6	13
Prison redevelopment loan	31	....
Total current borrowings	1 971	2 759
Non-current borrowings		
Domestic and foreign borrowings	2 467	2 670
Debt due to Australian Government	242	248
Finance leases	....	1
Total non-current borrowings	2 709	2 919
TOTAL	4 681	5 677

Note 26 Employee entitlements

	2005-06	2004-05
	$m	$m
Current employee entitlements		
Accrued salaries and wages	27	23
Annual leave	125	105
Long service leave	49	35
Other employee entitlements	26	5
Total current employee entitlements	227	168
Non-current employee entitlements		
Annual leave	5	2
Long service leave	197	212
Other employee entitlements	....	6
Total Non-current employee entitlements	202	219
TOTAL	428	387

Note 27 Superannuation

A. Type of Plan

The major schemes currently operating in the Tasmanian public sector, that have an unfunded liability, are those established under the *Retirement Benefits Act 1993*, the former *Parliamentary Superannuation Act 1973*, the former *Parliamentary Retiring Benefits Act 1985* and the *Judges' Contributory Pensions Act 1968*.

In November 2002, Parliament approved legislation that repealed the *Parliamentary Superannuation Act 1973* and the *Parliamentary Retiring Benefits Act 1985* with effect from 31 December 2002. The scheme details have been reproduced as regulations made under the *Retirement Benefits Act 1993*, namely the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002.* The legislation made the Parliamentary Superannuation Fund (PSF) and the Parliamentary Retiring Benefits Fund (PRBF) sub-funds of the Retirement Benefits Fund (RBF). As a consequence, the RBF Board became the trustee of these funds and the Parliamentary Superannuation and Retiring Benefits Trust (PSRBT) ceased to exist. This decision, which followed a recommendation from the PSRBT to take such action, has not altered the benefits payable to PSF or PRBF members, but will provide administrative efficiencies and reduce costs.

These schemes, which are now all closed to new entrants, provide superannuation arrangements for public sector employees generally, Members of Parliament, the judiciary and statutory legal officers.

(i) Retirement Benefits Fund Scheme

The RBF Scheme was established under the *Retirement Benefits Act 1970*, but was continued under the *Retirement Benefits Act 1982* and the *Retirement Benefits Act 1993*. Scheme details are contained in the *Retirement Benefits Regulations 2005*.

The RBF contributory scheme is an unfunded defined benefits scheme. Those eligible contribute between five per cent and 15 per cent of salary, and voluntary contributions may be made. This scheme was closed to new entrants from 15 May 1999, with new employees appointed on or after that date initially becoming members of the RBF non-contributory scheme.

The RBF non-contributory scheme was an unfunded accumulation (or defined contribution) scheme for those employees not eligible to join the contributory scheme. The employer contributions in respect of non-contributory employees were at the rate required by the Commonwealth's *Superannuation Guarantee (Administration) Act 1992*. The scheme was closed on 25 April 2000 with the establishment of the fully funded Tasmanian Accumulation Scheme (TAS).

Simultaneous with the introduction of the Retirement Benefits Regulations in 1994, the Superannuation Provision Account (SPA) was established in the Special Deposits and Trust Fund (SDTF). Contributions by agencies and certain statutory authorities in respect of the accruing liability in relation to current employees (11 per cent of salary for contributory members and, until 25 April 2000, the appropriate Superannuation Guarantee rate for non-contributory scheme members) have been credited to the Account, as have interest and supplementary contributions from the Consolidated Fund to assist in meeting the unfunded liability. Agencies have also been required to make a "gap" payment for all permanent employees appointed on or after 15 May 1999. Employer contributions in respect of TAS members or members of other complying superannuation schemes are paid directly to the RBF Board or the complying superannuation scheme.

Payments to current RBF pensioners and lump sum benefits with respect to retiring employees are met from the SPA.

In fully paying the employer contribution into the SPA, individual agencies discharge their superannuation liability, which is then met by the Crown.

An independent actuarial assessment is undertaken into the RBF Scheme as at 30 June each financial year. In the valuation, the actuary includes liabilities of Government Business Enterprises (GBEs), State-owned Companies and other statutory authorities, as part of the overall RBF Scheme valuation.

The net liability as at 30 June 2006 is based upon the latest available actuarial assessment, which was undertaken as at that date. The net liability does not take into account the SPA balance.

As a consequence of the *Public Sector Superannuation Reform Act 1999* (Reform Act), the RBF defined benefit scheme was closed to new entrants with effect from 15 May 1999. New public sector employees appointed after that date are now members of the fully funded TAS or an alternative complying superannuation scheme of their choice. Thus, there are no liabilities pertaining to employees covered by these arrangements.

The Retirement Benefit Fund also administers three separate funds, *Housing Tasmania's Superannuation Scheme*, *Tasmanian Ambulance Service Superannuation Scheme* and the *State Fire Commission Superannuation Scheme*.

