



The
Treasury

2015–16 Crown Entity Financial Statements

incorporating
Restart NSW Fund Financial Report

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The
Treasury

Crown Entity
Financial Statements
for the year ended 30 June 2016



INDEPENDENT AUDITOR'S REPORT

Crown Entity

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of the Crown Entity, which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity, statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion the financial statements:

- give a true and fair view of the financial position of the Crown Entity as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 45E of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Crown Entity in accordance with the auditor independence requirements of:

- Australian Auditing Standards
- ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (the Code).

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies, but precluding the provision of non-audit services.

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

Secretary's Responsibility for the Financial Statements

The Secretary is responsible for preparing financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Secretary determines is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary must assess the Crown Entity's ability to continue as a going concern unless the Crown Entity's operations will cease as a result of an administrative restructure. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>.

The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Crown Entity carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.



Margaret Crawford
Auditor-General

30 September 2016
SYDNEY

**Financial Statements
for the year ended 30 June 2016**

STATEMENT BY DEPARTMENT HEAD

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

- (a) The accompanying financial statements exhibit a true and fair view of the financial position of the Crown Entity as at 30 June 2016 and the financial performance for the year then ended; and
- (b) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, *Public Finance and Audit Regulation 2015*, Treasurer's Directions and applicable Australian Accounting Standards.

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



**Rob Whitfield
Secretary**

28 September 2016

Crown Entity

Statement of Comprehensive Income for the year ended 30 June 2016

	Notes	Actual 2016 \$'000	Actual 2015 \$'000
Revenue			
Retained taxes, fees and fines	3(a)	29,789,423	26,690,411
Commonwealth contributions	3(b)	23,359,493	22,894,681
Financial distributions	3(c)	1,265,007	2,662,158
Investment income	3(d)	564,552	398,990
Share of profit of an associate	5	43,773	107,949
Royalty on minerals		1,188,741	1,253,893
Other income	3(e)	835,373	1,032,105
Total revenue		57,046,362	55,040,187
Expenses			
Superannuation - defined benefit plans	13	2,149,147	2,299,943
Employee related expenses		1,646,089	1,344,174
Depreciation and amortisation		-	8
Grants and subsidies	4(a)	1,712,506	864,192
Finance costs	4(b)	1,602,957	1,643,305
Recurrent appropriations	23	47,331,935	44,957,156
Capital appropriations	23	2,479,145	4,442,477
Other expenses	4(c)	596,258	818,157
Total expenses		57,518,037	56,369,412
Gain from financial instruments		4,740	1,244
Other gains/(losses)		139,627	(35)
Deficit for the year		(327,308)	(1,328,016)
Other comprehensive income			
<i>Items that will not be reclassified to surplus or deficit</i>			
Actuarial loss on defined benefit plans	13	(14,084,882)	(3,072,058)
Share of earnings from an associate from revaluations		(96,628)	904,888
Share of associate's other comprehensive income		(9,048)	(11,368)
Total other comprehensive deficit for the year		(14,190,558)	(2,178,538)
Total comprehensive result for the year		(14,517,866)	(3,506,554)

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Financial Position as at 30 June 2016

	Notes	Actual 2016 \$'000	Actual 2015 \$'000
Assets			
Current assets			
Cash and cash equivalents	19	13,551,449	13,724,143
Other financial assets	6	10,718,951	2,450,083
Derivative financial instruments	7	27,840	23,100
Advances repayable to the Crown	8	454,748	156,387
Receivables	9	2,562,132	3,541,064
Total current assets		27,315,120	19,894,777
Non-current assets			
Investment in an associate	5	3,782,789	3,949,092
Other financial assets	6	3,850,058	79
Advances repayable to the Crown	8	811,972	1,092,567
Receivables	9	3,702	8,571
Total non-current assets		8,448,521	5,050,309
Total assets		35,763,641	24,945,086
Liabilities			
Current liabilities			
Payables	10	402,162	472,096
Bank overdraft	19	16,793,102	10,343,012
Borrowings	11	1,050,349	1,257,574
Unfunded superannuation	13	1,493,491	1,422,286
Employee benefits and other provisions	14	7,617,951	6,648,098
Provisions	15	134,312	65,345
Other	22	317,877	327,814
Total current liabilities		27,809,244	20,536,225
Non-current liabilities			
Borrowings	11	26,681,473	26,272,477
Unfunded superannuation	13	65,566,565	48,592,997
Employee benefits and other provisions	14	653,779	570,528
Provisions	15	1,299,865	1,373,235
Other	22	599,039	613,848
Total non-current liabilities		94,800,721	77,423,085
Total liabilities		122,609,965	97,959,310
Net liabilities		(86,846,324)	(73,014,224)
Equity			
Revaluation surplus reserve		2,743,072	2,839,700
Accumulated deficit		(89,589,396)	(75,853,924)
Total equity		(86,846,324)	(73,014,224)

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Changes in Equity for the year ended 30 June 2016

	Notes	Accumulated deficit \$'000	Revaluation surplus \$'000	Total equity \$'000
Balance at 1 July 2015		(75,853,924)	2,839,700	(73,014,224)
Deficit for the year		(327,308)	-	(327,308)
Other comprehensive income				
Actuarial loss on defined benefit plans	13	(14,084,882)	-	(14,084,882)
Investment in an associate		(9,048)	(96,628)	(105,676)
Total other comprehensive income		(14,093,930)	(96,628)	(14,190,558)
Total comprehensive result for the year		(14,421,238)	(96,628)	(14,517,866)
Transactions with owners in their capacity as owners				
Increase in net assets from equity transfers	25	685,766	-	685,766
Total transactions with owners in their capacity as owners		685,766	-	685,766
Balance at 30 June 2016		(89,589,396)	2,743,072	(86,846,324)
Balance at 1 July 2014		(69,838,862)	1,934,812	(67,904,050)
Deficit for the year		(1,328,016)	-	(1,328,016)
Other comprehensive income				
Actuarial loss on defined benefit plans	13	(3,072,058)	-	(3,072,058)
Investment in an associate		(11,368)	904,888	893,520
Total other comprehensive income		(3,083,426)	904,888	(2,178,538)
Total comprehensive result for the year		(4,411,442)	904,888	(3,506,554)
Transactions with owners in their capacity as owners				
Decrease in net assets from equity transfers	25	(1,603,620)	-	(1,603,620)
Total transactions with owners in their capacity as owners		(1,603,620)	-	(1,603,620)
Balance at 30 June 2015		(75,853,924)	2,839,700	(73,014,224)

The accompanying notes form part of these financial statements.

Crown Entity

Statement of Cash Flows for the year ended 30 June 2016

	Notes	Actual 2016 \$'000	Actual 2015 \$'000
Cash flows from operating activities			
Payments			
Employee related		(2,180,132)	(2,034,764)
Grants and subsidies		(1,686,535)	(838,026)
Finance costs		(1,448,316)	(1,435,922)
Recurrent appropriation	23	(47,331,935)	(44,957,156)
Capital appropriation	23	(2,479,145)	(4,442,477)
Other		(458,079)	(480,959)
Total payments		(55,584,142)	(54,189,304)
Receipts			
Retained taxes, fees and fines		29,588,877	26,555,445
Sale of goods and services		-	3,181
Commonwealth grants	23	23,479,274	22,831,159
Investment income		367,422	359,690
Financial distribution from other entities		2,246,684	2,372,404
Other		1,960,243	2,417,266
Total receipts		57,642,500	54,539,145
Net cash flows from operating activities	19	2,058,358	349,841
Cash flows from investing activities			
Purchase of investments		(12,118,845)	-
Advances made		(191,589)	(60,218)
Proceeds from sales of investment		-	1,550,019
Advance repayments received		205,095	200,240
Dividend received from investment		104,400	89,900
Net cash flows from investing activities		(12,000,939)	1,779,941
Cash flows from financing activities			
Proceeds from borrowings and advances		138,571	480,284
Repayment of borrowings and advances		(64,393)	(704,645)
Net cash flows from financing activities		74,178	(224,361)
Net increase/(decrease) in cash		(9,868,403)	1,905,421
Opening cash and cash equivalents		3,381,131	1,786,033
Other cash transfer in as a result of restructuring		3,245,619	(310,323)
Closing cash and cash equivalents	19	(3,241,653)	3,381,131

The accompanying notes form part of these financial statements.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

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Crown Entity

Notes to the financial statements for the year ended 30 June 2016

1. CROWN ENTITY INFORMATION

Reporting entity

The Crown Entity is a government department for financial reporting purposes under section 45A (1A) of the *Public Finance and Audit Act 1983*. It is a not-for-profit entity.

The Crown Entity reports on the following transactions:

Crown Finance Entity

The Crown Finance Entity manages the Crown's financial assets and financial liabilities. These include:

- the Crown debt portfolio
- the Crown superannuation liability for certain general government agencies
- long service leave liability for certain general government agencies

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

Consolidated Fund

The Consolidated Fund collects state taxation, Commonwealth contributions and financial distributions from certain NSW agencies. Payments comprise recurrent and capital appropriation payments to general government agencies. Note 23 details the Fund's receipts and payments.

The principal office of the Crown Entity is 52 Martin Place, Sydney NSW 2000.

The financial statements were authorised for issue by the Secretary of NSW Treasury on the date the accompanying Statement by the Secretary was signed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and in the relevant notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Crown Entity financial statements have been prepared on a going concern basis. It is reasonably expected that the entity will have adequate resources to continue operations for the foreseeable future.

The Crown Entity receives the majority of NSW State Government revenue in the form of State taxes, Commonwealth contributions and financial distributions from State Owned Corporations. While the entity holds many of the major liabilities of the State government it also benefits from the government's AAA credit rating allowing it to fund its activities. It is considered that the application of the going concern concept is appropriate.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

These general purpose financial statements have been prepared in accordance with the requirements of:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- *Public Finance and Audit Act 1983*
- *Public Finance and Audit Regulation 2015*
- Treasurer's Directions

The Crown Entity is exempt from the NSW Treasury Financial Reporting Code. The exemption was granted due to the Crown Entity's unique structure. Unlike other government agencies, the Crown Entity includes the Consolidated Fund. It is not involved in service delivery, nor does it have any employees. The format prescribed by the Financial Reporting Code would be inappropriate for the presentation of the Crown Entity financial statements. The exemption is granted subject to its financial statements being in accordance with applicable accounting standards.

The financial statements have been prepared on the following basis:

- financial assets and derivative financial instruments are measured at fair value
- superannuation, long service leave, and insurance gross liabilities are valued at net present value of the expected payments required to settle the liability
- loans and advances are measured at amortised cost
- all other financial statement items are prepared in accordance with the historical cost convention

The financial statements are presented in Australian dollars and all amounts are rounded to the nearest thousand dollars (\$'000).

Statement of compliance

The financial statements and notes comply with applicable Australian Accounting Standards including Australian Accounting Interpretations.

New, revised or amending standards and interpretations

The Crown Entity has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting year.

Any significant impacts on the accounting policies from the adoption of these new accounting standards and interpretations are disclosed in the relevant accounting policy.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective

As mandated by Treasury Circular TC16-02, the Crown Entity has not early adopted any new accounting standards, amendments and interpretations that have been issued but are not yet effective.

The following lists the new standards and interpretation that whilst not yet effective, may be applicable to the Crown Entity:

- AASB 9 *Financial Instruments (2014)*
- AASB 16 *Leases*
- AASB 1057 *Application of Australian Accounting Standards*
- AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*
- AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*
- AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*
- AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*
- AASB 2015-9 *Amendments to Australian Accounting Standards – Scope and Application Paragraphs*
- AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
- AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*

It is considered impracticable to presently determine the impact of adopting those new standards and interpretations.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies previously disclosed under Note 2 that relate to a specific note have been moved to the relevant note disclosure.

REVENUE

Revenue is recognised when it is probable that economic benefits will flow to the Crown Entity and it can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

Royalties, licences and permissive occupancies

Revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

EXPENSES

Expenses are recognised when it is probable that consumption or loss of future economic benefits have occurred and that can be reliably measured.

Employee arrangements

The Crown Entity has no employees. Its work is performed by staff from NSW Treasury. The Crown Entity reimburses the NSW Treasury for these staffing costs and pays for its share of accommodation and other administrative costs. These costs are recorded in 'Other Expenses'.

Other NSW Government agencies contribute varying levels of service to the Crown Entity free of charge. Due to the irregular and varied nature of those services, no expense for these services is recognised.

Whilst the Crown Entity employs no staff, it recognises employee benefit expenses and liabilities as it assumes these from various NSW public sector agencies.

Superannuation – defined benefit plans

The Crown Entity assumes defined benefit lump sum and pension plans funding responsibility of certain general government sector agencies. The assets of the plans are held in separate funds administered independently by trustees.

The Crown Entity recognises an unfunded superannuation liability for the defined benefit schemes. It is the difference at the reporting date between the present value of forecast employees' accrued benefits (gross liabilities) and the estimated net market value of the superannuation schemes' assets. Gross liabilities are calculated under AASB 119 *Employee Benefits*.

The unfunded liabilities are actuarially assessed at reporting date. More details are provided in Note 13.

Recurrent and capital appropriations

Parliamentary appropriations are income where an agency obtains control over appropriated assets after receiving the funds. The Consolidated Fund recognises these appropriations as expenses as soon as the funds are transferred.

Appropriations for a specific financial year are legally only available to an agency until 30 June. Unspent appropriations become liabilities by the agency to the Consolidated Fund. The Consolidated Fund accounts for the appropriations unspent by agencies as receivables.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goods and Services Tax

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

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

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

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST recoverable or payable on cash flows arising from investing and financing activities are classified as operating cash flows.

Contingencies and commitments are recognised inclusive of GST.

ASSETS

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

Financial assets

Financial assets are classified as:

- fair value through profit or loss
- loans and receivables

The Crown Entity does not have any held-to-maturity or available-for-sale investments.

