Consolidated Financial Statements 2006-07

for the State of Tasmania

Department of Treasury and Finance

Tasmania
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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 income and expenses, on an accrual accounting basis, with 2005-06 amounts.

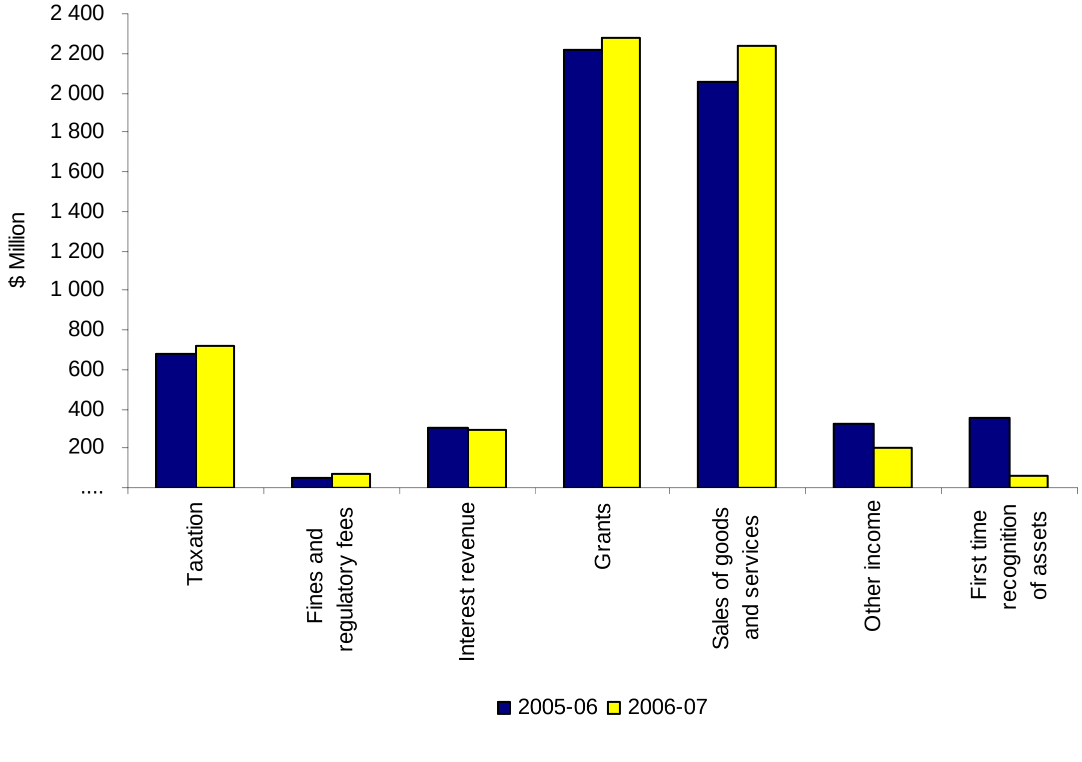
The 2006-07 operating result shows a deficit of $145 million, a decrease of $1 026 million from the surplus of $881 million recorded in 2005-06. This is the result of a $1 million increase in income and a $1 027 million increase in expenses.

Income

Total income for the year ended 30 June 2007 was $5 901 million, an increase of $1 million over the previous year. Increases were recorded in Taxation revenue ($42 million), Fines and fees collected ($22 million), Grants ($62 million), Sales of goods and services, primarily resulting from the entry of Tasmania into the National Electricity Market ($192 million), and Gains on sale of non-financial assets ($40 million). This was offset by decreases in First time recognition of assets ($293 million), which were significantly higher in 2005-06 due to the valuation of Tasmanian Museum and Art Gallery collections, and a reduction in Other income ($54 million).

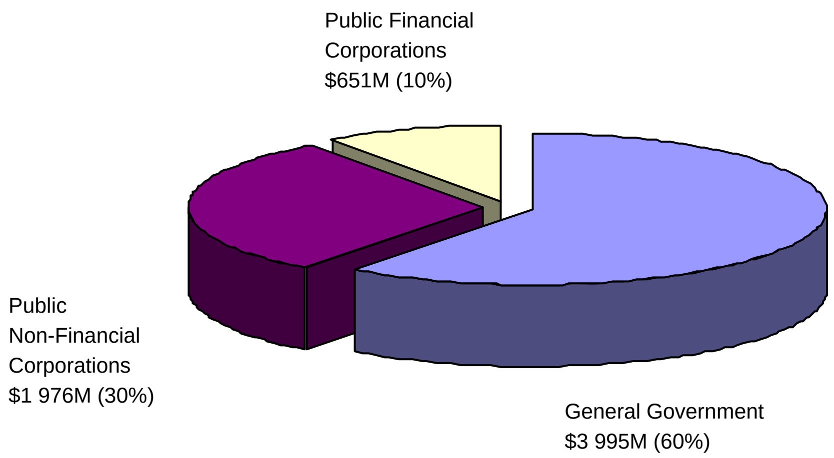
Total income by category for 2005-06 and 2006-07 is shown in figure 1.

Figure 1: Total income by category



Income by sector is shown in Figure 2. Additional details of sector balances are shown in the notes to the statements.