(ii) Parliamentary Superannuation Fund

The PSF is a defined benefit pension scheme established under the provisions of the former *Parliamentary Superannuation Act 1973,* and continued under the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002*, and is the older of the two Parliamentary schemes in operation. The scheme was closed to new members in 1985, but remained open to parliamentarians who, having been first elected before that date, were subsequently re-elected to Parliament after a period out of office. The 1999 reforms closed this scheme to parliamentarians re-elected as described above and therefore allows no parliamentarians to re-enter the scheme.

The PSF is an unfunded scheme, with the employer share of the benefits being met by the Government on an emerging cost basis.

An actuarial valuation of the scheme was undertaken as at 30 June 2006.

(iii) Parliamentary Retiring Benefits Fund

The PRBF is a closed defined benefit lump sum scheme established under the provisions of the former *Parliamentary Retiring Benefits Act 1985* and continued under the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002*. The scheme covers those members of Parliament first elected after 12 November 1985 and before 1 July 1999. New parliamentarians elected after 1 July 1999 automatically become members of the TAS unless they elect to join a private complying superannuation scheme.

The Government currently funds this scheme at the rate of 23.4 per cent of salary for each member of the scheme, together with administration expenses. This is above the scheme design level of 22.5 per cent of salary, and arises from the recommendation of the actuary that the Government's contribution be equal to 2.6 times member contributions.

An actuarial valuation of the scheme was undertaken as at 30 June 2006.

(iv) Judges' Scheme

Superannuation arrangements for judges are specified in the *Judges' Contributory Pensions Act 1968* (Judges' Act). There is no Judges' Superannuation Fund as such, with the contributions made by judges (at the rate of five per cent of salary) being deposited in, and all benefits being met from, the Consolidated Fund.

The Judges' Scheme is a defined benefit scheme that was closed to new entrants with effect from 1 July 1999. Prior to that date, the Solicitor-General, the Director of Public Prosecutions and the Master of the Supreme Court were also members of this scheme. Judges and statutory legal officers appointed after that date become members of TAS unless they elect to join a private complying superannuation scheme.

The Judges' Scheme is an unfunded scheme in respect of employer contributions, with all the benefits being met by the Government on an emerging cost basis.

(v) Housing Tasmania's Scheme

Housing Tasmania is required to meet the emerging cost of pension payments paid in respect of retired employees, where those employees had a superannuation entitlement that accrued before 1 July 1994.

(vi) Tasmanian Ambulance Service Superannuation Scheme

The Tasmanian Ambulance Service Superannuation Scheme is a defined benefit scheme, which was open to permanent employees who were employed prior to 30 June 2006. The scheme was closed to new members from 30 June 2006 and transferred to the Retirement Benefits Fund Board. Under the new arrangement, the trustee, fund administration and investment functions were transferred.

(vii) State Fire Commission Superannuation Scheme

The State Fire Commission Superannuation Scheme is a defined benefit scheme, which was established for permanent uniformed employees of the Tasmanian Fire Service. The scheme was closed to new members from 1 July 2005 and transferred to the Retirement Benefits Fund Board on 1 May 2005. Under the new arrangement, the trustee, fund administration and investment functions were transferred. For the following tables, details regarding this scheme are presented as part of the Total Retirement Benefits Fund Scheme.

B. Superannuation Liability

2005-06

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme	Total
	$m	$m	$m	$m	$m	$m
Present value of liability	**4 989**	**29**	**31**	**15**	**27**	**5 092**
Fair value of plan assets	**(1 371)**	**(14)**	**....**	**....**	**(33)**	**(1 419)**
Total	**3 618**	**15**	**31**	**15**	**(6)**	**3 674**
Due within 12 months	**179**	**2**	**1**	**2**	**(6)**	**179**
Due in more than 12 months	**3 439**	**13**	**30**	**13**	**....**	**3 495**
Total	**3 618**	**15**	**31**	**15**	**(6)**	**3 674**

The following properties are controlled by the RBFTAS and are included with the fair value of plan assets:

- 39 Sandy Bay Road, Hobart
- 104 Hampton Road, Hobart

2004-05

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme	Total
	$m	$m	$m	$m	$m	$m
Present value of liability	**4 989**	**31**	**33**	**17**	**29**	**5 100**
Fair value of plan assets	**(1 218)**	**(13)**	**....**	**....**	**(28)**	**(1 259)**
Total	**3 771**	**18**	**33**	**17**	**1**	**3 841**
Due within 12 months	**188**	**1**	**3**	**3**	**1**	**196**
Due in more than 12 months	**3 583**	**17**	**30**	**14**	**....**	**3 645**
Total	**3 771**	**18**	**33**	**17**	**1**	**3 841**