The assets are measured at fair value when initially recognised. Investments not at fair value are measured at cost and include directly attributed transaction costs. The Crown Entity classifies assets at initial recognition and subsequently re-evaluates the assets at each reporting date where allowed.

Financial assets at fair value through profit or loss

Financial assets held for trading and derivatives are included as financial assets at fair value through profit or loss. Assets are held for trading if they are acquired to sell in the near term. Financial assets are also designated at fair value through profit or loss when they are managed and their performance is evaluated on a fair value basis. Gains or losses on financial assets through profit or loss are recognised in surplus or deficit.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value, usually based on transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method less an allowance for any impairment of receivables. When they are de-recognised or impaired, gains and losses are recognised in surplus or deficit, and through the amortisation process.

Short-term receivables with no stated interest rate are measured at the original invoice amounts where the effect of discounting is immaterial.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Crown Entity assesses if a financial asset or group of financial assets, except those measured at fair value through profit and loss, is impaired at each reporting date.

De-recognition of financial assets

The Crown Entity de-recognises a financial asset including a part of an asset, or a part of a group of similar assets, when:

- the rights to receive cash flows from the asset have expired
- it retains the rights to receive cash flows but agree to pay all cash flows without material delay to a third party in a pass-through arrangement
- it transfers the rights to receive cash flows by either substantially transferring all risks and rewards or its control of the asset

LIABILITIES

Liabilities are the future sacrifices of economic benefits that the Crown Entity is presently obliged to make as a result of past transactions or other past events. A liability is recognised in the Statement of Financial Position when it is probable that the future sacrifice of economic benefits will be required and the amount of the liability can be measured reliably.

De-recognition of financial liabilities

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

When a lender replaces an existing financial liability with one on significantly different or modified terms, the Crown Entity derecognises the original liability and recognises the new liability. The difference in carrying amounts is recognised in surplus or deficit.

Use of judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management judgements and estimates are based on historical experience, independent valuations and/or various other factors that are believed to be reasonable under the circumstances.

Judgements, key assumptions and estimations that have been made in the preparation of the financial statements are disclosed in the relevant notes to the financial statements.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

3. REVENUE

a) Taxes, fees and fines

	2016 \$'000	2015 \$'000
Payroll tax	8,968,149	8,427,175
Stamp duties	10,843,785	9,231,148
Gambling and betting taxes	2,245,661	2,069,084
Land tax	2,809,983	2,524,971
Motor vehicle taxes and fees	2,705,063	2,368,099
Fees and fines	666,902	611,069
Government guarantee fees	470,391	452,716
Waste disposal levy	688,609	563,954
Other	390,880	442,195
	29,789,423	26,690,411

Revenue from taxes, fees and fines are recognised as follows:

- Government-assessed (mainly land and gaming taxes) is recognised when assessments are issued.
- Taxpayer-assessed revenue is recognised when the tax collecting agency receives the funds. These include payroll tax and stamp duty. Additional revenue is recognised upon amended assessment.
- Fees are recognised when cash is received.
- Penalty notice revenue is recognised when payments are received or when they become overdue and further enforcement activity commences.
- Fines are recognised when issued, such as court fines and additional income from overdue fines when they are referred for further enforcement action

Generally, where the flow of economic benefits cannot be reliably measured, income is recognised when cash is received.

b) Commonwealth contributions

Revenue replacement	22,061	49,433
Specific purpose - recurrent	3,111,282	2,928,106
Commonwealth National Partnership payments - recurrent	950,056	947,363
Commonwealth National Partnership payments - capital	1,656,780	1,950,264
GST revenue	17,619,314	17,019,515
	23,359,493	22,894,681

Commonwealth contributions help NSW meet expenditure responsibilities. These consist of Specific Purpose and National Partnership payments, GST revenues and other General Revenue Assistance Payments. These contributions are used for both recurrent and capital purposes and are recognised as revenue when cash is received.

The Crown Entity also receives contributions from the Commonwealth Government that are transferred to eligible beneficiaries which are not included in the above. These transfer payments are detailed in Note 24.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

3. REVENUE (continued)

c) Financial distributions

	2016 \$'000	2015 \$'000
Dividends	738,461	1,833,369
Income tax equivalents	526,546	828,789
	1,265,007	2,662,158

Dividends and income tax equivalents are received from the State's public trading enterprises and public financial enterprises. Revenue is recognised in the period when the right to receive payment is established.

d) Investment income

Interest		
Advances	93,370	96,968
Short term money market deposit - TCorp	28,262	6,496
Private sector deposits	365,167	295,437
TCorp investments	77,753	89
	564,552	398,990

Investment income includes interest income and net gains or losses from changes in the fair value of investments held at fair value through profit or loss. Interest income is recognised as interest accrued by using the effective interest method. The Crown Entity calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate method discounts estimated future cash receipts through the expected life of the financial asset.

e) Other income

Contribution from other Government agencies	302,340	97,917
Revenue from Crown land assets	58,052	65,298
Crown share of Government agency asset sales	68,435	65,224
Repayment of contribution from SICorp	185,000	380,000
Repayments of previous years appropriation	29,671	80,817
Long service leave contributions	35,997	35,620
Unclaimed monies	37,903	59,699
HIH insurance recoveries	12,201	82,172
Defined benefit superannuation contributions	19,211	40,595
Other	86,563	124,763
	835,373	1,032,105

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

3. REVENUE (continued)

f) Contributions

Contributions are received under the National Partnership Agreements with the Commonwealth. Under each agreement, an implementation plan and reporting conditions are agreed. Payments are spent on agreed items and to a timetable agreed with the Commonwealth. Contributions are deemed to be non-reciprocal transfers.

The Crown Entity included the following contributions as revenue where:

(i) Conditional contributions recognised in the current year and not fully spent

Description (Department)	Balance (\$'000)	
	2015-16	2014-15
Ministry of Health	15,667	92,969
Premier & Cabinet	380	-
Education	110,545	390,306
Industry, Skills & Regional Development	233,368	35,188
Total	359,960	518,463

(ii) Conditional contributions for the provision of goods or services over a future period

Description (Department)	Balance (\$'000)				
	Total	Periods to which the amounts relate			
		2015-16	2016-17	2017-18	2018-19
Transport – Roads & Maritime Services	515,599	515,599	-	-	-
Total	515,599	515,599	-	-	-

2014-15 comparative

Description (Department)	Balance (\$'000)				
	Total	Periods to which the amounts relate			
		2014-15	2015-16	2016-17	2017-18
Transport – Roads	484,623	484,623	-	-	-
Transport – Rail	2,086	2,086	-	-	-
Total	486,709	486,709	-	-	-

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

3. REVENUE (continued)

f) Contributions (continued)

(iii) Amount of contributions passed on to agencies in the current financial year from the previous 30 June balance.

Description (Department)	Balance (\$'000)	
	2015-16	2014-15
Transport – Roads & Maritime Services/WestConnex	582,114	1,010,470
Ministry of Health	107,678	53,828
Education	192,374	230,198
Industry, Skills & Regional Development	82,837	28,659
Total	965,003	1,323,154

4. EXPENSES

a) Grants and subsidies

	2016 \$'000	2015 \$'000
Natural disaster relief	4	61,598
Snowy river water rights	-	61
Grant to NSW Self Insurance Corporation	105,000	25,000
Grants to agencies for redundancy payments	140,087	181,596
Grants to other Government agencies	600	11,745
Infrastructure grants made by Restart	1,224,244	330,132
First home owners grant	211,478	207,082
Grant to Liability Management Ministerial Corporation	18,745	17,713
Other	12,348	29,265
	1,712,506	864,192

Apart from redundancies, grants and subsidies are recognised as expenses when the payments are made. Grants for redundancies are recognised on an accrual basis when approved.

b) Finance costs

Finance charges from:		
TCorp	1,373,277	1,405,104
Commonwealth Government	72,613	74,657
Other NSW Government agencies	70,300	103,734
Other	37,265	9,270
Unwinding of discounts	49,502	50,540
	1,602,957	1,643,305

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

4. EXPENSES (continued)

b) Finance costs (continued)

Finance costs mainly refer to borrowing costs. Loans are not held for trading and are recognised at amortised cost using the effective interest method. The discount or premium is treated as a finance cost and amortised over the life of the debt. Borrowing costs are expensed in the period in which they are incurred, in accordance with Treasury's mandate to not-for-profit general government sector entities.

Finance costs also include any gain or loss on restructuring of borrowings and the unwinding of discounts (the increase in the provision resulting from the passage of time) for the provision of outstanding claims and restoration costs.

c) Other expenses

	2016	2015
	\$'000	\$'000
Remissions and refunds	62,274	91,241
Bad and doubtful debts	111,587	23,009
Audit fees		
Financial statements	1,034	782
Other engagement fees	371	1,238
Auditor General's reports to Parliament and performance audits	7,521	7,270
Consultants	74,463	44,473
Other contractors	2,427	1,858
HIH claims	-	(4,114)
Builders warranty claims	(1,924)	(7,103)
Police superannuation scheme - medical claims cost	13,841	14,889
GST administration costs	215,469	217,666
Land Remediation Provision	(2,651)	27,079
Refunds to the Commonwealth	126	63
Land tax discounts	25,775	23,115
Other	85,945	376,691
	596,258	818,157

5. INVESTMENT IN AN ASSOCIATE

The Crown Entity's investment in an associate consists of the NSW Government's 58 per cent share in Snowy Hydro Limited (SHL), with the Commonwealth and Victorian governments holding the other 13 per cent and 29 per cent, respectively.

SHL is an unlisted public company limited by guarantee mainly involved in generating and marketing renewable electricity, as well as the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers.

There is no published quotation price for the fair value of this investment. The associate is an entity over which the Crown Entity has significant influence but is neither a subsidiary nor a joint venture. Despite owning 58 per cent of SHL shares, the Crown Entity does not control SHL, with one of up to nine board directors and equal one-third shareholder voting rights as prescribed by the Snowy Hydro Corporatisation. The Crown Entity has applied the equity method to account for its investment in SHL.

For the current reporting period, SHL has a reporting date of 2 July 2016 (2015: 27 June).

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

5. INVESTMENT IN AN ASSOCIATE (continued)

Under AASB 128 *Investments in Associates* the investment is measured consistently with the policies applied in the Crown Entity financial statements. The Crown Entity recognises its investment based upon 58 per cent of the SHL's net assets reported in SHL's financial statements with the exception of Property, Plant and Equipment (PP&E) which has been adjusted to fair value using the income approach under AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*.

There are a number of significant estimates and judgements used in determining the fair value of these assets. These include the effect on income of prevailing economic conditions, changes in the productivity of the business and the actions of other participants in the National Energy Market to reduce exposure to electricity wholesale price risk. Management obtains expert assistance in making these estimates and judgements.

The valuation is based on the discounted cash flow model which uses historical cash flow data from 2007 through to the current forecasted 2016 financial year and projections out to June 2021. Estimate future cash flows are discounted using an appropriate market derived weighted average cost of capital calculated specific for SHL.

Changes in the Crown Entity's share of the associate's operating results, adjusted to ensure consistency with Crown Entity accounting policy, are reflected in surplus or deficit. Where a change is recognised directly in the associate's equity, the Crown Entity recognises its share in other comprehensive income.

	2016	2015
	\$000	\$000
Non-current investment in an associate	3,782,789	3,949,092
	3,782,789	3,949,092
Crown's share of associate's assets and liabilities		
Current assets	515,214	579,884
Non-current assets	4,192,443	4,320,176
	4,707,657	4,900,060
Current liability	322,770	172,028
Non-current liability	602,098	778,940
	924,868	950,968
Net assets	3,782,789	3,949,092
Crown's share of associate's profit		
Revenue	1,283,656	1,017,900
Profit before income tax	52,863	149,192
Income tax expense	(9,090)	(41,243)
Profit after income tax	43,773	107,949
Other comprehensive income	(9,048)	(11,368)
Total comprehensive income	34,725	96,581

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

5. INVESTMENT IN AN ASSOCIATE (continued)

	2016 \$000	2015 \$000
Crown's share of SHL's commitments for expenditure		
Capital expenditure	10,034	11,252
Other expenditure	53,012	88,392
Operating leases	116,580	171,970
	179,626	271,614

GST credits

The recoverable input tax credits from the Crown Entity's share of SHL operating lease, capital and other expenditure commitments constitute a contingent asset. These are as follows:

Capital commitments	912	1,023
Other commitments	4,819	8,036
Operating lease commitments - lessee	10,598	15,634
	16,329	24,693

6. OTHER FINANCIAL ASSETS

Current

Financial assets at fair value	77	83
Other loans and deposits	10,718,874	2,450,000
	10,718,951	2,450,083

Non-current

Financial assets at fair value	58	79
Other loans and deposits	3,850,000	-
	3,850,058	79

Total financial assets at fair value

	14,569,009	2,450,162
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Other loans and deposits are term deposits held at financial institutions with maturities ranging between 3 and 36 months.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

7. DERIVATIVE FINANCIAL INSTRUMENTS

In February 2012, Reliance Rail entered into a series of restructure agreements with the State, financial guarantors and other parties to restructure the Reliance Rail financing. These restructure plans included a conditional commitment by the State to invest \$175 million in Reliance Rail in 2018 in return for 100 per cent of the equity in Reliance Rail. The capital commitment is subject to Reliance Rail achieving certain conditions precedent by the funding date which includes the successful delivery of the trains and its ability to refinance its existing debt at that time.

These forward contracts contain underlying derivatives which are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value.

Fair value of the Crown Entity's derivative financial instruments

	2016	2015
	\$'000	\$'000
Current assets		
Forward contracts	27,840	23,100
Net amount receivable	27,840	23,100

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value for derivatives are shown after net-off of transactions with the same counter-party. Gains or losses arising from changes in the fair value of derivatives are recognised in surplus or deficit.