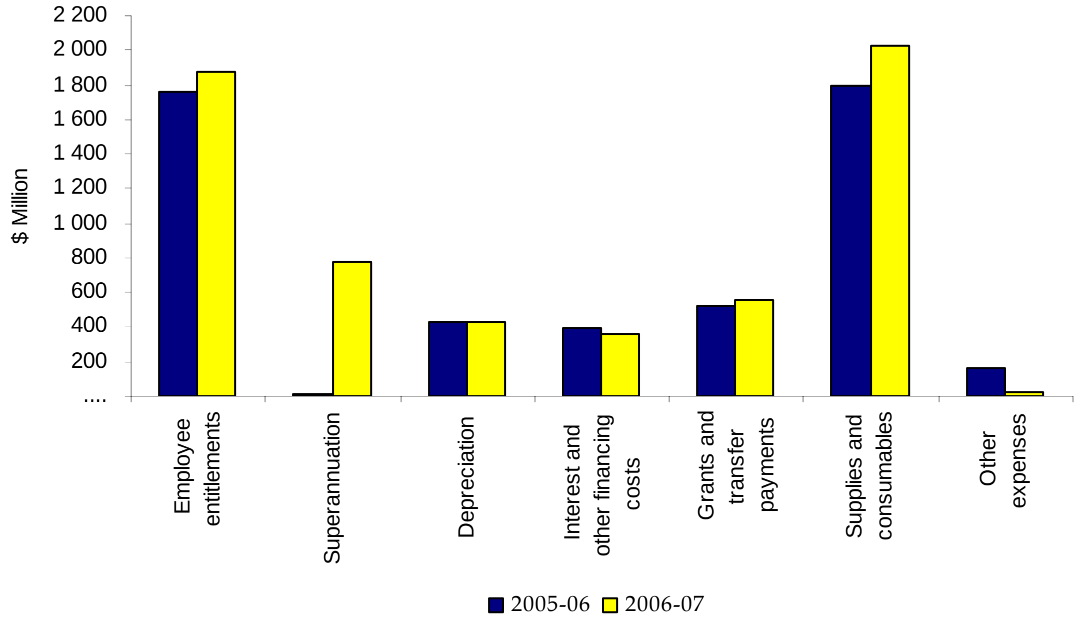
Figure 2: Income by sector



Expenses

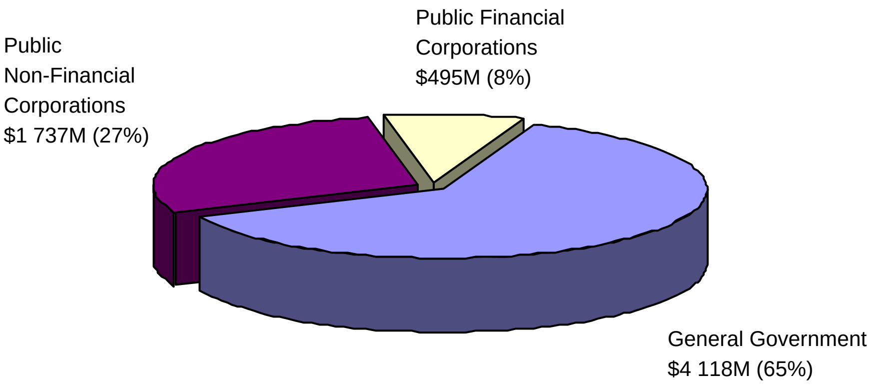
Total expenses for the year ended 30 June 2007 were $6 046 million, an increase of $1 027 million, or 20.5 per cent over the previous year. The major factors contributing to the change are increases of $764 million in the Superannuation expense, primarily due to the actuarial revaluation of the superannuation liability, $118 million in Employee entitlements and $130 million in Supplies and consumables. These increases were partially offset by a decrease of $37 million in other expenses. Expenses by category for 2005-06 and 2006-07 are shown in Figure 3.

Figure 3: Total expenses by category



Expenses by sector are shown in Figure 4. Additional details of sector balances are shown in the notes to the statements.

Figure 4: Expenses by sector



OVERVIEW OF THE STATE'S FINANCIAL POSITION

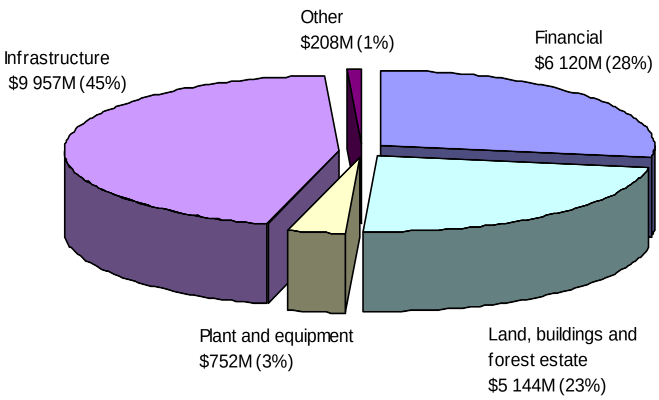
As at 30 June 2007, total assets of $22 179 million exceeded total liabilities of $12 520 million, resulting in net assets of $9 660 million. This compares with net assets of $9 114 million at 30 June 2006.

Assets

Total assets amounted to $22 179 million as at 30 June 2007, an increase of $1 803 million from 30 June 2006. Total assets consist of financial assets of $6 120 million and non-financial assets of $16 059 million.

Total assets, by category, are shown in Figure 5.

Figure 5: Total assets by category

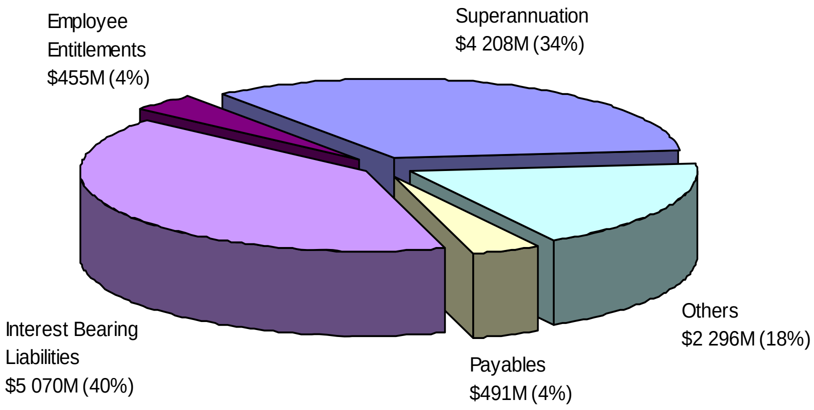


Liabilities

Total liabilities amounted to $12 520 million as at 30 June 2007, an increase of $1 258 million from 30 June 2006.

Total liabilities by category are shown in figure 6.

Figure 6: 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 2006-07*, released in October 2007, presented the 2006-07 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 2006-07*.