C. Key actuarial assumptions

2005-06

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme
	%	%	%	%	%
Discount rate	5.20	5.20	5.20	5.70	5.80
Expected return on assets	7.00	7.00	....	7.00	7.00
Expected rate of salary increases	4.50	4.00	4.50	4.50	5.00

2004-05

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme
	%	%	%	%	%
Discount rate	6.00	6.00	6.00	5.20	5.10
Expected return on assets	7.00	7.00	....	7.00	7.00
Expected rate of salary increases	4.50	4.00	4.50	4.50	5.00

D. Reconciliation of movements in present value of superannuation liability

2005-06

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme	Total
	$m	$m	$m	$m	$m	$m
Balance at 1 July	4 989	31	33	17	29	5 100
Current service cost	151	....	....	....	2	154
Interest cost	241	1	2	1	1	246
Contributions by plan participants	53	....	....	(1)	1	54
Actuarial losses (gains)	(305)	(2)	(2)	(1)	(5)	(316)
Benefits paid	(192)	(2)	(2)	....	(1)	(197)
Operating costs	(13)	....	....	....	....	(13)
Recognition of Australian National Railway liability	64	....	....	....	....	64
Balance at 30 June	4 989	29	31	15	27	5 092

2004-05

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme	Total
	$m	$m	$m	$m	$m	$m
Balance at 1 July	**4 242**	**28**	**26**	**15**	**27**	**4 339**
Current service cost	**121**	**....**	**....**	**....**	**2**	**124**
Interest cost	**240**	**2**	**2**	**1**	**1**	**245**
Contributions by plan participants	**57**	**....**	**....**	**(1)**	**1**	**57**
Actuarial losses (gains)	**526**	**3**	**7**	**1**	**....**	**537**
Benefits paid	**(188)**	**(2)**	**(2)**	**....**	**(2)**	**(193)**
Operating costs	**(9)**	**....**	**....**	**....**	**....**	**(9)**
Balance at 30 June	**4 989**	**31**	**33**	**17**	**29**	**5 100**

E. Reconciliation in movements in plan assets

2005-06

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme	Total
	$m	$m	$m	$m	$m	$m
Balance at 1 July	**1 218**	**13**	**....**	**....**	**28**	**1 259**
Expected return on plan assets	**86**	**1**	**....**	**....**	**2**	**88**
Actuarial losses (gains)	**77**	**1**	**....**	**....**	**2**	**80**
Employer contributions	**126**	**2**	**....**	**....**	**1**	**129**
Contributions by plan participants	**55**	**....**	**....**	**....**	**1**	**56**
Benefits paid	**(190)**	**(2)**	**....**	**....**	**(1)**	**(193)**
Operating costs	**(12)**	**....**	**....**	**....**	**....**	**(12)**
Recognition of ANR assets	**13**	**....**	**....**	**....**	**....**	**13**
Balance at 30 June	**1 371**	**14**	**....**	**....**	**33**	**1 419**

2004-05

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme	Total
	$m	$m	$m	$m	$m	$m
Balance at 1 July	**1 068**	**11**	**....**	**....**	**25**	**1 104**
Expected return on plan assets	**75**	**1**	**....**	**....**	**2**	**78**
Actuarial losses (gains)	**89**	**2**	**....**	**....**	**1**	**91**
Employer contributions	**123**	**2**	**....**	**....**	**1**	**126**
Contributions by plan participants	**57**	**....**	**....**	**....**	**1**	**58**
Benefits paid	**(187)**	**(2)**	**....**	**....**	**(2)**	**(191)**
Operating costs	**(8)**	**....**	**....**	**....**	**....**	**(8)**
Recognition of ANR assets	**....**	**....**	**....**	**....**	**....**	**....**
Balance at 30 June	**1 218**	**13**	**....**	**....**	**28**	**1 259**

F. Return on plan assets

The estimated actual return on plan assets was $168 million. The difference between the expected return on plan assets and the actual return on plan assets is recognised as an actuarial gain or loss. Fair value of plan assets cannot be reconciled using the estimated figures shown in the tables above, as a number of items such as net assets, operating costs and investment returns can only be estimated using the proportion of funded liabilities compared to that of the RBF Contributory Scheme as a whole.

The expected return on plan assets (net of tax) has been based on the expected long-term returns for each of the major asset classed in which the plan invests. The allocation of assets in the portfolio is shown below.

	2005-06	2004-05
	%	%
Australian equities	**38**	**36**
Overseas equities	**20**	**20**
Fixed interest securities	**21**	**25**
Property	**21**	**19**

G. Funding arrangements

Contributions to the RBF in respect of defined benefit schemes are made on an emerging cost basis.