Fair values of forward contracts are determined by reference to the underlying value of the equity, applying a discounted cash flow method, and the forward price.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

8. ADVANCES REPAYABLE TO THE CROWN

	2016 \$'000	2015 \$'000
Current	454,748	156,387
Non-current	811,972	1,092,567
Total advances	1,266,720	1,248,954
Represented by:		
NSW Land and Housing Corporation	404,488	432,142
Office of Environment and Heritage	192,158	244,997
Trustee of the Home Purchase Assistance Fund	120,890	127,836
NSW Rural Assistance Authority	158,673	132,226
Department of Education	140,500	140,500
Local Government Infrastructure	73,145	86,952
Co-operative advances	45,716	19,598
Sydney Water Corporation	-	962
Ministry of Health	14,487	6,481
Department of Industry, Skills and Regional Development	1,814	3,610
Roads and Maritime Services	-	2,033
NSW Police Force	387	530
Asbestos Injuries Compensation Fund Limited	99,375	35,812
Other	14,258	14,325
Department of Justice	829	950
	1,266,720	1,248,954

The above advances repayable to the Crown have a face value of \$1,626 million as at 30 June 2016 (2015: \$1,642 million) and stated interest rates of 0.0 – 7.2 per cent and mature in 1 - 26 years.

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

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

9. RECEIVABLES

	2016 \$'000	2015 \$'000
Current:		
Retained taxes, fees and fines	1,662,654	1,623,234
Less: allowance for impairment	(254,522)	(206,897)
Net - retained taxes, fees and fines	1,408,132	1,416,337
Dividends	738,461	1,674,567
Tax equivalents	100,637	146,208
Unspent appropriations	31,402	72,529
GST Receivable	1,319	2,666
Other	282,181	228,757
	2,562,132	3,541,064
Non-current:		
Other	3,702	8,571
	3,702	8,571
Total receivables	2,565,834	3,549,635
Movements in the allowance for impairment		
Balance at 1 July	206,897	184,128
Add: new provisions	132,914	80,592
Less: amounts used	(85,289)	(57,823)
Balance at 30 June	254,522	206,897

Taxes, fees and fines are recognised and carried at the original levied amount less an allowance for any uncollectible amounts. Receivables from reinsurance and other recoveries are actuarially assessed. Dividends, income tax equivalents and other receivables are recognised on an accrual basis.

The average credit period on receivables, unless otherwise specified, is 30 days. No interest is being charged on payments which are delayed except for current receivables that are under objection or appeal. An allowance for impairment of receivables is made for specific receivables which are not likely to be received. Movement of this allowance is recognised in surplus or deficit.

The current receivables included assessments totalling \$93.5 million (2015: \$51.1 million) that were under objection or appeal.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

10. PAYABLES

Payables represent liabilities for goods and services provided but not paid for at each reporting date. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method.

Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

	2016 \$'000	2015 \$'000
Current:		
Creditors	24,710	18,105
Financial charges	371,525	406,648
Liability to Nominal Defendant Fund	3,333	15,333
Other	2,594	32,010
Total current payables	402,162	472,096
Non-current:	-	-
Total payables	402,162	472,096

Financial charges mainly represent accrued interest payable to TCorp and Commonwealth Government. Other payables are non-interest bearing and are generally on 30 day terms. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or statement is received.

11. BORROWINGS

All loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. The Crown Entity estimates the fair value of Commonwealth specific purpose low interest loans by discounting the expected cash flows by the relevant Commonwealth bond rate. The effective interest method is used to measure interest-bearing loans and borrowings at amortised cost. Gains and losses are recognised in surplus or deficit when the liabilities are derecognised.

Current	1,050,349	1,257,574
Non-current	26,681,473	26,272,477
Total borrowings	27,731,822	27,530,051
Analysed as:		
TCorp	27,038,272	26,808,688
Commonwealth financial agreements	7,919	7,924
Commonwealth specific purpose advances	639,360	668,955
Commonwealth other	46,271	44,234
Other	-	250
Total borrowings at amortised cost	27,731,822	27,530,051

Borrowings from TCorp are interest bearing. The average interest cost, including the amortisation of bond premium or discount, of the TCorp debt portfolio was 5.22 per cent (2015: 5.43 per cent). The modified duration of the nominal debt portfolio is 5.15 (2015: 5.06) and for the indexed debt portfolio is 9.33 (2015: 9.65). The Crown Entity measures its exposure to interest rate risk in terms of cash flows or notional cash flows generated by financial instruments as discussed in Note 12.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS

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

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

Management has overall responsibility for the establishment and oversight of risk management, reviews and sets policies for managing each of these risks. Risk management policies are in place to establish frameworks and processes that identify and analyse the risks faced by the Crown Entity, set risk limits and controls, and monitor risks.

Financial instrument categories

	Note	Category	Carrying Amount	
			2016 \$'000	2015 \$'000
Financial assets				
Cash and cash equivalents	19	N/A	13,551,449	13,724,143
Other financial assets	6	At fair value through profit or loss (designated as such upon initial recognition)	135	162
Other financial assets	6	Loans and Receivables (at amortised cost)	14,568,874	2,450,000
Derivative financial instruments	7	At fair value through profit or loss (classified as held for trading)	27,840	23,100
Advances repayable to the Crown	8	Loans and Receivables (at amortised cost)	1,266,720	1,248,954
Receivables ¹	9	Loans and Receivables (at amortised cost)	1,024,344	1,911,895
Financial liabilities				
Payables	10	Financial liabilities (at amortised cost)	402,162	472,096
Bank overdrafts	19	N/A	16,793,102	10,343,012
Borrowings	11	Financial liabilities measured at amortised	27,731,822	27,530,051
Financial guarantees	22(b)	Financial liabilities measured at fair value less accumulated amortisation	6,100	8,000

¹ Excludes statutory receivables and prepayments and therefore differs from the amounts shown in the Statement of Financial Position.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS (continued)

Risk management

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

- market risk
 - i. interest rate risk
 - ii. currency risk
 - iii. other price risk
- credit risk
- liquidity risk

The Crown Entity contracts the NSW Treasury Corporation (TCorp) to manage many of these risks in line with Memoranda of Understanding (MoU) between the parties. Treasury's Asset and Liability Committee (ALCO) oversees risks in the Crown Entity's financial instrument activities and reports on the risks associated with the holding of financial instruments, and provides recommendations to the Treasury Secretary around appropriate risk levels and preferences. TCorp actively manages financial instrument risks, and the MoU are reviewed regularly and updated to include changes in market conditions and/or management's direction. The documents clearly set out investment management objectives, restrictions, and establish performance benchmarks. The MoU are authorised and approved at the Senior Executive Level within NSW Treasury.

Proposed changes to the MoU must go through a consultative process between TCorp and the Treasury Management team at NSW Treasury. Regular meetings take place between TCorp, the Treasury Management team and the Director of Crown Finance to monitor the performance and management of the Crown Entity's investment and debt portfolios. The NSW Treasury's representatives managing the Crown Entity's treasury portfolio with TCorp comprise staff with experience in financial risk management, treasury management and economics.

NSW Treasury sets the debt and investment strategy for the Crown Entity and TCorp manages and monitors associated financial risks within the boundaries of its established Board policies, legislative requirements, management guidelines and the MoU. TCorp's operational risks are mitigated through:

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Crown Entity's exposures to market risk are primarily through interest rate risk on its borrowings and fixed interest investments.

The effects on the Crown Entity's profit and equity due to reasonably possible changes in risk variables are outlined in the information below. A reasonably possible change in each risk variable has been determined after taking into account the economic environment in which the Crown Entity operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at the reporting date. The analysis is performed on the same basis as for 2015. The analysis assumes that all other variables remain constant.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

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

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

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

	Carrying Amount \$'000	-1% Profit \$'000	Equity \$'000	+1% Profit \$'000	Equity \$'000
2016					
Financial assets					
Cash and cash equivalents	13,551,449	135,514	-	(135,514)	-
Financial liabilities					
Bank overdrafts	16,793,102	167,931	-	(167,931)	-
Borrowings managed by TCorp	27,038,272	1,746,826	-	(1,746,826)	-
2015					
Financial assets					
Cash and cash equivalents ¹	13,721,049	(137,210)	-	137,210	-
Financial liabilities					
Bank overdrafts	10,343,012	103,430	-	(103,430)	-
Borrowings managed by TCorp	26,808,688	1,663,893	-	(1,663,893)	-

¹ Excludes the cash and cash equivalents which are in the Hour-Glass investment facility. The cash and cash equivalents in the Hour-Glass are subject to the overall price risks of the Hour-Glass facilities.

Currency risk

The Crown Entity has minimal foreign currency risk exposure from its holding of Canadian dollars in cross border lease arrangements totalling \$135,000 (2015: \$162,000).

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk arises from the financial assets of the Crown Entity, which comprise of cash and cash equivalents, receivables, advances, financial assets, derivatives and financial guarantees. The Crown Entity's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments net of any allowance for impairment at each reporting date.

There have been no changes in the fair value of financial assets and financial guarantees due to change in credit risks.

Cash and cash equivalents

Cash comprises short-term deposits and bank balances within and outside the NSW Treasury Banking System (TBS). Interest is earned on daily bank balances adjusted for a management fee to NSW Treasury.

The Crown Entity utilises the bank balances of TBS agencies' accounts to offset the Consolidated Fund Account nominal debit balance. This arrangement minimises the overall borrowing requirements of the State. The bank regards all of the individual accounts within the TBS as forming one account. The Crown Entity is paid interest on the overall credit balance of this 'one account'. Thus, the Consolidated Fund can borrow almost the total of other accounts in the TBS at the interest rate agencies would be paid for having cash on deposit, a significant saving on normal borrowing rates.

Receivables and advances repayable to the Crown

Receivables include dividends from certain NSW government agencies. Statutory receivables such as taxes, fees and fines and income tax equivalents are excluded from here.

Advances are given to entities on terms set by parties within the NSW Government and which follow the Treasurer's directions. The Crown Entity assesses outstanding balances for the advances each year, and reduces the carrying value when it no longer expects repayment. The maximum credit risk on advances is the carrying value reported in the Statement of Financial Position.

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

The Crown Entity does not receive any collateral for advances and receivables.

The following table shows financial assets that were past due but not impaired at the reporting date:

	Total \$'000	Past due but not impaired \$'000			Considered impaired \$'000
		< 3 months overdue	3 - 6 months overdue	> 6 months overdue	
2016					
Receivables	1,468	1,468	-	-	-
2015					
Receivables	2,170	2,170	-	-	-

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Financial assets

Financial assets at fair value include derivative forward contracts in relation to the unlisted equity securities. These do not give rise to credit risks.

Credit risk exists for financial assets at amortised cost. These financial assets are term deposits with original maturities greater than 90 days.

Concentration of credit risk

By credit rating	AAA	AA+	AA	AA-	A+	A	Other ratings ¹	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2016								
Cash and cash equivalents	-	-	-	13,540,633	-	-	10,816	13,551,449
Other financial assets	4,428,689	-	-	10,140,185	-	-	135	14,569,009
Advances	-	-	-	-	-	-	1,266,720	1,266,720
Receivables	-	-	-	153,816	-	-	870,528	1,024,344
2015								
Cash and cash equivalents	-	-	-	8,509,937	-	-	5,214,206	13,724,143
Other financial assets	-	-	-	2,450,000	-	-	162	2,450,162
Advances	-	-	-	-	-	-	1,248,954	1,248,954
Receivables	-	-	-	22,982	-	294,607	1,594,306	1,911,895

By classification of counterparty	Governments	Banks	Other	Total
	\$'000	\$'000	\$'000	\$'000
2016				
Cash and cash equivalents	9,794	13,540,633	1,022	13,551,449
Other financial assets	4,428,689	10,140,185	135	14,569,009
Advances	1,221,004	-	45,716	1,266,720
Receivables	870,528	152,810	1,006	1,024,344
2015				
Cash and cash equivalents	5,213,277	8,509,937	929	13,724,143
Other financial assets	-	2,450,000	162	2,450,162
Advances	1,228,462	-	20,492	1,248,954
Receivables	1,888,913	21,684	1,298	1,911,895

¹ The counterparty has no rating or the rating is lower than A. The majority of receivables are from government agencies with no individual credit rating. The NSW Government, of which they form a part, has a AAA credit rating.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS (continued)

Financial guarantees

The Crown Entity has a number of financial guarantees to which it is a party on behalf of other entities, agencies, departments and the Crown itself. The guarantees outstanding at 30 June 2016 have an estimated amortised total value of \$6.1 million (2015: \$8.0 million). The estimated value was calculated by independent valuers based on the probabilities of these guarantees being exercised.

These guarantees are grouped into three categories.

1. *Structured Finance Activities*: The Crown has guaranteed certain payment and performance obligations under cross border leases. The Crown Entity's exposure for cross border leases is \$1.6 million (2015: \$4 million). As a part of this exposure, the Crown has a third-party risk in terms of monies being placed on deposit with the US Treasury as the counterparty. TCorp regularly monitors this risk on behalf of the Crown.
2. *GIO Guarantees*: The Crown provided a guarantee over GIO obligations for insurance policies entered into before its sale in 1992. The Crown's guarantee can only be called upon if the existing owners are unable to make payment. The likelihood of invoking the guarantee is measured by the level of the existing owners' equity to their guaranteed liabilities. It is regarded as extremely unlikely given this ratio has grown over time. The credit risk for these guarantees is \$266 million (2015: \$301 million).
3. *Public Private Partnership Guarantees*: The Crown has guaranteed that five State agencies involved in public private partnerships will meet their obligations to pay for finance leases and services provided. These are long term agreements involving significant sums. It is very unlikely that the agencies would cease to pay the finance lease contracts on assets or meet payments for services they require for their operations. The credit risk for these activities is \$5,565 million (2015: \$5,788 million).

Accordingly, the Crown's exposure to financial guarantees is considered to be low.

Liquidity risk

Liquidity risk is the risk that the Crown Entity will be unable to meet its payment obligations when they fall due. The Crown Entity continuously manages risk through monitoring future cash flows and maturities, and through planning to ensure access to borrowing facilities if required.