Table 1: General Government Operating Surplus and Fiscal Surplus Reconciliation

	2006-07 Actual	2005-06 Actual
	$M	$M
General Government Operating Surplus/(Deficit) (AEIFRS basis)	(123)	848
Adjusted for:		
Proceeds on disposal of non-current assets	(60)	(4)
Written down value on disposal of non-current assets	33	16
Revaluation of superannuation liability	389	(307)
Other revaluation adjustments	(166)	(25)
East Tamar Highway funding	....	(60)
First time recognition of assets	(60)	(353)
Expense for doubtful debts	2	5
General Government Net Operating Surplus (GFS basis)	15	120
Less: Net acquisition of non-financial assets	(34)	37
General Government Fiscal Surplus (GFS basis)	49	83

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 2007 and the financial position of the State as at 30 June 2007; 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

17 December 2007

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 2007

Report on the Consolidated Financial Statements

I have audited the accompanying Consolidated Financial Statements for the State of Tasmania (the Consolidated Financial Statements) which comprise the balance sheet at 30 June 2007, and the income statement, cash flow statement and statement of recognised income and expense for the year then ended, a summary of significant accounting policies, other explanatory notes and the Statement of Certification by the Treasurer and the Secretary of the Department of Treasury and Finance.

The Consolidated Financial Statements and the Treasurer's responsibilities

The Department of Treasury and Finance, on behalf of the Treasurer, is responsible for the preparation and fair presentation of the Consolidated Financial Report in accordance with Australian Accounting Standards (including Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

Accountability on Your Behalf

accounting estimates made by the Treasurer, as well as evaluating the overall presentation of the Consolidated Financial Statements.

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

Independence

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

Auditor's Opinion

In my opinion the Consolidated Financial Statements for the State of Tasmania:

(a) present fairly, in all material respects, the financial position of the State of Tasmania as at 30 June 2007, and its financial performance, 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

20 December 2007
HOBART

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INCOME STATEMENT

	Note	2006-07	2005-06
		$M	$M
Income			
Taxation	3	721	679
Fines and regulatory fees		70	48
Investment income	4	298	307
Grants	5	2 275	2 213
Sales of goods and services	6	2 243	2 051
Gain (loss) on sale of non-financial assets		27	(13)
First time recognition of assets		60	353
Other income	7	207	261
Total Income		5 901	5 900
Expenses			
Employee entitlements	8	1 880	1 762
Depreciation	9	425	433
Borrowing costs	10	364	334
Grants and transfer payments		557	526
Supplies and consumables	11	1 926	1 796
Other expenses	12	124	161
Total Expenses		5 275	5 012
OPERATING SURPLUS/(DEIFICT) before superannuation expense		626	888
Superannuation		771	7
OPERATING SURPLUS/(DEFICIT) after superannuation expense		(145)	881

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

BALANCE SHEET

	Note	2006-07	2005-06
		$M	$M
Assets			
Financial assets			
Cash	35	16	29
Investments	13	5 111	4 305
Receivables	14	453	462
Prepayments		20	15
Accrued revenue		9	16
Tax assets		7	14
Other financial assets	15	504	251
Total financial assets		6 120	5 093
Non-financial assets			
Inventory	16	61	56
Investment property	17	28	31
Assets held for sale	18	75	118
Intangibles	19	44	47
Land, buildings and forest estate	20	5 144	4 930
Plant and equipment	21	752	745
Infrastructure	22	9 957	9 358
Total non-financial assets		16 059	15 284
Total assets		22 179	20 376
Liabilities			
Payables	24	471	386
Interest bearing liabilities	25	5 070	4 681
Employee entitlements	26	455	428
Superannuation	27	4 208	3 674
Accrued expenses		20	47
Tax liabilities		3	2
Other liabilities	28	2 293	2 045
Total liabilities		12 520	11 262
NET ASSETS		9 660	9 114
Accumulated surplus		4 525	4 670
Reserves		5 135	4 444
TOTAL EQUITY	36	9 660	9 114

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

CASH FLOW STATEMENT

	Note	2006-07	2005-06
		$M	$M
Cash flows from operating activities			
Receipts			
Taxation		722	680
Fines and regulatory fees		55	37
Interest received		4	7
Grants		2 260	2 257
Sales of goods and services		2 256	2 194
GST receipts		139	131
Other receipts		375	372
Total Receipts		5 811	5 678
Payments			
Employee entitlements		(1 793)	(1 736)
Superannuation		(229)	(193)
Interest paid		(15)	(12)
Grants and transfer payments		(636)	(547)
Supplies and consumables		(2 008)	(1 802)
GST payments		(142)	(140)
Other payments		(360)	(377)
Total Payments		(5 183)	(4 807)
Net Cash from Operating Activities	33	629	871
Cash flows from investing activities			
Proceeds from sales of property plant and equipment		182	57
Purchase of property plant and equipment		(585)	(667)
Net investments purchases/(proceeds)		(1)	8
Net customer loans advanced/(repaid)		10	(45)
Net Cash used in Investing Activities		(394)	(647)
Cash flows from financing activities			
Decrease in borrowings		222	6
Net Cash from Financing Activities		222	6
Net Cash flows from/(to) Public Financial Institutions	34	711	(588)
Net increase/(decrease) in Cash Held		1 169	(358)
Cash at beginning of year		472	830
CASH AND CASH EQUIVALENTS HELD AT 30 JUNE 2007	35	1 641	472

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	2006-07	2005-06
		$M	$M
Income and expenses recognised directly in Equity			
Increase/(Decrease) in Asset Revaluation Reserve	**37**	**611**	**548**
Other movements	**36**	**80**	**(57)**
Net income recognised directly in Equity		**691**	**491**
Net surplus/(deficit) for the year		**(145)**	**881**
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		**546**	**1 372**

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 applicable Australian Accounting Standards (AAS), which include Australian Equivalents to International Financial Reporting Standards (AEIFRS), and in particular AAS 31 *Financial Reporting by Governments*, the framework and other authoritative pronouncements.

A statement of compliance with International Financial Reporting Standards (IFRS) cannot be made due to the application of not-for-profit entity requirements contained in AEIFRS (no equivalent standards exist 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 and recorded at fair value.

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 is a not-for-profit reporting entity for accounting purposes.

These entities are classified according to the Uniform Presentation Framework (UPF) and disaggregated information is presented in Note 2. Specific details of the entities consolidated by the State are shown in Note 38.

In accordance with AAS, these 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 2007, or for part of the financial year ended on that date.