The deficit, measured as the difference between accrued benefits and the net market value of plan assets under AAS 25 *Financial Reporting by Superannuation Plans*, is disclosed in the 2005-06 RBF Board Annual Report. Figures for 2005-06 are based on unaudited accounts as at 30 April 2006 rolled forward to 30 June 2006, and audited accounts as at 30 June 2005. The measurement basis used by the

RBF under AAS 25 differs from the measurement basis used in this financial statement, which is required by AASB 119 *Employee Benefits*.

The State has a legal liability to make up a deficit in the plan, but no legal right to use any surplus in the plan to further its own interests.

Retirement Benefits Fund

The current employer contribution recommendation for the RBF is 70 per cent of all paid benefits. This contribution is based on meeting the cost of the benefit that would have been payable had the member always contributed at the "basic" rate, being five per cent of salary. When the benefit becomes payable, the employer-funded share of the benefit is reimbursed to the RBF Board from the SPA.

Housing Tasmania's Scheme

The present value of liabilities in relation to service up to 30 June 1994 was determined to be \$15.5 million. The valuation of the superannuation liability relates to the entitlements that accrued before 1 July 1994 for current employees of Housing Tasmania who are members of the contributory fund and former employees who were either contributors or non-contributors and who have retained benefits or are current pensioners.

Tasmanian Ambulance Service Superannuation Scheme

As a result of the valuation, it was determined that the Scheme was in surplus by \$5.883 million. The State may benefit from the surplus through reductions in future contributions.

Parliamentary Superannuation Fund

The current contribution rate for the PSF is 73 per cent of all paid benefits, including pensions. The State is responsible for meeting its proportion of the cost of the benefits as and when they arise.

Parliamentary Retiring Benefits Fund

The State is responsible for meeting the cost of benefits in excess of the accumulated Member contributions. The State currently contributes an amount equal to 2.6 times the Members' contributions plus an amount equal to the annual administration (and insurance) expensed for the PRBF. If the State and Member contributions are insufficient to fund the liabilities, the State is responsible for meeting the costs of any unfunded liabilities as they emerge.

Judges' Contributory Pensions

The employer is responsible for meeting the cost of all superannuation liabilities covered under the *Judges Contributory Pensions Act 1968* as they emerge. A portion of these liabilities has already been funded from member contributions.

Note 28 Other liabilities

	2005-06	2004-05
	$m	$m
Current other liabilities		
Revenue received in advance	178	87
Provision for outstanding and unreported claims in MAIB	76	73
Derivative financial instruments	125	3
Other	127	63
Total current other liabilities	506	226
Non-current other liabilities		
Provision for outstanding and unreported claims in MAIB	578	539
Derivative financial instruments	877	1
Other	84	125
Total Non-current other liabilities	1 539	665
TOTAL	2 045	890

Note 29 Commitments

A. Commitments for capital expenditure

At 30 June 2006, the State had entered into a number of contracts for capital expenditure. These contractual commitments have not been recognised as liabilities in the Balance Sheet.

	2005-06	2004-05
	$m	$m
Not later than 1 year	237	216
Later than 1 year and no later than 5 years	62	192
Later than 5 years	1	3
TOTAL	299	411

B. Operating lease commitments

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

	2005-06	2004-05
	$m	$m
Not later than 1 year	100	72
Later than 1 year and no later than 5 years	232	189
Later than 5 years	150	152
TOTAL	483	414

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 State had the following obligations under finance leases:

	2005-06	2004-05
	$m	$m
Not later than 1 year	....	....
Later than 1 year and no later than 5 years	....	1
Later than 5 years	....	....
Minimum lease payments	....	....
Less future finance charges	....	....
TOTAL	....	1

D. Other commitments

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

	2005-06	2004-05
	$m	$m
Not later than 1 year	99	162
Later than 1 year and no later than 5 years	118	457
Later than 5 years	52	2 019
TOTAL	269	2 638

Note 30 Contingent liabilities

Contingent liabilities represent items that, at 30 June 2006, are not recognised in the Balance Sheet because there is significant uncertainty at that date as to the necessity for the State 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

2005-06

	General Government Entities	Public Non-Financial Corporations	Public Financial Corporations	Total
	$m	$m	$m	$m
Guarantees	....	300	310	610
Other	18	....	....	18
TOTAL	18	300	310	628

2004-05

	General Government Entities	Public Non-Financial Corporations	Public Financial Corporations	Total
	$m	$m	$m	$m
Guarantees	....	155	....	155
Deferred start swaps:				
Receive fixed	....	....	34	34
Pay fixed	....	....	282	282
Other	....	2	....	2
TOTAL	....	157	316	473

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:

- A claim 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. In April 2006, the Director of Public Prosecutions advised that the plaintiff's application for leave to proceed had been dismissed in the Supreme Court. On 1 May 2006, Justice Blow ordered that the plaintiffs pay costs for the application for leave to proceed. Options to finally conclude this matter, including the position regarding total costs, are being considered.
- 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. A recent review of cases showed a liability in the vicinity of $18 million. The timing

of these payments cannot be reliably estimated. The Department insures through the Tasmanian Risk Management Fund where a $50 000 excess is payable for every claim. Amounts over that excess are therefore met by the Fund.