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

- The nominal debit balance limit of Treasury Banking 'One Account' of \$25 billion (2015: \$14 billion)
- TCorp's Come and Go Facility with a limit of \$3.5 billion (2015: \$3.5 billion)
- borrowings

The Crown Entity outsources the daily management of its borrowings to TCorp, which manages them in accordance with established modified duration targets and in discussions at strategy meeting with the NSW Treasury.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

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

Liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with Treasury Circular NSWTC 11-12. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Interest is awarded for late payments. There was no interest awarded for late payment during the year.

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

	Weighted average effective interest rate %	Nominal amount ¹ \$'000	Interest rate exposure			Maturity dates		
			Fixed interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000	< 1 Year \$'000	1 - 5 Years \$'000	> 5 Years \$'000
2016								
Payables	-	402,162	-	-	402,162	402,162	-	-
Bank overdrafts	2.83	16,793,102	-	16,793,102	-	16,793,102	-	-
TCorp borrowings	4.43	35,428,680	35,428,680	-	-	2,168,216	14,221,169	19,039,295
Cwith financial agreements	3.00	7,916	7,916	-	-	7,916	-	-
Cwith specific purpose advances	4.39	1,013,746	1,013,746	-	-	52,418	215,520	745,808
Cwith other	4.50	46,271	46,271	-	-	-	-	46,271
Financial guarantees ²	-	5,832,660	-	-	5,832,660	278,440	999,370	4,554,850
Total financial liabilities³		59,524,537	36,496,613	16,793,102	6,234,822	19,702,254	15,436,059	24,386,224
2015								
Payables	-	472,096	-	-	472,096	472,096	-	-
Bank overdrafts	3.18	10,343,012	-	10,343,012	-	10,343,012	-	-
TCorp borrowings	4.78	35,108,063	35,108,063	-	-	2,324,128	12,269,060	20,514,875
Cwith financial agreements	3.00	7,920	7,920	-	-	7,920	-	-
Cwith specific purpose advances	4.40	1,066,863	1,066,863	-	-	53,117	213,545	800,201
Cwith other	4.50	44,234	44,234	-	-	-	8,537	35,697
Own name borrowings	7.40	250	250	-	-	250	-	-
Financial guarantees ²	-	6,239,510	-	-	6,239,510	434,050	1,015,820	4,789,640
Total financial liabilities³		53,281,948	36,227,330	10,343,012	6,711,606	13,634,573	13,506,962	26,140,413

¹ The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities. Therefore the amounts disclosed above will not reconcile to the amounts shown in the Statement of Financial Position.

² The amounts disclosed is the worst case scenario being the maximum amount of the guarantees being allocated to the earliest period in which the guarantees could be called. It is unlikely that the actual liabilities will arise. These guarantees are recognised in the Statement of Financial Position at \$6.6 million (2015: \$8.0 million).

³ Total differs from the Statement of Financial Position mainly due to guarantees being measured on a worst case scenario.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS (continued)

Fair value

Financial instruments are generally recognised at cost. Except where specified below, the amortised cost of financial instruments recognised in the Statement of Financial Position approximates the fair value, because of the short-term nature of many of the financial instruments. Financial instruments carried at fair value, or in the case of financial guarantees where fair value cannot be reliably measured, are not shown in the table below.

The following table details the financial instruments where the fair value differs from the carrying amount:

a) Fair value compared to carrying amount

	Carrying amount \$'000	2016	Fair value level	2015	Fair value \$'000
		Fair value \$'000		Carrying amount \$'000	
Financial assets					
Co-operative advances	45,716	46,328	Level 2	19,598	20,621
Unrecognised profit	612	-		1,023	-
	46,328	46,328		20,621	20,621
Financial liabilities					
TCorp borrowings	27,038,272	31,135,477	Level 2	26,808,688	30,151,761
Commonwealth general purpose borrowings	7,919	7,919	Level 2	7,924	7,924
Unrecognised loss	4,097,205	-		3,343,073	-
	31,143,396	31,143,396		30,159,685	30,159,685

b) Fair value recognised in the statement of financial position

The Crown Entity uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique:

- Level 1 – derived from quoted prices in active markets for identical assets/liabilities
- Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly
- Level 3 – derived from valuation techniques that include inputs for the asset/liability not based on observable market data (unobservable inputs)

The following table presents the Crown Entity assets measured and recognised at fair value as at 30 June:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2016				
Financial assets at fair value				
Other	-	135	-	135
Derivative financial instruments	-	-	27,840	27,840
	-	135	27,840	27,975
2015				
Other	-	162	-	162
Derivative financial instruments	-	-	23,100	23,100
	-	162	23,100	23,262

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

12. FINANCIAL INSTRUMENTS (continued)

The fair values of level 3 derivatives that are not traded in an active market are determined using valuation techniques. These techniques include referencing current fair values of substantially similar instruments, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Crown holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors that may arise.

The main level 3 inputs used by the Crown are derived and evaluated as follows:

- Discount rate used for the valuation is a market based leveraged cost of equity. An increase/decrease of +/-50 basis points would decrease/increase the fair value of the derivative by \$7.9 million and \$8.7 million respectively (2015: \$5.5 million).
- Credit Margin assumptions are based on an equally weighted average of historically observed and currently observed BBB corporate bond margins. The inputs range from 208 bps to 241 bps.

Changes in level 2 and 3 fair values are analysed at each reporting date.

Reconciliation of level 3 fair value measurements

	Derivative forward contracts \$'000
Opening balance at 1 July 2015	23,100
Total gains or losses	
- net result for the year (in gain from financial instrument)	4,740
Closing balance at 30 June 2016	27,840
Opening balance at 1 July 2014	21,849
Total gains or losses	
- net result for the year (in gain from financial instrument)	1,251
Closing balance at 30 June 2015	23,100

There were no transfers between the levels during the year ended 30 June 2016 (2015: Nil).

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY

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

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

SAS Trustee Corporation (STC) engaged an independent actuary, Mercer, to calculate the unfunded liabilities of State public sector superannuation schemes.

The Pooled Fund consists of SSS, PSS, SASS and SANCS.

Actuaries calculated unfunded superannuation liabilities at 30 June 2016 using:

- latest available scheme membership data
- demographic assumptions of the 2015 Triennial Valuation of the State Super Fund Superannuation Schemes
- an additional allowance for staff reductions
- Australian Accounting Standard AASB 119 applying to employee benefits as at 30 June 2016.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Regulatory framework

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916*, *State Authorities Superannuation Act 1987*, *Police Regulation (Superannuation) Act 1906*, *State Authorities Non-Contributory Superannuation Scheme Act 1987*, and their associated regulations.

These schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government Agreement, the NSW Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The NSW Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2015. The next actuarial investigation will be performed at 30 June 2018.

PCSS is established and governed by the *Parliamentary Contributory Superannuation Act 1971*, and its associated regulations. PCSS is an exempt public sector superannuation scheme under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the PCSS will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the PCSS activities in a manner consistent with the prudential controls of the SIS legislation.

The Judges Pension Scheme (JPS) is established and governed by *Judges' Pensions Act 1953 No 41* (as amended to 19 May 2010).

Actuarial investigations of the PCSS and JPS are performed every three years. The last actuarial investigations were performed as at 30 June 2014 for PCSS and JPS.

Governance

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the Fund and payment to the beneficiaries from Fund assets when required in accordance with the Fund rules;
- Management and investment of the Fund assets; and
- Compliance with other applicable regulations.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Risks

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- **Investment risk:** the risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- **Longevity risk:** the risk that pensioners live longer than assumed, increasing future pensions.
- **Pension indexation risk:** the risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- **Salary growth risk:** the risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk:** the risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit Fund assets are invested with independent Fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

There were no Fund amendments, curtailments or settlements during the year.

Member numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS
Contributors	20,690	26,701	4,865	1,147	124	28
Deferred benefits	10,160	11,425	1,085	59	-	2
Pensioners	3,217	-	45,739	6,583	233	285
Pensions fully commuted	-	-	13,968	-	-	-

Superannuation position for AASB 119 Employee Benefits

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2015-16 \$'000
Accrued liability ¹	14,888,449	2,617,408	63,704,991	19,023,996	1,214,221	911,400	102,360,465
Estimated reserve account balance	(9,776,186)	(1,636,364)	(19,139,876)	(4,479,183)	-	(268,800)	(35,300,409)
Surplus/(deficit)	5,112,263	981,044	44,565,115	14,544,813	1,214,221	642,600	67,060,056
Future service liability ²	1,532,511	596,853	502,435	35,953	-	-	2,667,752
Net liability to be disclosed in the Statement of Financial Position	5,112,263	981,044	44,565,115	14,544,813	1,214,221	642,600	67,060,056
Current							1,493,491
Non-current							65,566,565
							67,060,056

¹ The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit/(surplus) less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15 per cent.

² The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed. (Note: this also includes a contribution tax provision).

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Reconciliation of the net defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2015-16 \$'000
<i>Present value at 1/7/15</i>	3,814,625	828,528	32,666,020	11,207,863	1,024,247	474,000	50,015,283
Transfers in/(out) due to business combinations and disposals	270,279	31,788	1,953,254	-	-	-	2,255,321
Current service cost	391,311	95,454	57,883	69,162	39,162	2,300	655,272
Net interest	108,509	23,060	980,740	336,806	30,360	14,400	1,493,875
Actual return on fund assets less interest income	(21,932)	(1,770)	(94,097)	(4,825)	-	11,600	(111,024)
Actuarial losses arising from changes in demographic assumptions	35,012	(23,881)	1,624,254	363,355	-	-	1,998,740
Actuarial (gains)/losses arising from changes in financial assumptions	834,070	145,875	7,857,622	3,006,183	162,034	147,800	12,153,584
Actuarial (gains)/losses arising from liability experience	147,340	16,961	116,114	(249,463)	4,130	8,500	43,582
Employer contribution	(466,951)	(134,971)	(596,675)	(184,268)	(45,712)	(16,000)	(1,444,577)
<i>Present value at 30/6/16</i>	5,112,263	981,044	44,565,115	14,544,813	1,214,221	642,600	67,060,056

Reconciliation of the fair value of fund assets

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2015-16 \$'000
<i>Fair value at 1/7/15</i>	9,394,117	1,615,771	17,672,891	4,626,700	-	283,300	33,592,779
Transfers in/(out) due to business combinations and disposals	607,469	78,891	2,215,047	-	-	-	2,901,407
Interest income	276,986	48,169	513,239	135,710	-	8,200	982,304
Actual return on Fund assets less interest income	21,932	1,770	94,097	4,825	-	(11,600)	111,024
Employer contributions	466,951	134,971	596,675	184,268	45,712	16,000	1,444,577
Contributions by participants	137,588	-	79,275	8,785	-	800	226,448
Benefits paid	(1,049,800)	(221,419)	(2,055,738)	(471,146)	(45,712)	(25,600)	(3,869,415)
Taxes, premiums & expenses	(79,057)	(21,789)	24,390	(9,959)	-	(2,300)	(88,715)
<i>Fair value at 30/6/16</i>	9,776,186	1,636,364	19,139,876	4,479,183	-	268,800	35,300,409

Reconciliation of the defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2015-16 \$'000
<i>Present value at 1/7/15</i>	13,208,742	2,444,299	50,338,911	15,834,563	1,024,247	757,300	83,608,062
Transfers in/(out) due to business combinations and disposals	877,748	110,679	4,168,301	-	-	-	5,156,728
Current service cost	391,311	95,454	57,883	69,162	39,162	2,300	655,272
Interest cost	385,495	71,229	1,493,979	472,516	30,360	22,600	2,476,179
Contributions by participants	137,588	-	79,275	8,785	-	800	226,448
Actuarial (gains)/ losses arising from changes in demographic assumptions	35,012	(23,881)	1,624,254	363,355	-	-	1,998,740
Actuarial (gains)/losses arising from changes in financial assumptions	834,070	145,875	7,857,622	3,006,183	162,034	147,800	12,153,584
Actuarial (gains)/losses arising from liability experience	147,340	16,961	116,114	(249,463)	4,130	8,500	43,582
Benefits paid	(1,049,800)	(221,419)	(2,055,738)	(471,146)	(45,712)	(25,600)	(3,869,415)
Taxes, premiums & expenses	(79,057)	(21,789)	24,390	(9,959)	-	(2,300)	(88,715)
<i>Present value at 30/6/16</i>	14,888,449	2,617,408	63,704,991	19,023,996	1,214,221	911,400	102,360,465

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Reconciliation of the effect of the asset ceiling

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2015-16 \$'000
Adjustment for effect of asset ceiling at beginning of the year	-	-	-	-	-	-	-
Interest on the effect of asset ceiling	-	-	-	-	-	-	-
Change in the effect of asset ceiling	-	-	-	-	-	-	-

The adjustment for the effect of asset ceiling has been determined based on the maximum economic benefit available to the entity in the form of reductions in future employer contributions.

Fair value of Fund assets

All Pooled Fund assets are invested by STC at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. The disclosures below relate to total assets of the Pooled Fund.

Asset category ¹	Level 1	Level 2	Level 3	Total 2015-16	% of total
	\$'000	\$'000	\$'000	\$'000	
Short Term Securities	2,044,454	5,960	-	2,050,414	5.4%
Australian Fixed Interest	2,724	2,717,865	-	2,720,589	7.1%
International Fixed Interest	(1,358)	835,731	-	834,373	2.2%
Australian Equities	9,171,767	549,087	24	9,720,878	25.5%
International Equities	9,026,207	2,078,766	988,694	12,093,667	31.7%
Property	1,113,253	618,946	1,918,068	3,650,267	9.6%
Alternatives	470,130	3,122,185	3,523,634	7,115,949	18.6%
Total²	21,827,177	9,928,540	6,430,420	38,186,137	100.0%

¹ The following hierarchy is used for disclosing the asset categories:

- Level 1: quoted prices in active markets for identical assets or liabilities. The assets in this levels are listed shares; listed unit trusts
- Level 2: inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities
- Level 3: inputs for the asset or liability not based on observable market data (unobservable inputs). The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.