Uniform Presentation Framework

General Government Sector

The General Government Sector (GGS) 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 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 are 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 and amendments have been issued but are not yet effective and have not been adopted:

- AASB 7 *Financial Instruments: Disclosures*;
- AASB 8 *Operating Segments*;
- AASB 101 *Presentation of Financial Statements*;
- AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
- 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 1038]; and
- AASB 2007-4 *Amendments to Australian Accounting Standards*.

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 PNFC and the PFC 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 PNFC and PFC sectors has been recognised in the statements for the GGS.

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. Recognition is based on fair value of consideration received net of discounts, rebates, concessions and allowances.

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 income. 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, which is usually when the cash is received. 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 significant risks and benefits to ownership have passed to the buyer. Revenue from the provision of services is recognised when the service has been provided or on a stage of completion basis according to contracts.

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 and significant risks and benefits incidental to ownership 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 and can be measured reliably. An expense is recognised when it is incurred and is reported in the financial year to which it relates.

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, is recognised as superannuation expenses in the period in which they occur. Actuarial gains and losses of the defined benefits plans are recognised immediately as income or expense in the Income Statement. The superannuation expense of the defined contributions plans is recognised as and when the contributions fall due.

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. Depreciation rates and methods are reviewed annually.

Non-current 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.

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.

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 2006-07:

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 expenses 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. Assets are initially recognised at cost.

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 held by the Tasmanian Public Finance Corporation from external 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

Financial assets in the scope of AASB 139 are classified as either financial assets at fair value through the Income Statement, 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, ie 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. Costs are assigned using the weighted average cost or the "first in first out" method.

Assets held for sale

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets are not depreciated or amortised when classified as held for sale.

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.

The majority of 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 with sufficient regularity to ensure fair value is maintained.

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.

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 Tasmanian 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. The assets are recognised at fair value based on a valuation of the collections as at 30 June 2004, 2005 and 2006.

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 to the lower of the fair value of the leased item and the present value of the minimum lease payments, each determined at the inception of the lease. 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 PNFC and PFC entities from the commercial banking sector.

Valuation of borrowings

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.

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 2007, 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 enter 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.

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.

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 recognised through the Income Statement.

P. Rounding

All amounts in the Financial Statements are rounded to the nearest million dollars, unless otherwise stated. As a consequence, rounded figures may not add to totals.

Q. Comparative information

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

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	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Income										
Taxation	748	703	....	....	....	....	(27)	(24)	721	679
Fines and regulatory fees	70	48	....	....	....	....	....	....	70	48
Investment Income	216	221	11	15	420	420	(349)	(349)	298	307
Grants	2 274	2 215	93	75	....	....	(92)	(77)	2 275	2 213
Sales of goods and services	324	298	1 831	1 675	123	118	(35)	(40)	2 243	2 051
Gain (loss) on sale of non-financial assets	24	....	3	(14)	....	....	....	1	27	(13)
First time recognition of assets	60	353	....	....	....	....	....	....	60	353
Other income	279	205	38	92	108	78	(218)	(115)	207	261
Total income	3 995	4 043	1 976	1 843	651	616	(721)	(603)	5 901	5 900
Expenses										
Employee entitlements	1 593	1 474	282	285	6	4	(1)	(1)	1 880	1 762
Superannuation	691	(1)	80	8	....	....	....	....	771	7
Depreciation	207	206	218	227	....	....	....	....	425	433
Borrowing costs	23	28	145	118	379	358	(183)	(170)	364	334
Grants and transfer payments	612	592	12	11	1	....	(68)	(77)	557	526
Supplies and consumables	887	829	1 099	1 006	3	2	(62)	(41)	1 926	1 796
Other expenses	105	68	(68)	2	106	108	(20)	(17)	124	161
Total expenses	4 118	3 195	1 768	1 657	495	472	(334)	(306)	6 046	5 019
Operating Surplus/(Deficit) before Income Tax Equivalents and Dividends	(123)	848	208	186	156	144	(387)	(297)	(145)	881
Income tax equivalents	....	....	(56)	(51)	(39)	(40)	95	91	....	....
Dividends	....	....	(51)	(73)	(24)	(19)	75	92	....	....
Operating Surplus/(Deficit) after Income Tax Equivalents and Dividends	(123)	848	101	61	93	84	(217)	(113)	(145)	881

Note 2 Disaggregated information (continued)

Disaggregated Balance Sheet

	General Government		Public Non-Financial Corporations		Public Financial Corporations		Inter-Sector Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Assets										
Financial assets										
Cash	740	607	181	74	12	2	(918)	(653)	16	29
Investments	3 630	3 106	203	207	7 103	6 164	(5 824)	(5 172)	5 111	4 305
Receivables	142	163	300	284	15	16	(4)	(1)	453	462
Prepayments	12	9	7	7	....	....	1	(1)	20	15
Accrued revenue	8	14	31	2	....	17	(30)	(17)	9	16
Tax assets	947	854	89	72	13	5	(1 042)	(917)	7	14
Other financial assets	2	16	448	170	54	65	....	....	504	251
Total financial assets	5 481	4 769	1 260	816	7 198	6 268	(7 817)	(6 760)	6 120	5 093
Non-Financial assets										
Inventory	14	13	47	43	....	....	....	....	61	56
Investment property	11	10	4	8	13	12	....	....	28	31
Assets held for sale	2	8	45	110		....	28	....	75	118
Intangibles	14	7	29	40	....	....	....	....	44	47
Land, buildings and forest estate	4 301	4 125	842	804	....	....	....	....	5 144	4 930
Plant and equipment	606	557	145	185	1	1	....	....	752	745
Infrastructure	3 989	3 916	5 967	5 442	....	....	....	....	9 957	9 358
Total non-financial assets	8 938	8 637	7 079	6 633	13	13	28	1	16 059	15 284
Total assets	14 419	13 405	8 339	7 449	7 212	6 281	(7 789)	(6 759)	22 179	20 376
Liabilities										
Payables	70	72	300	241	151	73	(50)	....	471	386
Interest bearing liabilities	377	405	1 985	1 930	5 817	5 128	(3 109)	(2 782)	5 070	4 681
Employee entitlements	382	356	72	71	1	1	1	....	455	428
Superannuation	3 671	3 199	534	472	3	2	....	1	4 208	3 674
Accrued expenses	9	17	17	44	....	....	(6)	(14)	20	47
Tax liabilities	1	1	974	861	70	58	(1 042)	(918)	3	2
Other liabilities	249	237	1 243	1 057	809	751	(8)	....	2 293	2 045
Total Liabilities	4 759	4 287	5 124	4 675	6 850	6 013	(4 214)	(3 713)	12 520	11 262
NET ASSETS	9 660	9 118	3 215	2 774	362	268	(3 575)	(3 046)	9 660	9 114