- 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 Emergency Management relating to usage of the mobile radio network. This dispute is with Ericsson and is brought jointly against the Crown and Hydro Tasmania. The amount of the legal claim is $18 million and, at this point in time, it is not possible to determine the likelihood of the outcome of this action. At 30 June 2006, the Department also had a legal claim against it in relation to a contract for the supply of red light cameras.

- Claims against the Department of Tourism, Arts and the Environment relating to personal injury and contractual claims. As at 30 June 2006, the Department also had unquantifiable contingencies in relation to "make-good" requirements on leased properties where the amount of the potential obligation could not be reliably measured.

- The Department of Primary Industries and Water holds a number of leases for *Service* Tasmania shops that include "make good" clauses for the resolution of the tenancy. It is not possible to reliably determine the cost possibly resulting from these provisions, however estimations indicate a cost of $556 000.

- The Department of Treasury and Finance has not recognised a number of unquantifiable contingent liabilities including a contingent liability related to contractual matters associated with the telecommunications infrastructure project and guarantees related to financing and superannuation obligations of Government Business Enterprises and Statutory authorities. At 30 June 2006, Treasury had in place a number of warranties under various sale agreements relating to the divestment of Government businesses. Treasury is of the opinion that these warranties are unlikely to arise and the amounts are not quantifiable.

- Claims against Hydro Tasmania relating to:
  - A Supreme Court of Victoria writ was issued on 5 December 2002 claiming damages from the Corporation in respect to a service contract with Ericsson Australia Pty Ltd. The principal claim concerns an allegation that Hydro Tasmania provided false and misleading tender information and over utilises the service. The Corporation considers that there is little prospect that the claim will be successful, but is exploring commercial opportunities to settle the claim.
  - Together with joint venture partner, Acciona Energy Oceania Pty Ltd, the Corporation has guaranteed the construction of the Cathedral Rocks Wind Farm by Cathedral Rocks Construction and Management Pty Ltd ("CRCM") for Cathedral Rocks Wind Farm Pty Ltd ("CRWF"). CRCM subcontracted the supply and installation of wind turbines to Vestas – Australian Wind Technology Pty Ltd ("Vestas"). CRWF alleges that CRCM has failed to complete construction of the wind farm and CRCM considers that Vestas has failed to provide

wind turbines in accordance with its contract. Arbitration proceedings have been commenced against Vestas. The prospective outcome of the arbitration proceedings and the Corporation's obligations (if any) under its guarantee of CRCM are not able to be established at this time.

- Following acquisition by CLP Asia Renewable Projects Limited ("CLP") of a half share in Roaring 40s Renewable Energy Pty Ltd ("Roaring 40s"), the Corporation reduced its interest in CRWF. Under the terms of the agreement, a reconciliation is required between the Corporation and CLP to protect CLP from any loss in value of Roaring 40s arising from certain problems experienced by CRWF. The extent of any reconciliation required between the Corporation and CLP will not be known until resolution of the above arbitration.

- Transend Networks Pty Ltd is aware of a number of claims, and potential claims, in relation to time delays and scope variations under two major construction contracts. Depending upon the outcome of those claims, Transend may be liable for additional costs, however at the time of publication the costs were not quantifiable.

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 Consolidated Financial Statements.

Note 31 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 2006.

Note 32 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 2006 and 30 June 2005 to interest rate risk and the effective interest rates of financial assets and financial liabilities is shown in the following tables:

2005-06

	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	28	....	....	....	1	29
Investments	5.98	789	1 371	853	582	709	4 305
Receivables	n/a	107	5	....	....	350	462
		925	1 376	853	582	1 060	4 796
Financial liabilities							
Payables	n/a	....	371	15	....	....	386
Interest bearing liabilities	5.53	1 067	....	1 401	1 961	251	4 681
		1 067	371	1 416	1 961	251	5 067

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	....	(53)	....	....	55
		1 782	2 292	303	546	358	5 280
Financial liabilities							
Payables	n/a	144	10	....	....	224	380
Interest bearing liabilities	5.49	418	2 484	1 955	821	....	5 677
Basslink facility fee instrument	7.40	599	....	....	(599)	....	....
Cross currency swap payables	5.86	(6)	33	....	(30)	....	(4)
		1 155	2 526	1 955	192	224	6 051

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
2005-06				
Japanese Yen	100	....	(100)	....
US Dollars	....	94	(94)	....
TOTAL	100	94	(194)	....
2004-05				
Japanese Yen	147	12	(159)	....
US Dollars	....	182	(182)	....
Euros	....	40	(40)	....
TOTAL	147	234	(381)	....