² Additional to the assets disclosed above, at 30 June 2016 the Pooled Fund has provisions for receivables/(payables) estimated to be around \$2.83 billion (2015: \$1.74 billion). This gives total estimated assets of \$41.01 billion (2015: \$42.2 billion).

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The fair value of the Pooled Fund assets included \$189.6 million (2015: \$209.2 million) in NSW government bonds as at 30 June 2016.

Of the direct properties owned by the Pooled Fund:

- STC occupies part of a property 100% owned by the Pooled Fund with a fair value of \$222 million (2015: \$159 million).
- Health Administration Corporation occupies part of a property 50 per cent owned by the Pooled Fund with a fair value of \$243 million (2015: 204 million).

Significant actuarial assumptions at the reporting date

	Pooled Fund	PCSS	JPS
Discount rate	1.99% pa		
Salary increase rate (excluding promotional increases)	2.50% 2016/2017 to 2018/2019; 3.50% 2019/2020 and 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter		2.5% pa
Rate of CPI increase	1.5% 2015/2016; 1.75% 2016/2017; 2.25% 2017/2018; 2.50% pa thereafter	N/A	
Pensioner mortality	Pooled Fund: The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age. PCSS & JPS: as per 2014 triennial actuarial valuation		

Sensitivity analysis

The total defined benefit obligation as at 30 June 2016 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2016.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

Pooled Fund	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	1.99%	0.99%	2.99%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	100,234,846	116,478,018	87,317,512
	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above rate plus 0.5%	as above rate less 0.5%
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	100,234,846	107,252,434	93,907,551

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Pooled Fund	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above rate plus 0.5%	as above rate less 0.5%
Defined benefit obligation (\$'000)	100,234,846	100,820,485	99,671,469
	Base Case	Scenario G Higher mortality*	Scenario H Lower mortality**
Defined benefit obligation (\$'000)	100,234,846	99,186,898	102,073,096

* Assumes the long term pensioner mortality improvement factors for years post 2021 also apply for years 2016 to 2021.

** Assumes the short term pensioner mortality improvement factors for years 2016-2021 also apply for years after 2021.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Scenarios A to D relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios E and F relate to sensitivity to demographic assumptions.

	PCSS			JPS		
	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	1.99%	0.99%	2.99%	1.99%	0.99%	2.99%
Rate of CPI increase	N/A	N/A	N/A	N/A	N/A	N/A
Salary inflation rate	as above	as above	as above	as above	as above	as above
Defined benefit obligation (\$'000)	911,400	1,097,000	769,000	1,214,221	1,409,667	1,057,776
	Base Case	Scenario C +0.5% salary increase rate	Scenario D -0.5% salary increase rate	Base Case	Scenario C +0.5% salary increase rate	Scenario D -0.5% salary increase rate
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	N/A	N/A	N/A	N/A	N/A	N/A
Salary inflation rate	as above	as above rate plus 0.5%	as above rate less 0.5%	as above	as above rate plus 0.5%	as above rate less 0.5%
Defined benefit obligation (\$'000)	911,400	1,002,000	831,000	1,214,221	1,318,277	1,120,681
	Base Case	Scenario E +10% pensioner mortality rates	Scenario F -10% pensioner mortality rates	Base Case	Scenario E +10% pensioner mortality rates	Scenario F -10% pensioner mortality rates
Defined benefit obligation (\$'000)	911,400	876,000	949,000	1,214,221	1,167,059	1,264,314

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Asset–Liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

Funding arrangements

Funding arrangements for the Pooled Fund are generally reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding arrangements for PCSS are reviewed around every three years and were last reviewed in 2014. Contribution rates are set after discussions between the actuary and NSW Treasury.

For the Pooled Fund and PCSS, funding positions are reviewed annually and funding arrangements may be adjusted if required.

JPS is run as a pay-as-you-go scheme, with long-term funding towards full funding by 2030 provided through the Liability Management Ministerial Corporation.

The following is a summary of the 30 June 2016 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*.

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2015-16 \$'000
Accrued benefits ¹	11,474,815	2,040,772	29,361,921	7,373,251	612,110	385,000	51,247,869
Net market value of Fund assets	(9,776,186)	(1,636,364)	(19,139,876)	(4,479,183)	-	(268,800)	(35,300,409)
Net deficit	1,698,629	404,408	10,222,045	2,894,068	612,110	116,200	15,947,460

¹ There is no allowance for a contribution tax provision within the accrued benefits figure for AAS 25. Allowance for contributions tax is made when setting the contribution rates.

Contribution recommendations

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

Economic assumptions

Weighted-Average Assumptions	Pooled Fund 30/06/16 %	JPS 30/06/16 %	PCSS 30/06/16 %
Expected rate of return on Fund assets backing current pension liabilities	7.8% pa	7.8% pa	7.02% pa
Expected rate of return on Fund assets backing other liabilities	6.8% pa	N/A	N/A
Expected salary increase rate (excluding promotional salary increases)	3.0% to 30 June 2019 then 3.5% pa thereafter	2.5% pa for the first 3 years; 3.5% pa thereafter	2.5% pa
Expected rate of CPI increase	2.5% pa	N/A	N/A

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

Expected contributions

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000
Expected employer contributions - financial year to 30 June 2017	483,057	139,626	617,256	190,624	47,231	16,800

The weighted average duration is:

- 13.9 years for the Pooled Fund defined benefit obligation,
- 14.6 years for JPS; and
- 17.0 years for PCSS.

Profit or loss impact

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2015-16 \$'000
Current service cost	391,311	95,454	57,883	69,162	39,162	2,300	655,272
Net interest	108,509	23,060	980,740	336,806	30,360	14,400	1,493,875
Defined benefit cost	499,820	118,514	1,038,623	405,968	69,522	16,700	2,149,147

Other comprehensive income

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2015-16 \$'000
Actuarial (gains)/losses on liabilities	1,016,422	138,955	9,597,990	3,120,075	166,164	156,300	14,195,906
Actual return on Fund assets less Interest income	(21,932)	(1,770)	(94,097)	(4,825)	-	11,600	(111,024)
Adjustment for effect of asset ceiling	-	-	-	-	-	-	-
Total remeasurement in Other Comprehensive Income	994,490	137,185	9,503,893	3,115,250	166,164	167,900	14,084,882

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

The following figures are 2015 comparatives

Member numbers

	SASS	SANCS	SSS	PSS	JPS	PCSS
Contributors	21,282	28,241	5,703	1,255	124	29
Deferred benefits	10,393	11,973	1,175	72	-	2
Pensioners	2,883	-	41,445	6,572	233	289
Pensions fully commuted	-	-	12,992	-	-	-

Superannuation position for AASB 119 Employee Benefits

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Accrued liability ¹	13,208,742	2,444,299	50,338,911	15,834,563	1,024,247	757,300	83,608,062
Estimated reserve account balance	(9,394,117)	(1,615,771)	(17,672,891)	(4,626,700)	-	(283,300)	(33,592,779)
	<u>3,814,625</u>	<u>828,528</u>	<u>32,666,020</u>	<u>11,207,863</u>	<u>1,024,247</u>	<u>474,000</u>	<u>50,015,283</u>
Future service liability ²	1,464,626	644,917	479,900	75,689	-	-	2,665,132
Net liability to be disclosed in the Statement of Financial Position	<u>3,814,625</u>	<u>828,528</u>	<u>32,666,020</u>	<u>11,207,863</u>	<u>1,024,247</u>	<u>474,000</u>	<u>50,015,283</u>
Current							1,422,286
Non-current							<u>48,592,997</u>
							<u>50,015,283</u>

¹ The accrued liability includes a contribution tax provision. This is calculated based on grossing up the deficit/(surplus) less the allowance for past service expenses and insurable death and disability liabilities at a contribution tax rate of 15 per cent. The accrued liability projection for the Pooled Fund and PCSS is projected from 2015 data, whereas the accrued liability projection for JPS is projected from 2014 data.

² The Future Service Liability (FSL) does not have to be recognised by an employer. It is only used to determine if an asset ceiling limit should be imposed (AASB 119 para 64). Under AASB 119, any prepaid superannuation asset recognised cannot exceed the present value of any economic benefits that may be available in the form of refunds from the plan or reductions in future contributions to the plan. Where the "surplus in excess of recovery" is zero, no asset ceiling limit is imposed. (Note: This also includes a contributions tax provision).

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2015 comparatives (continued)

Reconciliation of the net defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
<i>Present value at 1/7/14</i>	3,737,864	892,676	29,663,968	10,152,826	981,897	435,200	45,864,431
Net equity transfers	15,619	2,182	158,323	-	-	-	176,124
Current service cost	332,573	117,752	135,982	65,433	34,508	1,600	687,848
Net interest	126,565	29,813	1,047,232	358,874	34,310	15,300	1,612,094
Actual return on Fund assets less interest income	(754,931)	(136,465)	(1,341,519)	(342,845)	-	(25,500)	(2,601,260)
Actuarial losses arising from changes in demographic assumptions	(5,253)	(576)	3,300	-	29,558	1,600	28,629
Actuarial gains arising from changes in financial assumptions	334,788	73,971	3,902,382	1,455,047	(24,534)	59,800	5,801,454
Actuarial (gains)/losses arising from liability experience	412,671	(35,686)	(267,292)	(280,807)	13,051	1,300	(156,763)
Adjustment for effect of asset	-	-	-	-	-	-	-
Employer contribution	(385,270)	(115,139)	(636,356)	(200,665)	(44,543)	(15,300)	(1,397,273)
<i>Present value at 30/6/15</i>	3,814,625	828,528	32,666,020	11,207,863	1,024,247	474,000	50,015,283

Reconciliation of the fair value of fund assets

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
<i>Present value at 1/7/14</i>	8,816,223	1,569,504	16,511,445	4,338,014	-	257,700	31,492,886
Transfers in/(out) due to business combinations and disposals	6,982	587	216,211	-	-	-	223,780
Interest income	305,609	54,767	569,828	150,122	-	9,000	1,089,326
Actual return on Fund assets less interest income	754,931	136,465	1,341,519	342,845	-	25,500	2,601,260
Employer contributions	385,270	115,139	636,356	200,665	44,543	15,300	1,397,273
Contributions by participants	137,171	-	90,810	9,207	-	900	238,088
Benefits paid	(956,067)	(272,395)	(1,804,732)	(461,980)	(44,543)	(24,800)	(3,564,517)
Taxes, premiums & expenses	(56,002)	11,704	111,454	47,827	-	(300)	114,683
<i>Fair value at 30/6/15</i>	9,394,117	1,615,771	17,672,891	4,626,700	-	283,300	33,592,779

Reconciliation of the defined benefit obligation

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
<i>Present value at 1/7/14</i>	12,554,086	2,462,180	46,175,413	14,490,840	981,897	692,900	77,357,316
Transfers in/(out) due to business combinations and disposals	22,601	2,769	374,534	-	-	-	399,904
Current service cost	332,573	117,752	135,982	65,433	34,508	1,600	687,848
Interest cost	432,174	84,580	1,617,060	508,996	34,310	24,300	2,701,420
Contributions by participants	137,171	-	90,810	9,207	-	900	238,088
Actuarial losses arising from changes in demographic assumptions	(5,253)	(576)	3,300	-	29,558	1,600	28,629
Actuarial (gains)/losses arising from changes in financial assumptions	334,788	73,971	3,902,382	1,455,047	(24,534)	59,800	5,801,454
Actuarial (gains)/losses arising from liability experience	412,671	(35,686)	(267,292)	(280,807)	13,051	1,300	(156,763)
Benefits paid	(956,067)	(272,395)	(1,804,732)	(461,980)	(44,543)	(24,800)	(3,564,517)
Taxes, premiums & expenses	(56,002)	11,704	111,454	47,827	-	(300)	114,683
<i>Present value at 30/6/15</i>	13,208,742	2,444,299	50,338,911	15,834,563	1,024,247	757,300	83,608,062

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2015 comparatives (continued)

Reconciliation of the effect of the asset ceiling

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Adjustment for effect of asset ceiling at beginning of the year	-	-	-	-	-	-	-
Change in the effect of asset ceiling	-	-	-	-	-	-	-
Adjustment for effect of asset ceiling at end of the year	-	-	-	-	-	-	-

The adjustment for the effect of asset ceiling has been determined based on the maximum economic benefit available to the entity in the form of reductions in future employer contributions.

Fair value of Fund assets

All Pooled Fund assets are invested by STC at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. The disclosures below relate to total assets of the Pooled Fund.

Asset category ¹	Level 1	Level 2	Level 3	Total 2014-15	% of total
	\$'000	\$'000	\$'000	\$'000	
Short Term Securities	95,603	2,545,913	-	2,641,516	6.5%
Australian Fixed Interest	958	2,638,759	16,881	2,656,598	6.6%
International Fixed Interest	(110)	1,003,959	-	1,003,849	2.5%
Australian Equities	9,898,541	503,999	4,400	10,406,940	25.7%
International Equities	9,963,287	2,585,150	563,044	13,111,481	32.4%
Property	948,421	718,406	1,785,782	3,452,609	8.6%
Alternatives	622,102	3,020,225	3,527,860	7,170,187	17.7%
Total²	21,528,802	13,016,411	5,897,967	40,443,180	100%

¹ The following hierarchy is used for disclosing the asset categories:

- Level 1: quoted prices in active markets for identical assets or liabilities. The assets in this levels are listed shares; listed unit trusts
- Level 2: inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government; semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities
- Level 3: inputs for the asset or liability not based on observable market data (unobservable inputs). The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.

² Additional to the assets disclosed above, at 30 June 2015 the Pooled Fund has provisions for receivables/(payables) estimated to be around \$1.74 billion, giving an estimated total assets of \$42.2 billion.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2015 comparatives (continued)

The fair value of the Pooled Fund assets included \$209.2 million in NSW Government bonds as at 30 June 2015.