	2006-07	2005-06
	$M	$M

Note 3 Taxation revenue

Payroll tax	200	197
Financial transaction taxes	167	152
Gambling taxes	86	79
Land tax	62	49
Motor vehicle tax and fees	123	121
Fire service levies	43	41
Other taxation receipts	40	39
TOTAL	721	679

Note 4 Investment income

Interest	297	306
Dividends	1	1
TOTAL	298	307

Note 5 Grants revenue

General Purpose Payments		
GST Revenue	1 568	1 504
Competition Payments	....	19
Total General Purpose Payments	1 568	1 523
Specific Purpose Payments	442	443
Australian Government Capital Grants	48	46
Other Grants and Subsidies	218	202
TOTAL	2 275	2 213

Note 6 Sales of goods and services

Sales of goods	436	356
Sales of services	1 807	1 696
TOTAL	2 243	2 051

Note 7 Other income

Income on revaluation of non-current assets	....	16
Gains on investments	118	115
Other income	89	130
TOTAL	207	261

	2006-07	2005-06
	$M	$M

Note 8 Employee entitlements

Salaries and wages	1 847	1 722
Long service leave	11	12
Other	22	28
TOTAL	1 880	1 762

Note 9 Depreciation

Depreciation in respect of:		
Buildings	77	72
Plant and equipment	87	71
Infrastructure	250	279
Other	11	10
TOTAL	425	433

Note 10 Borrowing costs

Interest on borrowings	343	332
Losses on financial assets and liabilities	20	2
TOTAL	364	334

Note 11 Supplies and consumables

Advertising and promotion	41	29
Consultants	26	31
Maintenance and property services	221	264
Communications	27	31
Information technology	47	55
Travel and transport	61	42
Medical, surgical and pharmacy supplies	137	118
Cost of sales of goods and services	682	657
Other	682	569
TOTAL	1 926	1 796

Note 12 Other expenses

MAIB specific expenses	107	108
Impairment losses	2	2
Workers' compensation contributions	3	4
Other	12	46
TOTAL	124	161

	2006-07	2005-06
	$M	$M

Note 13 Investments

	2006-07 $M	2005-06 $M
Current investments		
Loan advances	250	177
Short term deposits, bills and other securities	4 039	3 286
Equity investments	642	613
Government and institutional securities	13	57
Total current investments	4 944	4 133
Non-current investments		
Loan advances	72	84
Long term deposits, bills and other securities	....	2
Equity investments	95	86
Total non-current investments	167	172
TOTAL	5 111	4 305

Note 14 Receivables

	2006-07 $M	2005-06 $M
Current receivables		
Trade receivables	403	423
Other	67	60
Less provision for doubtful debts	(33)	(37)
Total current receivables	437	446
Non-current receivables		
Other	16	16
Total non-current receivables	16	16
TOTAL	453	462

Note 15 Other financial assets

	2006-07 $M	2005-06 $M
Other current financial assets		
Derivative financial instruments	172	87
Other	3	19
Total other current financial assets	175	106
Other non-current financial assets		
Derivative financial instruments	329	145
Total other non-current financial assets	329	145
TOTAL	504	251

	2006-07	2005-06
	$M	$M

Note 16 Inventory

Forestry estate inventories	22	21
Other inventories	39	35
TOTAL	61	56

Note 17 Investment property

Land	6	6
Buildings	22	25
Infrastructure	1	1
TOTAL	28	31

Note 18 Assets held for sale

In the 2007-08 State Budget, the Government announced the planned sale of Hobart International Airport Pty Ltd (a subsidiary company of the Tasmanian Ports Corporation Pty Ltd), the Printing Authority of Tasmania and the Southern Regional Cemetery Trust. The Government has subsequently announced its intention to sell each business as a going concern through a competitive bid process, and to finalise these transactions before 30 June 2008.

In accordance with the treatment applied by each entity, only the net assets relating to the Hobart International Airport Pty Ltd have been reclassified to assets held for sale.

Land	1	8
Infrastructure	1	110
Net assets relating to Hobart International Airport Pty Ltd	72	....
TOTAL	75	118

Note 19 Intangibles

a) Carrying amount

Intangible assets	125	112
Less Accumulated amortisation	(81)	(65)
TOTAL	44	47

b) Reconciliation of movements

Carrying amount 1 July	47	18
Additions	13	39
Amortisation expense	(16)	(10)
Carrying amount 30 June	44	47

	2006-07	2005-06
	$M	$M

Note 20 Land, buildings and forest estate

	2006-07	2005-06
Land		
Land at fair value	1 940	1 681
Land at cost	16	44
Total land	1 956	1 725
Buildings		
Buildings at fair value	2 885	2 862
Buildings at cost	32	111
Less accumulated depreciation	(96)	(105)
Less provision for impairment	....	(3)
Total buildings	2 821	2 865
Forest Estate	367	339
TOTAL	5 144	4 930

Note 21 Plant and equipment

	2006-07	2005-06
Plant and equipment at fair value	798	766
Plant and equipment at cost	50	94
Less accumulated depreciation	(96)	(115)
TOTAL	752	745

Note 22 Infrastructure

	2006-07	2005-06
Infrastructure at fair value	6 785	6 219
Infrastructure at cost	3 454	3 384
Less accumulated depreciation	(283)	(245)
TOTAL	9 957	9 358

Note 23 Reconciliation of non-current assets

2006-07

	Land, buildings and forest estates	Plant and equipment	Infrastructure	Total
	$M	$M	$M	$M
Carrying amount at 1 July 2006	4 930	745	9 358	15 032
Add Asset purchases	163	134	288	585
Less asset sales	(48)	(50)	(29)	(127)
Add/(Less) Asset revaluations	211	20	428	659
Less Impairment losses	....	7	154	161
Transfer to Assets held for sale	(31)	(14)	(29)	(74)
Less Depreciation expense	(80)	(96)	(249)	(425)
Other movements	....	6	35	41
Carrying amount at 30 June 2007	5 144	752	9 957	15 852