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 Balance Sheet. 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	2005-06 Exposure	2004-05 Exposure
	$m	$m
Interest rate swaps	137	122
Basslink facility fee instrument	63	64
Foreign exchange contracts	69	174
Forward rate agreement	15	15
TOTAL	285	375

Net fair value

The carrying amounts and estimated fair values of recognised financial instruments held at 30 June 2006 and 30 June 2005 are as follows:

2005-06

	2005-06 Net fair value	2005-06 Carrying value
	$m	$m
Financial assets		
Cash	29	29
Investments	4 305	4 305
Receivables	462	462
TOTAL	4 796	4 796
Financial liabilities		
Payables	386	386
Interest bearing liabilities	4 681	4 681
Finance leases	1	1
TOTAL	5 068	5 068

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	380	380
Interest Bearing Liabilities	5 658	5 677
Finance leases	1	1
TOTAL	6 037	6 058
Unrecognised financial instruments		
Interest rate swaps	38	....
Foreign exchange	1	....
Cross currency swaps	44	....
Basslink financial facility fee and service agreement	710	....
TOTAL	793	....

Note 33 Reconciliation of Net Cash Flows from Operating Activities to Operating Surplus

	2005-06	2004-05
	$m	$m
Operating surplus	881	(697)
Depreciation	433	398
Gross proceeds from sale of fixed assets	(3)	(74)
Written down value of assets sold	16	72
Increase/(decrease) in payables	3	66
Increase/(decrease) in employee entitlements	41	31
Increase/(decrease) in superannuation	(157)	588
Increase/(decrease) in accrued expenses	12	(23)
Increase/(decrease) in other liabilities	215	127
(Increase)/decrease in receivables	(96)	(51)
(Increase)/decrease in prepayments	(3)	2
(Increase)/decrease in accrued revenue	(35)	(42)
(Increase)/decrease in other assets	128	(22)
(Increase)/decrease in tax assets	50	(4)
Assets acquired below fair value	(353)	(80)
Revaluation and impairment movements	(336)	504
Adjustment for other non-cash items	(62)	(56)
Net cash from operating activities (including financial institutions)	734	739
Less Public Financial Institutions Net Cash from Operating Activities	(68)	(109)
Net cash from operating activities	871	848

Note 34 Statement of Net Cash Flows from/(to) Public Financial Institutions

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

	2005-06	2004-05
	$m Inflows (Outflows)	$m Inflows (Outflows)
Cash Flow from Operating Activities		
Receipts		
Interest received	285	263
Other receipts	....	....
Payments		
Employee entitlements	(2)	....
Interest paid	(350)	(370)
Other payments	(2)	(2)
Net Cash used in Operating Activities	(69)	(109)
Cash Flows from Investing Activities		
Purchase of property plant and equipment	....	27
Net Customer Loans (Granted)/Repaid	43	(9)
Net purchase of investments	888	(269)
Net Cash used in Investing Activities	931	(251)
Cash Flows from Financing Activities		
Net borrowings	(1 451)	695
Net Cash used in Financing Activities	(1 451)	695
NET CASH FLOWS FROM PUBLIC FINANCIAL INSTITUTIONS	(588)	335

Note 35 Closing cash and cash equivalents

For the purpose of the Consolidated Cash Flow Statement, 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 Cash Flow Statement is defined differently to cash reported in the Consolidated Balance Sheet.

	2005-06	2004-05
	$m	$m
Cash as per Balance Sheet	29	75
Investments included as cash on the Cash Flow Statement	443	755
Cash as per the Cash Flow Statement	472	830

Note 36 Reconciliation of changes in equity

	Total	Accumulated Surplus	Asset Revaluation Reserve	Other Reserves
	$m	$m	$m	$m
Balance at 1 July 2005	7 741	3 789	2 843	1 109
Operating surplus /(deficit)	881	881	....	....
Revaluation increments (decrements)	548	....	548	....
Other movements	(57)	....	....	(57)
Balance at 30 June 2006	9 114	4 670	3 391	1 052

Note 37 Asset revaluation reserve

	Opening Balance	Revaluation Increments/ (Decrements)	Closing Balance
	$m	$m	$m
Land, buildings and forest estates	1 133	185	1 318
Plant and equipment	35	1	36
Infrastructure	1 675	362	2 038
TOTAL	2 843	548	3 391

Note 38 Transition to Australian Equivalents to International Financial Reporting Standards