One of the direct properties owned by the Pooled Fund:

- Government Property of NSW occupies part of a property owned by the Pooled Fund with a fair value of \$159 million.
- NSW Ambulance occupies part of a property 50 per cent owned by the Pooled Fund with a fair value of \$204 million.

Significant actuarial assumptions at the reporting date

	Pooled Fund	PCSS	JPS
Discount rate	3.03% pa		
Salary increase rate (excluding promotional increases)	2.50% in 2015-16 to 2018-19; 3.50% in 2019-20 and 2020-21; 3.00% in 2021-22 to 2025-26; 3.50% thereafter		2.50% pa
Rate of CPI increase	2.50% in 2015-16; 2.75% in 2016-17 and 2017-18; 2.50% thereafter	N/A	
Pensioner mortality	<p>Pooled Fund: The pensioner mortality assumptions are as per the 2012 Triennial Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the State Super trustee's website. The report shows the pension mortality rates for each age.</p> <p>PCSS & JPS: as per 2014 triennial actuarial valuation</p>		

Sensitivity analysis

The total defined benefit obligation as at 30 June 2015 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2015.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

Pooled Fund	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
	Discount rate	3.03%	2.03%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	81,826,517	94,041,956	72,015,548
	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above rate	as above rate
Salary inflation rate	as above	as above	as above
Defined benefit obligation (\$'000)	81,826,517	87,098,756	77,055,993

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2015 comparatives (continued)

Pooled Fund	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above rate plus 0.5%	as above rate less 0.5%
Defined benefit obligation (\$'000)	81,826,517	82,341,371	81,329,672
	Base Case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates
Defined benefit obligation (\$'000)	81,826,517	80,981,618	82,720,682

Scenarios A to D relate to sensitivity of the total defined benefit obligation to economic assumptions and scenarios E and F relate to sensitivity to demographic assumptions.

	PCSS			JPS		
	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate	Base Case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	N/A	N/A	N/A	N/A	N/A	N/A
Salary inflation rate	as above	as above	as above	as above	as above	as above
Defined benefit obligation (\$'000)	757,300	902,000	645,000	1,024,247	1,174,510	902,223
	Base Case	Scenario C +0.5% salary increase rate	Scenario D -0.5% salary increase rate	Base Case	Scenario C +0.5% salary increase rate	Scenario D -0.5% salary increase rate
Discount rate	as above	as above	as above	as above	as above	as above
Rate of CPI increase	N/A	N/A	N/A	N/A	N/A	N/A
Salary inflation rate	as above	as above rate plus 0.5%	as above rate less 0.5%	as above	as above rate plus 0.5%	as above rate less 0.5%
Defined benefit obligation (\$'000)	757,300	829,000	693,000	1,024,247	1,100,839	954,766
	Base Case	Scenario E +10% pensioner mortality rates	Scenario F -10% pensioner mortality rates	Base Case	Scenario E +10% pensioner mortality rates	Scenario F -10% pensioner mortality rates
Defined benefit obligation (\$'000)	757,300	731,000	785,000	1,024,247	988,676	1,061,711

The defined benefit obligation has been recalculated by changing the assumptions as outlines above, whilst retaining all other assumptions.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2015 comparatives (continued)

Funding arrangements

Funding arrangements for the Pooled Fund are generally reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding arrangements for PCSS are reviewed around every three years. Contribution rates are set after discussions between the actuary and NSW Treasury.

For the Pooled Fund and PCSS, funding positions are reviewed annually and funding arrangements may be adjusted if required.

JPS is run as a pay-as-you scheme, with long-term funding towards full funding by 2030 provided through the Liability Management Ministerial Corporation.

The following is a summary of the 30 June 2015 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*.

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Accrued benefits ¹	10,946,868	1,951,693	25,287,733	7,034,030	601,382	377,400	46,199,106
Net market value of Fund assets	(9,394,117)	(1,615,771)	(17,672,891)	(4,626,700)	-	(283,300)	(33,592,779)
Net deficit	<u>1,552,751</u>	<u>335,922</u>	<u>7,614,842</u>	<u>2,407,330</u>	<u>601,382</u>	<u>94,100</u>	<u>12,606,327</u>

¹ There is no allowance for a contribution tax provision within the accrued benefits figure for AAS 25.

Allowance for contributions tax is made when setting the contribution rates.

Contribution recommendations

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

Economic assumptions

Weighted-Average Assumptions	Pooled Fund 30/06/16	JPS 30/06/16	PCSS 30/06/16
Expected rate of return on Fund assets backing current pension liabilities	8.3 % pa	7.11 % pa	7.8 % pa
Expected rate of return on Fund assets backing other liabilities	7.3 % pa	N/A	N/A
Expected salary increase rate (excluding promotional salary increases)	SASS, SANCS, SSS 2.7% pa (PSS 3.5% pa) to 30 June 2018, then 4.0% pa thereafter	2.5% pa thereafter	2.5% pa for the first 4 years; 3.5% pa thereafter
Expected rate of CPI increase	2.5%	N/A	N/A

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

13. UNFUNDED SUPERANNUATION LIABILITY (continued)

2015 comparatives (continued)

Expected contributions

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000
Expected employer contributions	N/A	N/A	N/A	N/A	45,712	16,000

The weight average duration is 13.1 years, 13.6 years and 16 years for the Pooled Fund defined benefit obligation, JPS and PCSS, respectively.

Profit or loss impact

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Current service cost	332,573	117,752	135,982	65,433	34,508	1,600	687,849
Net interest	126,565	29,813	1,047,232	358,874	34,310	15,300	1,612,094
Defined benefit cost	459,138	147,565	1,183,214	424,307	68,818	16,900	2,299,943

Other comprehensive income

	SASS \$'000	SANCS \$'000	SSS \$'000	PSS \$'000	JPS \$'000	PCSS \$'000	Total 2014-15 \$'000
Actuarial (gains)/losses on liabilities	742,205	37,709	3,638,389	1,174,240	18,075	62,700	5,673,318
Actual return on Fund assets less interest income	(754,931)	(136,465)	(1,341,519)	(342,845)	-	(25,500)	(2,601,260)
Adjustment for effect of asset ceiling	-	-	-	-	-	-	-
Total remeasurement in Other Comprehensive Income	(12,726)	(98,756)	2,296,870	831,395	18,075	37,200	3,072,058

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

14. EMPLOYEE BENEFITS AND OTHER PROVISIONS

Employee benefits and other provisions include long service leave (LSL) liabilities and related consequential on-costs on the superannuation and LSL liabilities that it assumes from selected NSW public sector agencies.

	2016 \$'000	2015 \$'000
Current	7,617,951	6,648,098
Non-current	653,779	570,528
Total employee benefits and other provisions	8,271,730	7,218,626

a) *Long service leave*

LSL is measured at the present value of future payments anticipated for the employee services as at the reporting date. An independent actuary calculates this using:

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

At the reporting date, estimated future cash outflows are discounted using the ten year Commonwealth government bond rate as at 30 June. With discounting, the increase in the provision due to the recognition of the time value of money is expensed as a finance cost.

LSL liability is classified as current when it satisfies any of the following criteria:

- it is due to be settled within twelve months after the reporting date, or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date

All other liabilities are classified as non-current.

b) *Consequential on-costs*

Consequential costs to employment are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

The Crown Entity holds the related defined benefit superannuation and LSL on-costs accruing whilst on annual leave for the selected entities which it has assumed superannuation and LSL liabilities.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

14. EMPLOYEE BENEFITS AND OTHER PROVISIONS (continued)

	2016 \$'000	2015 \$'000
a) Long service leave		
Current		
General Government Sector agencies assumed by the Crown, excluding NSW Health	4,835,407	4,215,409
NSW Health	2,593,413	2,263,835
Crown long service leave pool	89,647	81,834
	7,518,467	6,561,078
Non-current		
General Government Sector agencies assumed by the Crown, excluding NSW Health	420,470	366,557
NSW Health	225,514	196,855
Crown long service leave pool	7,795	7,116
	653,779	570,528
b) Other leave benefits		
Current		
Other leave benefits	99,484	87,020
	99,484	87,020
Total employee benefits and other provisions	8,271,730	7,218,626

The expected payment within the next twelve months for General Government Sector agencies' long service leave is \$568 million (2015: \$510 million), for NSW Health is \$261 million (2015: \$240 million) and for the Crown long service leave pool is \$10.8 million (2015: \$10.9 million).

Movement in major provisions:

	General government sector agencies long service leave (excl. NSW Health) \$'000	NSW Health long service leave \$'000	Crown long service leave pool \$'000	Other leave benefits \$'000	TOTAL \$'000
Balance as at 1 July 2015	4,581,966	2,460,690	88,950	87,020	7,218,626
Add: increase/(decrease) in liability during the year	903,747	484,292	16,122	12,464	1,416,625
Add: interest costs	142,600	75,700	2,600	-	220,900
Add/(less): transfer in from other NSW government agency	165,239	96	-	-	165,335
Less: cash payments	(537,676)	(201,850)	(10,230)	-	(749,756)
Balance as at 30 June 2016	5,255,876	2,818,928	97,442	99,484	8,271,730
Balance as at 1 July 2014	4,211,411	2,156,228	87,602	90,831	6,546,072
Add: increase in liability during the year	686,959	414,903	8,826	(3,811)	1,106,877
Add: interest costs	149,477	78,033	3,069	-	230,579
Add: transfer in from other NSW government agency	5,967	157	(279)	-	5,845
Less: cash payments	(471,848)	(188,631)	(10,268)	-	(670,747)
Balance as at 30 June 2015	4,581,966	2,460,690	88,950	87,020	7,218,626

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

15. PROVISIONS

Provisions are recognised for a current obligation due to a past event where it is probable that the Crown Entity must commit economic resources and can reliably estimate the cost. This obligation can be legal or constructive. They are recognised at the net present value of the estimated future costs required to settle the obligation.

The discount applied to recognise the time value of money is unwound over the life of the provision. Any incremental increase resulting from the unwinding of the discount is recognised as finance costs within the net result in the reporting period in which it occurs. All increases or decreases in the provision resulting from periodic changes to the estimated timing or amount of future costs or changes in the discount rate used are recognised in the net result.

	2016	2015
	\$'000	\$'000
Current	134,312	65,345
Non-current	1,299,865	1,373,235
Total provisions	1,434,177	1,438,580
Balance as at 1 July	1,438,580	1,113,346
Less: payments	(50,262)	(40,149)
Less: write back	(24,104)	-
Add: new provisions	3,696	389,635
Actuarial (gains)/losses	16,764	(74,792)
Interest costs	49,503	50,540
Balance as at 30 June	1,434,177	1,438,580

a) *Outstanding building insurance claims*

In 2002, reinsurers of builders warranty insurance ceased to provide cover to the insurers of builders and building works. To protect consumers and maintain stability in the building industry, the State Government intervened and agreed to provide reinsurance protection to private insurers at the time. This arrangement is no longer in place. Home Warranty Insurance Fund now provides insurance policies to the building industry from 1 July 2010. The run-off reinsurance liabilities are held by the Crown. The outstanding claims provisions are assessed annually by an actuary.

b) *Land remediation*

In July 2009 the Government Property NSW (GPNSW), previously State Property Authority, sold various parcels of the Newcastle landholdings (including two parcels of un-remediated land at Mayfield and Koorangang Island) to the Newcastle Port Corporation (NPC). As part of the transfer arrangements, the NSW Treasurer executed a Deed of Indemnity on behalf of the Crown which indemnified the NPC from liability from any contamination on the lands.

Pursuant to the *2002 Environmental Deed: Amendment and Acknowledgement Deed* (executed in January 2013) and following the final title transfer of the land parcels to the NPC, GPNSW equity transferred to the Crown Entity the land remediation provisions in July 2013.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

15. PROVISIONS (continued)

During 2014-15, as part of the sale agreement of Delta Electricity's Western assets, the State must bear part of the cost of decommission and demolishing Wallerawang power station where the total net cost of the demolition exceeds \$10 million. EnergyAustralia will be responsible for the initial \$10 million.

Periodic changes in the provision are accounted for in accordance with the requirements of AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

c) *Universities superannuation*

The State and the Commonwealth have come to an interim agreement to provide funding support for the unfunded defined benefit superannuation liabilities of NSW Universities who are members of the State Super's defined benefit schemes (SASS, SANCS and SSS). The amount of provision was actuarially assessed by Mercer Actuarial Consulting.

d) *Loose-fill asbestos*

On 29 June 2015 the State Government announced a voluntary purchase and demolition program for all NSW residential property owners with positive results for loose-fill asbestos insulation. The voluntary purchase/demolition program will offer eligible homeowners a choice of actions:

- i. The State Government purchase of premises and land, or
- ii. The State Government purchase of the premises only.

A Loose-Fill Asbestos Implementation Taskforce (LFAI), managed by NSW Fair Trading, was established to oversee and implement the program. The LFAI will be in place until all properties registered by 1 August 2016 have been demolished and soil remediated under the scheme.

e) *NSW Policy Holder Protection Fund*

As at 30 June 2016, the amount of funds held by the NSW Policy Holder Protection Fund was in excess to the outstanding claims liabilities. Pursuant to the *Insurance Protection Tax Act 2001*, these excess amounts must be refunded to the insurers.

16. COMMITMENTS FOR EXPENDITURE

State Contingent Funding Support Facility

The Treasurer of NSW, for and on behalf of the Crown Entity, has agreed to provide a \$1.991 billion State Contingent Support Facility to WCX M4 Pty Limited (WCX) in relation to Stage 1 of the WestConnex project.

The Facility will provide further liquidity to WCX and will only be utilised where necessary to enable the payment of project costs in circumstances where WCX is unable to raise external debt.

The facility will be available from January 2017 until the earlier of:

- i. The senior debt completion date;
- ii. The date on which the Project Deed terminates; and
- iii. 31 December 2017 (or such later date as may be agreed in writing between the parties).