2005-06

	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

	2006-07	2005-06
	$M	$M

Note 24 Payables

	2006-07	2005-06
Trade creditors	309	295
Other	162	91
TOTAL	471	386

Note 25 Interest bearing liabilities

	2006-07	2005-06
Current borrowings		
Domestic and foreign borrowings	2 770	1 934
Debt due to Australian Government	6	6
Prison redevelopment loan	19	31
Total current borrowings	2 795	1 971
Non-current borrowings		
Domestic and foreign borrowings	2 039	2 467
Debt due to Australian Government	236	242
Total non-current borrowings	2 275	2 709
TOTAL	5 070	4 681

	2006-07	2005-06
	$M	$M

Note 26 Employee entitlements

Current employee entitlements		
Accrued salaries and wages	35	27
Annual leave	135	125
Long service leave	51	49
Other employee entitlements	26	26
Total current employee entitlements	247	227
Non-current employee entitlements		
Annual leave	3	5
Long service leave	205	197
Other employee entitlements	1	....
Total non-current employee entitlements	209	202
TOTAL	455	428

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 Australian Government'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 2007 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 2007.

(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 2007.

(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

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

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme	Total
	$M	$M	$M	$M	$M	$M
2006-07						
Present value of liability	**5 748**	**31**	**30**	**17**	**31**	**5 858**
Fair value of plan assets	**(1 597)**	**(16)**	**....**	**....**	**(37)**	**(1 650)**
Total	**4 152**	**15**	**30**	**17**	**(6)**	**4 208**
Due within 12 months	**197**	**2**	**2**	**3**	**(6)**	**198**
Due in more than 12 months	**3 955**	**13**	**28**	**15**	**....**	**4 010**
Total	**4 152**	**15**	**30**	**17**	**(6)**	**4 208**
2005-06						
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**

C. Key actuarial assumptions

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme
	%	%	%	%	%
2006-07					
Discount rate	**5.90**	**5.90**	**5.90**	**5.90**	**6.00**
Expected return on assets	**7.00**	**7.00**	**....**	**7.00**	**7.50**
Expected rate of salary increases	**4.50**	**4.00**	**4.00**	**4.50**	**5.00**
2005-06					
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**

D. Reconciliation of movements in present value of superannuation liability

	Retirement Benefits Fund	Parliamentary Superannuation Scheme	Judges Contributory Pensions	Housing Tasmania's Scheme	Tasmanian Ambulance Service Scheme	Total
	$M	$M	$M	$M	$M	$M
2006-07						
Balance at 1 July	**4 989**	**29**	**31**	**15**	**27**	**5 092**
Current service cost	**143**	**....**	**....**	**....**	**2**	**146**
Interest cost	**262**	**2**	**2**	**1**	**1**	**268**
Contributions by plan participants	**48**	**....**	**....**	**(1)**	**1**	**48**
Actuarial losses (gains)	**534**	**1**	**(2)**	**2**	**3**	**538**
Benefits paid	**(227)**	**(1)**	**(1)**	**....**	**(3)**	**(233)**
Operating costs	**(10)**	**....**	**....**	**....**	**....**	**(10)**
Balance at 30 June	**5 739**	**31**	**30**	**17**	**31**	**5 848**
2005-06						
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 ANR liability	**64**	**....**	**....**	**....**	**....**	**64**
Balance at 30 June	**4 989**	**29**	**31**	**15**	**27**	**5 092**

E. Reconciliation in movements in plan assets

2006-07	Retirement Benefits Fund $M	Parliamentary Superannuation Scheme $M	Judges Contributory Pensions $M	Housing Tasmania's Scheme $M	Tasmanian Ambulance Service Scheme $M	Total $M
Balance at 1 July	1 371	14	....	....	33	1 419
Expected return on plan assets	95	1	....	....	2	98
Actuarial losses (gains)	145	1	....	....	2	148
Employer contributions	158	1	....	....	1	160
Contributions by plan participants	49	....	....	....	1	50
Benefits paid	(222)	(1)	....	....	(3)	(226)
Operating costs	(14)	....	....	....	....	(14)
Balance at 30 June	1 582	16	....	....	37	1 635
2005-06						
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

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.

	2006-07	2005-06
	%	%
Australian equities	30	38
Overseas equities	25	20
Fixed interest securities	20	21
Property	25	21

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 2006-07 RBF Board Annual Report. Figures for 2006-07 are based on unaudited accounts as at 30 April 2007 rolled forward to 30 June 2007, and audited accounts as at 30 June 2006. 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 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 have already been funded from member contributions.

Note 28 Other liabilities

	2006-07	2005-06
	$M	$M
Current other liabilities		
Revenue received in advance	175	178
Provision for outstanding and unreported claims in MAIB	62	76
Derivative financial instruments	184	125
Other	145	127
Total current other liabilities	566	506
Non-current other liabilities		
Provision for outstanding and unreported claims in MAIB	625	578
Derivative financial instruments	926	877
Other	177	84
Total non-current other liabilities	1 728	1 539
TOTAL	2 293	2 045

Note 29 Commitments

A. Commitments for capital expenditure

At 30 June 2007, 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.

	2006-07	2005-06
	$M	$M
Not later than 1 year	238	237
Later than 1 year and no later than 5 years	44	62
Later than 5 years	1	1
TOTAL	283	299

B. Operating lease commitments

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

	2006-07	2005-06
	$M	$M
Not later than 1 year	97	100
Later than 1 year and no later than 5 years	212	232
Later than 5 years	153	150
TOTAL	461	483

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:

	2006-07	2005-06
	$M	**$M**
Not later than 1 year	**....**	**....**
Later than 1 year and no later than 5 years	**....**	**....**
Later than 5 years	**....**	**....**
Minimum lease payments	**....**	**....**
Less future finance charges	**....**	**....**
TOTAL	**....**	**....**

D. Other commitments

At the reporting date, the State had the following obligations under arrangements other than finance and operating leases and capital commitments. This includes items such as Information Technology services, purchases of renewable energy certificates, assistance to industries and vegetation management contracts.