A. Reconciliation of Income Statement for 2004-05

	Notes	Current GAAP	Effect of Transition	AEIFRS
		$m	$m	$m
Revenues				
Taxation		661	....	661
Fines and regulatory fees		34	....	34
Interest revenue	a	376	(39)	337
Grants		2 115	....	2 115
Sales of goods and services	b	1 549	5	1 554
Gain (loss) on sale of non-financial assets		2	....	2
Fair value of assets received free of charge	c	80	(73)	7
Other revenue	b	135	37	172
Total Revenues		4 953	(69)	4 884
Expenses				
Employee entitlements		1 599	(8)	1 591
Superannuation	d	272	547	819
Depreciation	e	398	6	404
Borrowing costs		374	....	374
Grants and transfer payments		531	....	531
Supplies and consumables		1 113	2	1 115
Other expenses	f	311	435	746
Total Expenses		4 598	982	5 580
OPERATING SURPLUS		354	(1 051)	(697)

Notes

a) Interest revenue previously included gains or losses on financial instruments. This item is now classified within Other revenue.

b) Items previously classified as Other revenue are now disclosed as Sales of goods and services. In addition, items for TT-Line Pty Ltd that were previously netted off against Other expenses are now recognised as revenue.

c) The Department of Tourism, Arts and the Environment recognised $73 million for the first time recognition of land managed under the *Nature Conservation Act 2002* as the correction of a fundamental error. In accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, this is no longer recognised as revenue.

d) Adoption of AEIFRS has resulted in a number of changes to the calculation of the unfunded superannuation liability and the associated expense calculation. These changes include changes to discount factors used in calculating cash flows associated with the liability that have been made as required by AASB 119 *Employee Benefits*.

e) Adjustment of depreciation resulting from revaluation of assets to fair valuation and write back of depreciation recorded for Assets held for sale.

f) The adjustment primarily relates to an impairment loss of $542 million recognised by Hydro Tasmania. As permitted by the first-time adoption provisions, Hydro Tasmania has elected to adopt the fair value of these assets at 30 June 2004 as their deemed cost on transition date and to adopt the cost method of recording all property, plant and equipment under AEIFRS. Under AEIFRS, the carrying value of assets recorded under the cost method must not exceed their recoverable amount. In the event of this occurring, an impairment loss must be recorded as an expense against the current year. The impairment loss was partially offset by a decrease in MAIB claims expense of $127 million. Under AEIFRS, a risk free discount rate must be applied to the provision for outstanding and unreported claims where previously (up to, and including, the valuation undertaken as at 30 June 2004) the discount rate was based on the rate of return on investment opportunities available to the MAIB. This reduction to the discount rate has resulted in an increase to liabilities as at 1 July 2004 and a corresponding decrease in expenses for 2004-05.

B. Reconciliation of Equity at 30 June 2005

	Notes	Current GAAP	Effect of Transition	AEIFRS
		$m	$m	$m
Assets				
Financial assets				
Cash		75	....	75
Investments		4 784	....	4 784
Receivables		367	....	367
Prepayments		13	....	13
Accrued revenue		51	....	51
Tax assets		16	....	16
Other financial assets		122	....	122
Total Financial assets		5 428	....	5 428
Non-Financial Assets				
Inventory		55	....	55
Investment property	a	....	8	8
Assets held for sale	b	....	9	9
Intangibles	c	4	14	18
Land, buildings and forest estate	a,b	4 633	(12)	4 621
Plant and equipment	b,c	395	(36)	361
Infrastructure	b,d	8 508	(52)	8 456
Total Non-financial assets		13 596	(69)	13 528
Total assets		19 025	(69)	18 956
Liabilities				
Payables		378	1	380
Interest bearing liabilities	e	5 614	64	5 677
Employee entitlements	f	398	(11)	387
Superannuation	g	2 635	1 206	3 841
Accrued expenses		35	....	35
Tax liabilities		4	1	5
Other liabilities	h	934	(44)	890
Total Liabilities		9 998	1 218	11 216
NET ASSETS		9 027	(1 286)	7 741
Equity				
Accumulated surplus		3 511	276	3 789
Reserves		5 516	(1 564)	3 952
Total equity		9 027	(1 286)	7 741

Notes

a) This item has been changed to reflect the reclassification of Investment properties as a separate category in accordance with AASB 140 *Investment Property*.

b) Under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations,* all assets recognised as available for immediate sale are to be classified as assets held for sale.

c) Under AASB 138 *Intangible Assets*, computer software is to be classified as an intangible asset. This has been recognised previously within Plant and equipment and accordingly this has been reclassified.

d) Fair value under AGAAP is determined using projected net after-tax cash flows discounted to present value using an after-tax discount rate. Recoverable amount under AEIFRS is essentially calculated in the same manner apart from use of pre-tax cash flows and a pre-tax discount rate. Application of the same financial projections to an assessment of recoverable amount of Hydro generation assets under AEIFRS results in the recognition of a greater impairment loss than that previously recognised under AGAAP.

e) Accrued interest expenses are now classified within Interest bearing liabilities rather than as Other liabilities.

f) This item has changed as a result of the requirement to separately report salary on-costs in other expenses and other liabilities.