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

17. CONTINGENT LIABILITIES

Snowy Hydro Limited

On 28 June 2002, the Commonwealth's Snowy Mountain Hydro-electric Authority became a new public company, Snowy Hydro Limited (SHL). This company is owned by NSW, Victoria and the Commonwealth. NSW holds 58 per cent of the issued shares in SHL (all of which are fully paid up) and it has entered into guarantees, indemnities and deeds as part of the agreements leading to the corporatisation of the Snowy Scheme.

It is not possible to estimate the amount of exposure at this time for the following situations:

- Under the Snowy Compensation Deed, if any variation to, or revocation of, the Snowy Water Licence by the Water Administration Ministerial Corporation of NSW (which has not been agreed to by SHL) has an adverse financial impact on SHL, the company will receive that corresponding amount in compensation from NSW under a compensation deed. Recent amendments to the Snowy Water Licence were agreed to by SHL and are not expected to have an adverse financial impact on SHL. No major amendments to the Snowy Licence are currently proposed. The Snowy Water Licence expires on the 75th anniversary of the Corporatisation date (June 2077) or if revoked earlier. The compensation deed terminates on the expiry or revocation of the Snowy Water Licence.
- Under the Snowy Scheme Deed of Indemnity, if a release by SHL of 'Snowy River Increased Flows' (environmental flows or a 'Flushing Flow' under an instruction from the Water Administration Ministerial Corporation) causes spills or downstream damage, the Crown Entity will compensate SHL for the proportion of claims it incurs, to the extent of its share of the cost. No claims currently exist. The risk of exposure is expected to be low. This indemnity lasts while the Snowy Water Licence is in place.

In addition, with its 58 per cent investment in SHL, the Crown Entity assumes the responsibility for this portion of SHL's reported contingent liabilities as detailed below:

SHL is involved in various legal proceedings arising out of the normal course of business. The Directors believe that the outcome of these proceedings will not have a material impact on SHL's financial position or results of operations. As at the reporting date, SHL has the following contingent liabilities:

1. SHL has entered into a number of bank guarantees in relation to operating within the national electricity market and for rental properties in Sydney and Melbourne to the value of \$81.8 million (2015: \$58.4 million).
2. Liability for Former Scheme Sites has been extinguished except to the extent of any contaminated former sites. The contaminated sites are being rehabilitated as they are identified. SHL does not believe that the contingent liability on any sites identified in the future would be material.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

17. CONTINGENT LIABILITIES (continued)

Sale of Pacific Power International

As a condition of the Pacific Power International sale, the State Government must compensate the trustee of the Energy Industry Superannuation Scheme (EISS) funds for a shortfall of assets in the reserves of the fund relating to the transfer of defined benefit scheme membership to Aurecon, previously Connell Wagner Pty Ltd.

The compensation payment amount would be the lower of:

- the actual shortfall between fund assets and fund liabilities
- the potential shortfall if anticipated investment returns (4.5 per cent a year - excluding CPI) had not been realised

At 30 June 2016, the net market value of fund assets was \$8.9 million less (2015: \$4.9 million less) than the estimated value of liabilities (accrued benefits under AAS 25).

The unfunded liability is different from both the actual fund shortfall and the investment return shortfall. Based on estimates provided for the 2015 EISS triennial review, the actual fund shortfall as at 30 June 2015 was \$10.0 million, and the investment return shortfall was nil. As the payment amount is the lower of the amounts, the compensation payment amount would be nil. The next review will be performed in 2018.

Any amount paid would depend on future earnings and other cash flows in the reserves of the fund. There would not be a liability unless a payment is required on the occurrence of one of the following events:

- Aurecon ceases to be an employer in the fund
- the last benefit was paid
- the relevant assets were exhausted

The liability would arise at the earliest of these events. There would only be one payment.

Defined superannuation benefit guarantee

The State bears the risk of the employer's superannuation guarantee contributions being insufficient to fund the defined employee benefits (in respect of past and future service liabilities) for certain ex-public sector employees following State's decision to sell the businesses. These businesses include Delta West, Eraring and Sydney Ferries.

The State must pay the contribution shortfall on an annual basis and is obliged to make good any employer reserve shortfall upon the insolvency of the employer. The amount of obligation cannot be reliably estimated.

Indemnities have also been provided to the private sector employer in respect of loss suffered, for example, from non-payment of an unfunded amount or tax losses suffered due to payments by the State.

Unclaimed money

The Crown Entity treats Consolidated Fund unclaimed money receipts as income. However, claims can be legally lodged for several years after the money is paid into the Fund. These future claims are a form of contingent liability and cannot be estimated.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

17. CONTINGENT LIABILITIES (continued)

Contracts with private sector parties

The State Government has guaranteed the obligations and performance of various statutory authorities with private sector party contracts. These are:

- Sydney Harbour Tunnel
- Macarthur Water Filtration Plant
- M2 Motorway
- Olympic Multi-Use Arena
- Olympic Stadium
- Eastern Distributor
- Illawarra and Woronora Water Treatment Plant
- Prospect Water Filtration Plant and Treatment Works
- Cross City Tunnel
- Western Sydney Orbital
- Eastern Creek Alternative Waste Treatment Plant¹
- Lane Cove Tunnel
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- VISY Mill: Tumut Timber Supply Agreement
- Orange Hospital Redevelopment
- Royal North Shore Hospital Redevelopment
- Sydney International Convention, Exhibition and Entertainment Precinct
- North West Rail Link – Operations, Trains and Systems
- Northern Beaches Hospital
- Sydney Light Rail
- WestConnex Stage 1
- NorthConnex

It is not possible to estimate the amount of contingent liability exposure at this time.

¹ The Crown Entity holds a guarantee, a contingent asset, which fully offsets this contingent liability.

NSW Treasury Corporation (TCorp)

Guarantees issued by TCorp

The State Government guaranteed the securities, borrowings and derivative liabilities issued by TCorp with a market value of \$80.1 billion (2015: \$77.9 billion) under the *Public Authorities (Financial Arrangements) Act 1987*.

Other undertakings

TCorp has undertakings for other government authorities for their performance under contracts with third parties. These amounts are recoverable from the government authority participants. At the reporting date the undertakings were valued at \$142.2 million (2015: \$146.4 million).

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

17. CONTINGENT LIABILITIES (continued)

Interest rate exposure on motor vehicle financing arrangements

The State Government's motor vehicles are financed by an internal arrangement managed by StateFleet and funded by TCorp. The facility is funded through a portfolio of debt with a modified duration of around 3.3 years. There is an interest rate exposure on a principal of \$524 million as at 30 June 2016 (2015: \$538 million).

NSW Energy Industry Reform

The State Government provided a Deed of Indemnity to the directors and designated senior management of some State-owned Corporations (SOC) at the time of the electricity asset transaction. This Deed indemnifies them against claims and liabilities in connection with the Energy Industry Reform transactions (Transaction Process).

The SOCs covered in this indemnity are:

- Essential Energy
- Eraring Energy
- Ausgrid
- Macquarie Generation
- Endeavour Energy
- Delta Electricity

To the extent permitted by law, the indemnity covers each indemnified party, in their capacity as directors or senior managers, against:

- civil liability arising in respect of the Transaction Process if such liability is or was not due to conduct which involved a lack of good faith on the part of the indemnified party, and
- costs in defending proceedings, whether civil or criminal, in which judgement is or was given in favour of the indemnified party or in which the indemnified party is or was acquitted or where the proceedings are discontinued or in connection with any application in relation to a proceeding in which a court grants or granted relief to the indemnified party.

The indemnified parties have a duty to maintain in force comprehensive directors' and officers' insurance policies which cover all of the risks indemnified by the State Government under the indemnities until:

- the completion of the Transaction Process, and
- for seven years following the completion of the Transaction Process for any acts or omissions of the indemnified party occurring before completion of the Transaction Process.

The indemnity does not apply in respect of a liability which arises out of any act or omission on the part of the indemnified party that involves, among others as detailed in the Deed of Indemnity, gross negligence, recklessness and conduct contrary to any written direction or instructions to the indemnified party made by or on behalf of the State Government.

It is not possible to estimate the amount of contingent liability exposure at this time. There are no known claims as at the time of preparing this report.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

17. CONTINGENT LIABILITIES (continued)

Cobbora Holding Company Pty Limited

In February 2011, Cobbora Holding Company Pty Limited (Cobbora) executed coal sales contracts with Origin Energy and two State owned corporations to supply coal to four of the State's power stations from financial year 2016. On 1 July 2013 the State reached agreements with Origin Energy to terminate its Coal Supply Agreement with Cobbora. The remaining agreements with Delta Electricity and Macquarie Generation (both with State-owned corporations) were also terminated.

The State Government provided an indemnity to Cobbora Directors and Officer's against all claims, liabilities and other exposures in connection with these transactions. It is not possible to estimate the amount of contingent liability exposure at this time. There are no known or expected claims in relation to this indemnity as at the reporting date.

The Crown Entity continues to provide funding support for Cobbora, however as the State will no longer develop the mine the risk exposure associated with Cobbora has reduced. The land is intended to be sold for agricultural use.

NSW Lotteries

As part of the sale of NSW Lotteries on 31 March 2010, the State Government provided limited warranties, indemnities and other obligations in favour of the new operator.

The Crown Entity made a provision for unclaimed prize funds of \$6 million. The provision amount was based on historical data which showed that annual claims for unclaimed prizes were no more than \$1 million in a normal year. The NSW Lotteries transaction resulted in the State Government being liable for unclaimed prizes extant at 29 March 2010. In accordance with the *Public Lotteries Regulation 2007*, any prizes won on or before 30 November 2010 must be claimed on or before 1 December 2016. The Crown Entity has estimated a potential liability of \$1 million per annum until 2016. However, future claims cannot be reliably measured and could exceed the current provision. As at 30 June 2016, a total of \$748,015 (2015: \$732,509) has been claimed.

The State Government is liable for the direct losses incurred by NSW Lotteries if an adverse regulatory event occurs. The State Government's aggregate liability is capped. There are no known adverse regulatory events as at the reporting date.

TAB Exclusivity

The New South Wales TAB, a wholly owned subsidiary of Tabcorp, holds a 99-year licence issued in March 1998 to conduct totalizator betting in NSW. The licence included a 15-year 'exclusivity period' which expired on 22 June 2013. The State has agreed to extend TAB's exclusivity licence for a further 20 years to 2033 for a payment of \$75 million from Tabcorp. The \$75 million licence fee comprises of an initial payment of \$50 million (paid during 2013-14) with the balance to be paid over 10 years from 2024.

Under the agreement, the State must compensate to Tabcorp if an adverse regulatory event occurs. The amount to be refunded is the initial payment reduced by \$2.5 million for each year between the year of receipt and when the adverse regulatory event occurs.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

17. CONTINGENT LIABILITIES (continued)

Data Centre Reform Project

In May 2012, the Government entered into a 10 year operating lease agreement for the provision of data centre capacity on a government-wide basis. The Government committed to move a minimum of 3 megawatts of Information and Communications Technology load into the data centres over the 10 years. The total value of the lease payments is estimated to be \$137 million.

The Government is party to a Tripartite Deed with respect to finance facilities provided to the lessor by a financier. The Government has a contingent liability to the financier with a maximum exposure of up to \$72 million, and which reduces to zero over the contract period.

If the Government is obliged to make a payment to the financier, it is entitled to be reimbursed by the lessor. Failing such reimbursement, the Government has recourse to security over the data centres and related assets.

The lease obligations of the Government will be managed by the Department of Finance, Services and Innovation. The operating lease commitments are reported in the financial statements of DFSI.

Sale of Delta Electricity's Western Assets

- *Environment Protection Authority (EPA) adverse decision* - the State will indemnify EnergyAustralia against any costs incurred by EnergyAustralia in the period from 2 September 2013 until 30 June 2017 due to any adverse EPA decision in respect of Wallerawang power station. The State's total liability is capped at \$100 million. The State will meet compliance costs or unavoidable operating costs (where the decision is made to close the power station).
- *Pre-completion contamination liability* - the State will retain the costs for remediating pre-existing contamination at Mt Piper power station site to minimum legal standards. Contamination determined by reference to base line study or studies by EnergyAustralia within 3 years after completion (2 September 2013). The State will retain the costs for remediating contamination at certain legacy/end of life sites, including the remediation and demolition costs (above \$10 million) at Wallerawang power station site as that generator ceased operation prior to the end of 2018.

Sale of Colongra Power Station

- *General warranties* - under the Sale and Purchase Agreement, the State has potential liabilities under various warranties given to Snowy Hydro. Warranties are subject to various caps and carve-outs and claims must be brought before 30 July 2016.
- *Land contamination liability* - The State has retained the remediation costs in relation to pre-completion contamination at the Colongra power station site. The State has also indemnified Snowy Hydro in relation to the cost to remediate land at the Colongra site if contamination occurs post-completion as a result of the adjacent Munmorah power station site (currently owned by Delta Electricity).

99 year lease of TransGrid assets

- *General warranties* - under the lease agreement, the State has potential liabilities under various warranties, indemnities and guarantees provided to the lessee in relation to performance of certain obligations.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

17. CONTINGENT LIABILITIES (continued)

Sale of Eraring Energy

- *General warranties* - under the Sale and Purchase Agreement, the State has potential liabilities under tax warranties given to Origin Energy. Claims under the tax warranties must be brought before 1 August 2018.
- *Pre-completion contamination liability* - the State has indemnified Origin Energy for remediation costs in relation to pre-completion contamination at the sold power stations. The State's obligations end (in respect of each station) 3 years after decommissioning or the end of the Shoalhaven lease in 2070 (or later if there are further legal obligations to remediate identified during subsequent monitoring).
- *Coal haul road liability* - if existing Aboriginal land right claims affect Crown Land titles over the coal haul road from Newstan Colliery to the Eraring Power station, compensation will be payable by the State to the native title holders to negotiate a continued right to use. The State's obligations end (in respect of each existing Aboriginal Land Claim): 12 months after the date on which the Minister or Court (as applicable) determines that Crown Land subject to an existing Aboriginal Land Claim is not claimable land or an easement or similar for the purposes of the Coal Haul Road is granted to the indemnified party; or the date on which an existing Aboriginal Land Claim is withdrawn or terminated.
- *Ash dam liability* - the State will pay half the incremental cost of implementing an alternative arrangement for ash disposal if the existing proposal (as at 1 August 2013) for further backfilling at the ash dam cannot be implemented. The State's liability ceases if the issue is not resolved by 1 August 2023.