	2006-07	2005-06
	$M	**$M**
Not later than 1 year	**109**	**99**
Later than 1 year and no later than 5 years	**164**	**118**
Later than 5 years	**77**	**52**
TOTAL	**349**	**269**

Note 30 Contingent liabilities

Contingent liabilities represent items that, at 30 June 2007, 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

	General Government Entities	Public Non-Financial Corporations	Public Financial Corporations	Total
	$M	$M	$M	$M
2006-07				
Guarantees	**....**	**300**	**446**	**746**
Other	**....**	**....**	**....**	**....**
TOTAL	**....**	**300**	**446**	**746**
2005-06				
Guarantees	**....**	**300**	**310**	**610**
Other	**18**	**....**	**....**	**18**
TOTAL	**18**	**300**	**310**	**628**

Contingent assets and liabilities - not quantifiable

A number of contingent liabilities exist that are not quantifiable, including legal actions that 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. Contingent liabilities that are not quantifiable include:

- Claims against the Department of Education relating to a personal injury arising from accidents on the Department's premises. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these claims. The Department also has a number of leases on property it occupies. Some of these leases contain a "make good provision". A liability for these provisions has not been recognised in the Balance Sheet as the value of these provisions cannot be reliability measured.
- Claims against the Department of Health and Human Services relating to:
  - Public liability claims by former patients. At 30 June 2007, 108 open claims existed with an actuarial estimated potential liability of approximately $55 million of which approximately $5 million may become payable in 2007-08. The timing of these future claims cannot be reliably estimated. Assessment, confirmation and lodgement of claims may take a number of years to emerge, so only known claims are noted above. The Department insures through the Tasmanian Risk Management Fund. A $50 000 excess is payable for every claim. Amounts over that excess are met by the Fund. Claims before 1 July 2001 are being funded by the Government under a separate arrangement to the agency contributions which are paid in

respect of the post June 2001 risks. The current funding arrangements provide for the Fund to receive $5 million per annum from the Consolidated Fund. These arrangements are subject to review over time. Of the 108 open claims, 52 of these relate to pre-2001 incidents.

  - Workers' compensation claims. At 30 June 2007, 453 open claims existed (474 in 2006) with an estimated liability of approximately $22 million. The Department insures through the Tasmanian Risk Management Fund. A 13-week excess on weekly benefits is payable for every claim. Amounts over the excess are met by the Fund.

- Claims against the Department of Infrastructure, Energy and Resources relating to:
  - limited access compensation;
  - a number of acquisitions for current road projects which are at various stages of settlement;
  - contractual disputes which are not sufficiently clear or advanced to quantify;
  - personal injury or damage caused to property (including vehicles) allegedly due to road works or road condition;
  - asbestos removal from up to 1 000 traffic signal sites in Tasmania;
  - many rail accommodation crossings requiring upgrading from a rail and pavement perspective. The extent or potential cost has yet to be fully assessed;
  - non-operational rail lines are not subject to the maintenance funding agreement. However some level of maintenance will need to be undertaken. This cannot yet be quantified; and
  - identification and surveying of rail corridor land.
- A claim against the Department of Police and Emergency Management relating to a contract for the supply of Red Light Cameras. It is not possible to accurately estimate the amounts of any eventual payments that may be required in relation to this claim.
- Claims against the Department of Primary Industries and Water with a potential maximum liability of $2.1 million. The Department maintains a number of Crown Land sites, which may be contaminated and require restoration. The Department also has responsibility for maintaining Tasmania's relative freedom from disease, pests and weeds. Threats of future possible outbreaks will indicate future liabilities in order to manage and contain these risks.
- Eight claims against the Department of Tourism, Arts and the Environment with a maximum liability of $50 000 in each case. These are managed via the Tasmanian Risk Management Fund. Liability in these matters is yet to be determined. Due to the nature of the claims and the uncertainty as to the timing of potential settlement in each case, it is not possible to reliably measure these obligations in the Balance Sheet.
- The Department of Economic Development has instigated recovery action against Watts Communications (Canada) as parent company and guarantor of a financial assistance package provided to Watts Communications (Australia) in connection with the Devonport Call Centre facility. Crown Law is overseeing proceedings against the guarantor to recover funds advanced for failure to comply with terms and conditions of the package. Watts Communications did not respond to an issued Notice of Demand. It is the Department's intention to continue with action in an endeavour to recover the liability until it can be clearly established that there are no reasonable grounds in which to proceed, or that there is no likelihood that any funds can be legally

recovered. The Department is also seeking repayment of the financial assistance moneys provided to Insight (Tasmania) Pty Ltd, the former operator of the Triabunna Call Centre. The company ceased operating at the centre in December 2006. The Department expects this matter to be resolved in the early part of the 2007-08 financial year.

- Claims against Hydro Tasmania relating to:
  - The acquisition by CLP Asia Renewable Projects Limited ("CLP") of a half share in Roaring 40s Renewable Energy Pty Ltd ("Roaring 40s"). 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 Cathedral Rocks Wind Farm Pty Ltd (CRWF). The extent of any reconciliation required between the Corporation and CLP will not be known until resolution of the arbitration detailed below.
  - CRWF's wind farm has been constructed and is operated and maintained by Cathedral Rocks Construction and Management Pty Ltd (CRCM), a jointly controlled joint venture of the Corporation and Acciona Energy Oceania Pty Ltd. During 2007, resolution of a contractual dispute between CRCM and Vestas relating to the operational performance of the wind turbines was achieved. The extent of the reconciliation between CLP and the Corporation will be determined during 2008.
  - The Corporation reached an agreement for the sale of the assets of subsidiaries Bell Bay Power Pty Ltd and Bell Bay Three Pty Ltd during 2007. Included in the sale agreement is a regime for the indemnification of the purchaser in respect of contamination of the Bell Bay Power Station site, particularly in respect of personal injury and latent contamination on the site. The Corporation is seeking to mitigate any potential contingent liability for these indemnities.
  - The Corporation currently has a disagreement with a contract counterparty regarding price escalation clauses for a forward commodity contract. The Corporation is reviewing its contractual position relating to the disagreement and may seek to recover additional funds from the counterparty and therefore recognises a contingent asset.
- Claims against Forestry Tasmania relating to:
  - Exposure to the possibility of both workers' compensation and common law claims, as the Corporation is a self insurer. To reflect this in the accounts an estimate of the likely cost is made and brought to account in the provision for employee entitlements.
  - Indemnities have been provided to directors and senior management of Forestry Tasmania in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2007.
  - There has been no dividend declared for 2006-07 and in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* no dividend is recognised until declared. The dividend recommended by Forestry Tasmania is contingent upon the approval of the Treasurer and Portfolio Minister as per section 84(1) of the *Government Business Enterprises Act 1995*.
- Claims against TOTE Tasmania Pty Ltd and its subsidiary company, Tas Radio Pty Ltd over ownership rights to a Radio Licence.