g) Adoption of AEIFRS has resulted in a number of changes to the calculation of the unfunded superannuation liability. These changes include changes to discount factors used in calculating cash flows associated with the liability that have been made in accordance with AASB 119 *Employee Benefits*.

h) The introduction of AEIFRS has resulted an adjustment to the provision for unexpired risks recognised by the Motor Accidents Insurance Board. The Board's actuary must assess whether the provision for unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. If the present value of the expected future cash flows relating to future claims plus claim handling expenses and a risk margin to reflect the inherent uncertainty in the central estimate exceeds the provision for unearned premium liability then the provision for unearned premium liability is deemed to be deficient. As at 30 June 2005, the deficiency was $11 million which is reflected by an increase in Other liabilities.

C. Reconciliation of Equity at 30 June 2004

	Notes	Current GAAP	Effect of Transition	AEIFRS
		$m	$m	$m
Assets				
Financial assets				
Cash		58	....	58
Investments		3 435	....	3 435
Receivables		316	(2)	314
Prepayments		14	....	14
Accrued revenue		9	....	9
Tax assets		12	....	12
Other financial assets		30	....	30
Total Financial assets		3 874	(2)	3 872
Non-financial assets				
Inventory		11	....	11
Investment property	a	....	6	6
Assets held for sale	b	....	15	15
Intangibles	c	....	15	15
Land, buildings and forest estate	a,b,c	3 559	218	3 777
Plant and equipment	b,d	850	20	870
Infrastructure	b,e	8 360	(25)	8 335
Total Non-financial assets		12 780	248	13 028
Total assets		16 654	245	16 899
Liabilities				
Payables		312	(1)	311
Interest bearing liabilities		4 660	....	4 660
Employee entitlements	f	370	....	370
Superannuation	g	2 594	651	3 245
Accrued expenses		122	....	122
Tax liabilities		9	....	9
Other current liabilities	h	626	132	758
Total Liabilities		8 693	782	9 475
NET ASSETS		7 961	(537)	7 424
Equity				
Accumulated surplus		3 158	1 490	4 486
Reserves		4 803	(2 027)	2 938
Total equity		7 961	(537)	7 424

Notes

a) This item has been changed to reflect the reclassification of Investment properties as a separate category in accordance with AASB 140 *Investment Property.*

b) Under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations,* all assets recognised as available for immediate sale are to be classified as assets held for sale.

c) The restatement of non-current assets to fair value has resulted in an increase in the value of land held by the Department of Tourism, Arts and the Environment of $208 million.

d) Under AASB 138 *Intangible Assets,* computer software is to be classified as an intangible asset. This has been recognised previously within Plant and equipment and accordingly this has been reclassified.

e) Fair value under AGAAP is determined using projected net after-tax cash flows discounted to present value using an after-tax discount rate. Recoverable amount under AEIFRS is essentially calculated in the same manner apart from use of pre-tax cash flows and a pre-tax discount rate. Application of the same financial projections to an assessment of recoverable amount of Hydro generation assets under AEIFRS results in the recognition of a greater impairment loss than that previously recognised under AGAAP.

f) This item has changed as a result of the requirement to separately report salary on-costs in other expenses and other liabilities.

g) Adoption of AEIFRS has resulted in a number of changes to the calculation of the unfunded superannuation liability. These changes include changes to discount factors used in calculating cash flows associated with the liability that have been made in accordance with AASB 119 *Employee Benefits*.

h) The introduction of AEIFRS has resulted in an adjustment to the provision for unexpired risks recognised by the Motor Accidents Insurance Board. The Board's actuary must assess whether the provision for unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. If the present value of the expected future cash flows relating to future claims plus claim handling expenses and a risk margin to reflect the inherent uncertainty in the central estimate exceeds the provision for unearned premium liability then the provision for unearned premium liability is deemed to be deficient.

Note 39 Details of controlled entities

The following controlled entities of the State are included in the Consolidated Financial Statements for the year ended 30 June 2006:

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 Emergency Management
Department of Premier and Cabinet
Department of Primary Industries and Water
Department of Tourism, Arts and the Environment
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
Forestry Tasmania
Hydro Tasmania
Metro Tasmania Pty Ltd
Port Arthur Historic Site Management Authority
Printing Authority of Tasmania
Private Forests Tasmania
Rivers and Water Supply Commission
Southern Regional Cemetery Trust
Tasmanian International Velodrome Management Authority
Tasmanian Ports Corporation Pty Ltd
The Public Trustee
TOTE Tasmania Pty Ltd
Transend Networks Pty Ltd
TT-Line Company Pty Ltd

Public Financial Corporations

Motor Accidents Insurance Board
Tasmanian Public Finance Corporation

Entities not consolidated

The Retirement Benefits Fund Board has 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 also not been included in this financial report because they are not controlled by the State.

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