- Tasports has significant infrastructure commitments, subject to certain proposed major developments proceeding to commencement of construction on the Airport, which may require additional borrowings. As at 30 June 2007, the value of these commitments could not be reliably measured.

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 2006-07*.

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 2007 and 30 June 2006 to interest rate risk and the effective interest rates of financial assets and financial liabilities is shown in the following tables:

2007

	Weighted	Fixed Interest Maturing In:					
	Average Effective Interest Rate	Floating Interest Rate	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**	**16**	**....**	**....**	**....**	**....**	**16**
Investments	**5.98**	**496**	**1 837**	**496**	**527**	**1 756**	**5 111**
Receivables	**n/a**	**31**	**....**	**....**	**....**	**422**	**453**
Total		**543**	**1 837**	**496**	**527**	**2 178**	**5 580**
Financial liabilities							
Payables	**n/a**	**11**	**....**	**....**	**....**	**460**	**471**
Interest bearing liabilities	**5.53**	**1 174**	**2 096**	**1 175**	**625**	**....**	**5 070**
Total		**1 185**	**2 096**	**1 175**	**625**	**460**	**5 541**

2006

	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
Total		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
Total		1 067	371	1 416	1 961	251	5 067

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
2007				
US Dollars	**....**	**24**	**(24)**	**....**
TOTAL	**....**	**24**	**(24)**	**....**
2006				
Japanese Yen	**100**	**....**	**(100)**	**....**
US Dollars	**....**	**94**	**(94)**	**....**
TOTAL	**100**	**94**	**(194)**	**....**

Liquidity risk

Liquidity risk arises from the possibility that the individual entities may be unable to settle a transaction on the due date. In addition to the holding of liquid assets, the Government's central borrowing authority, the Tasmanian Public Finance Corporation maintains an intra-day standby line of AUD$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	2007 Exposure	2006 Exposure
	$M	$M
Interest rate swaps	**150**	**137**
Basslink facility fee instrument	**63**	**63**
Foreign exchange contracts	**23**	**69**
Forward rate agreement	**8**	**15**
TOTAL	**244**	**285**

Net fair value

The carrying amounts and estimated fair values of recognised financial instruments held at 30 June 2007 and 30 June 2006 are as follows:

	Net fair value	Carrying value
	$M	$M
2007		
Financial assets		
Cash	**16**	**16**
Investments	**5 111**	**5 111**
Receivables	**453**	**453**
TOTAL	**5 580**	**5 580**
Financial liabilities		
Payables	**471**	**471**
Interest bearing liabilities	**5 070**	**5 070**
TOTAL	**5 541**	**5 541**
2006		
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**

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

	2006-07 $M	2005-06 $M
Operating surplus/(deficit)	(114)	881
Depreciation	425	433
Gross proceeds from sale of fixed assets	(60)	(3)
Written down value of assets sold	33	16
Increase/(decrease) in payables	85	3
Increase/(decrease) in employee entitlements	87	41
Increase/(decrease) in superannuation	511	(157)
Increase/(decrease) in accrued expenses	(27)	12
Increase/(decrease) in other liabilities	248	215
(Increase)/decrease in receivables	9	(96)
(Increase)/decrease in prepayments	(5)	(3)
(Increase)/decrease in accrued revenue	7	(35)
(Increase)/decrease in other assets	(253)	128
(Increase)/decrease in tax assets	7	50
Assets acquired below fair value	(60)	(353)
Revaluation and impairment movements	(283)	(336)
Adjustment for other non-cash items	(24)	(62)
Net cash from operating activities (including financial institutions)	586	734
Less Public Financial Institutions Net Cash from Operating Activities	(42)	(68)
Net cash from operating activities	629	871

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:

	2006-07	2005-06
	$M Inflows (Outflows)	$M Inflows (Outflows)
Cash Flow from Operating Activities		
Receipts		
Interest received	**286**	**285**
Payments		
Employee entitlements	**(2)**	**(2)**
Interest paid	**(325)**	**(350)**
Other payments	**(2)**	**(2)**
Net Cash used in Operating Activities	**(42)**	**(69)**
Cash Flows from Investing Activities		
Net Customer Loans (Granted)/Repaid	**....**	**43**
Net purchase of investments	**440**	**888**
Net Cash used in Investing Activities	**440**	**931**
Cash Flows from Financing Activities		
Net borrowings	**314**	**(1 451)**
Net Cash used in Financing Activities	**314**	**(1 451)**
NET CASH FLOWS FROM PUBLIC FINANCIAL INSTITUTIONS	**711**	**(588)**

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.

	2006-07	2005-06
	$M	$M
Cash as per Balance Sheet	**16**	**29**
Investments included as cash on the Cash Flow Statement	**1 625**	**443**
Cash as per the Cash Flow Statement	**1 641**	**472**

Note 36 Reconciliation of changes in equity

2006-07

	Total	Accumulated Surplus	Asset Revaluation Reserve	Other Reserves
	$M	$M	$M	$M
Balance at 1 July 2006	9 114	4 670	3 391	1 052
Operating surplus/(deficit)	(145)	(145)	....	....
Revaluation increments/(decrements)	611	....	611	....
Other movements	80	....	....	80
Balance at 30 June 2007	9 660	4 525	4 002	1 132

2005-06

	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	1 318	211	1 529
Plant and equipment	36	20	56
Infrastructure	2 038	380	2 418
TOTAL	3 391	611	4 002

Note 38 Details of controlled entities

The following controlled entities of the State are included in the Consolidated Financial Statements for the year ended 30 June 2007:

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 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.