Sale of Macquarie Generation

- *Pre-completion contamination liability* - the State has indemnified AGL for remediation costs in relation to pre-completion contamination at the sold power stations. The State's obligations end (in respect of each station) 18 months after decommissioning, demolition and remediation of each power station site.
- *Defined benefit superannuation guarantee* – The State has provided a guarantee to the SAS Trustee Corporation to make good any reserve shortfall in relation to the transferring defined benefits employees if the private sector employer becomes insolvent.
- *Barnard river scheme native title indemnity* – The State has indemnified AGL for costs related to any native title claims affecting a parcel of Crown land related to the Barnard River Scheme.

Sale of Vales Point power station

- *Defined benefit superannuation guarantee* - The State has provided a guarantee to the SAS Trustee Corporation to make good any reserve shortfall in relation to the transferring defined benefits employees if the private sector employer becomes insolvent.
- *General warranties* - under the Sale and Purchase Agreement, the State has potential liabilities under various warranties given to the purchaser. Warranties are subject to various caps and carve-outs and claims must be brought before June 2018.
- *Pre-completion contamination liability* - the State will retain the costs for remediating pre-existing contamination to minimum legal standards. Contamination is determined by reference to studies by the Purchaser within 1 year after completion. The State will also retain the costs for remediating ash dam contamination (migration of contamination in water from ash dams) and legacy contamination (contamination associated with identified asbestos landfill sites) to the minimum legal standards.
- *Vales Point Hand Back Deed* - where an option is exercised under the Hand Back Deed, the State will be responsible for the demolition and remediation of Vales Point and the Site Land.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

18. CONTINGENT ASSETS

HIH collapse

Following the HIH collapse, the Crown Entity assumed builders warranty and third party motor insurance liabilities of about \$650 million. The discounted present value of the outstanding liability is estimated to be \$40.4 million as at 30 June 2016 (2015: \$64.8 million).

The liquidators currently intend to distribute up to “more than 50 per cent” depending on the scheme company. During 2015-16 the Crown Entity received \$12.2 million (2015: \$82.2 million). Recoveries from the liquidators are paid into the Consolidated Fund.

19. CASH FLOW INFORMATION

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise:

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

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

In 2015-16, under the *Public Authorities (Financial Arrangements) Act 1987*, the Governor approved financial accommodation of \$32,500 million for debt funding for the Crown Entity. This amount is the overall funding to the Crown Entity which includes existing and new loans, including Waratah bond borrowings for Restart NSW Fund.

The Come and Go Facility has a limit of \$3,500 million. No amounts were drawn under the Come and Go Facility as at 30 June 2016 (2015: Nil).

Of the cash and cash equivalents, \$13,212 million is restricted cash assets (2015: \$8,107.4 million). This is cash in Special Deposit Accounts and trust funds that can only be used in line with the Special Deposit Account legislation and for trust fund purposes. Notes 20 and 21 details these transactions. Conditional contributions disclosed in Note 3(f) are also considered restricted assets.

Cash and cash equivalents in the Statement of Financial Position are cash at bank, restricted cash in special deposit accounts and other short term deposits.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

19. CASH FLOW INFORMATION (continued)

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents assets recognised in the Statement of Financial Position are reconciled at the end of the financial year to the Statement of Cash Flows as follows:

	2016 \$'000	2015 \$'000
Cash at bank	13,551,449	13,724,143
Bank overdraft	<u>(16,793,102)</u>	<u>(10,343,012)</u>
Net cash and cash equivalents per Statement of Cash Flows	<u>(3,241,653)</u>	<u>3,381,131</u>

(b) Reconciliation of cash flows used from operating activities to deficit for the year

Net cash flows from operating activities	2,058,358	349,841
Non cash items added back		
Share of profit of an associate	43,773	107,949
Realised gain on investments	139,627	-
Depreciation and amortisation	-	(8)
Non cash finance costs	(41,251)	(34,153)
Administrative restructure - transfer in	2,406,606	176,144
Proceeds on asset disposals	4,740	1,216
	<u>2,553,495</u>	<u>251,148</u>
Change in operating assets and liabilities		
Movement in working capital	(963,231)	257,863
Increase/(decrease) in other liabilities	(3,972,435)	(2,169,003)
Decrease/(increase) in other assets	(3,495)	(17,865)
	<u>(4,939,161)</u>	<u>(1,929,005)</u>
Movement for the year	<u>(2,385,666)</u>	<u>(1,677,857)</u>
Deficit for the year	<u>(327,308)</u>	<u>(1,328,016)</u>

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

20. TRUST FUNDS

The Crown Entity holds money in various trust funds for various purposes. The monies held in trust are included in the financial statements as the Crown Entity holds them in its main operating account. The Crown Entity cannot use these amounts for the achievement of its objectives. The following is a summary of the transactions in the trust accounts:

Accounts	Land Acquisition		
	State Rail Authority wind- up \$'000	Fund - compensation deposits \$'000	Funeral Fees \$'000
Balance 1.7.2015	4,138	143	112
Add: receipts	-	-	-
Less: payments	(4,074)	-	-
Balance 30.6.2016	64	143	112
Balance 1.7.2014	772	143	112
Add: receipts	4,016	-	-
Less: payments	(650)	-	-
Balance 30.6.2015	4,138	143	112

The *Trustee Act 1925* requires that trust funds should be held separate from other operating funds of the agency. The Crown Entity has not kept a separate bank account for the above trust funds due to the immateriality of the amounts involved. These trust funds are included in other liabilities of the Crown Entity.

State Rail Authority

This account was established to hold money vested to the Crown by the previous State Rail Authority of NSW for the payment of fine and legal costs relating to the Waterfall train accident.

Land Acquisition Fund

This trust account holds the funds vested in regards to payments of compensation on land resumptions.

Funeral Fees

This account was set up to meet the claims of people whom have prepaid their funeral fees to Russell Kinsella Pty Ltd. The company was unable to provide the service due to receivership. The Department of Fair Trading was the original holder of the trust and may from time to time, receive claims for compensation.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

21. SPECIAL DEPOSIT ACCOUNTS

The Crown Entity operates a number of special deposits accounts. These are:

NSW Policyholders Protection Fund

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

Crown long service leave pool

This account holds long service leave funds for certain government agencies.

Structured finance activities

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

Confiscated proceeds account

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

Royal North Shore Hospital (RNSH) interest adjustment account

A contribution payment was received from ABN Amro for the project to redevelop Royal North Shore Hospital. The project is a joint financing arrangement approved by the State Government. The effective date of contract is 23 October 2008 and concludes on 22 October 2036. ABN Amro is the financier of the project. This account was established to record and maintain separately the funds received from ABN Amro Bank.

This account was closed during the year. The balance of the account, surplus to requirement, was paid to the Consolidated Fund.

Restart NSW

The purpose of this account is to improve economic growth and productivity in the State through funding major infrastructure projects. It is funded from major State asset sales, windfall State tax revenue allocated through the Budget process and other funds such as the proceeds of issuing Waratah Bonds.

Electricity Networks Residual Liabilities Fund

Established under s12 of the *Electricity Network Assets (Authorised Transactions) Act 2015 No 5* (the Act), this account was set up for the holding and payment of moneys in connection with the transactions to transfer electricity network assets to the private sector under the Act.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

21. SPECIAL DEPOSIT ACCOUNTS (continued)

Accounts	NSW Policyholders Protection Fund \$'000	Crown Long Service Leave Pool \$'000	Structured Finance Activities \$'000	Confiscated Proceeds Account \$'000
Balance 1.7.2015	116,345	25,203	776	122,635
Plus receipts	-	15,105	82	30,196
Less payments	(12,000)	(10,230)	(140)	(31,520)
Balance 30.6.2016	104,345	30,078	718	121,311
Balance 1.7.2014	126,311	19,484	942	113,314
Plus receipts	-	16,266	126	22,849
Less payments	(9,966)	(10,547)	(292)	(13,528)
Balance 30.06.2015	116,345	25,203	776	122,635

Accounts	RNSH Interest Adjustment \$'000	Restart NSW \$'000	Electricity Networks Residual Liabilities \$'000
Balance 1.7.2015	3,094	7,834,994	-
Plus receipts	-	7,445,888	23,970
Less payments	(3,094)	(2,349,266)	-
Balance 30.6.2016	-	12,931,616	23,970
Balance 1.7.2014	3011	6,226,735	-
Plus receipts	83	2,439,111	-
Less payments	-	(830,852)	-
Less transfers	-	-	-
Balance 30.06.2015	3,094	7,834,994	-

The Crown Entity has not kept a separate bank account for the above special deposit accounts except for Structured Finance Activities, RNSH, Restart NSW and Electricity Networks Residual Liabilities. The transactions for these accounts are recognised in the financial statements.

22. OTHER LIABILITIES

	2016 \$'000	2015 \$'000
Current:		
Confiscated proceeds	121,311	122,635
Special deposit and trust accounts	319	7,487
Deferred income ^(a)	121,471	171,785
Unclaimed prizes	1,000	1,000
Financial guarantees ^(b)	1,900	1,900
Other	71,876	23,007
	317,877	327,814
Non-current:		
Deferred income ^(a)	590,587	603,481
Financial guarantees ^(b)	4,200	6,100
Unclaimed prizes	4,252	4,267
	599,039	613,848
Total other liabilities	916,916	941,662

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

22. OTHER LIABILITIES (continued)

(a) Deferred income

Deferred income represents revenues collected but not earned as at 30 June and primarily consists of multi-year licence fees. Income is recognised on a straight-line basis over the specified period of time in accordance with the substance of the relevant agreement/item.

Movements in deferred income

Balance at beginning of the year	775,266	665,754
Add: licence fees deferred	199,093	288,357
Less: amortisation	<u>(262,301)</u>	<u>(178,845)</u>
Balance at the end of the year	<u>712,058</u>	<u>775,266</u>

(b) Financial guarantees

Financial guarantee contracts are initially recognised as a liability at fair value plus directly attributable transaction costs. After initial recognition the guarantee is measured at the higher of:

- initial valuation less cumulative amortisation, or
- a revaluation of the liability if the specified debtor is considered likely to default.

Where the guarantee is issued for nil consideration, the guarantee is recognised at fair value as an expense and liability, with the liability subsequently amortised over the term of the agreement. Financial guarantee contracts are reported at fair value less cumulative amortisation.

Movements in financial guarantees

Balance at the beginning of the year	8,000	9,800
Less: amortisation	<u>(1,900)</u>	<u>(1,800)</u>
Balance at the end of the year	<u>6,100</u>	<u>8,000</u>

(i) Structured finance activities

Through the Structured Finance Activities Special Deposits Account, the State has several finance leases for rail stock. The Crown has guaranteed certain payment and performance obligations under these cross-border lease arrangements.

The estimated fair value was made at the date of inception and amortised over the life of the guarantees. The guarantees have a current amortised valued of \$3.1 million (2015: \$4.2 million).

The likelihood of these guarantees being called upon is very low due to the arrangements in place as part of the leases to ensure the payments are made. TCorp regularly monitors risk exposure on behalf of the Crown.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

22. OTHER LIABILITIES (continued)

(ii) Government Insurance Act 1927

Under the *Government Insurance Act 1927*, the State Government has provided guarantees for the GIO liabilities for general, life and reinsurance policies that it issued until 15 June 1992.

Actuarial assessment of the GIO liabilities is:

	31 Dec 2015	31 Dec 2014
	\$'000	\$'000
General insurance	215,700	211,200
Life insurance	48,500	50,300
Inward reinsurance	1,900	39,400
	266,100	300,900

The guarantee on these policies continues under the State Government Deed issued for GIO's privatisation and subsequent purchase by AMP Limited.

The guarantees have a current amortised value of \$3.0 million (2015: \$3.7 million).

(iii) Public private partnerships

The Crown has provided guarantees to a number of statutory authorities who do not represent the Crown. These guarantees which includes payment guarantees, give lenders a similar assurance as if they were lending to a Crown agency.

The current outstanding guarantees relate to:

- Eastern Creek Alternative Waste Treatment Plant
- Mater Hospital
- Long Bay Prison and Forensic Hospital
- Suburban Rolling Stock
- Orange Hospital Redevelopment
- Royal North Shore Hospital Redevelopment
- Macarthur Water Filtration Plant
- Illawarra and Woronora Water Treatment Plant
- Prospect Water Filtration Plant and Treatment Works
- Northern Beaches Hospital
- North West Rail Link – Operations, Trains and Systems
- Sydney Light Rail
- WestConnex Stage 1
- NorthConnex

The guarantees have been valued at Nil (2015: Nil). This is due to the remote likelihood of any of these guarantees being called. Government has structured its arrangements to minimise the risk of default.

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

23. CONSOLIDATED FUND TRANSACTIONS

	2016 \$'000	2015 \$'000
Cash flows from operating activities		
Receipts		
Retained taxes, fees and fines	29,624,589	26,592,933
Commonwealth grants	23,479,274	22,831,159
Financial distributions	2,246,684	2,372,404
Other	1,772,949	2,267,625
Total receipts	<u>57,123,496</u>	<u>54,064,121</u>
Payments		
Recurrent appropriations paid to other agencies	(47,331,935)	(44,957,156)
Recurrent appropriations paid to Crown Finance Entity	(5,572,501)	(6,304,877)
Capital appropriations paid to other agencies	(2,479,145)	(4,442,477)
Capital appropriations paid to Crown Finance Entity	(2,445,168)	(722,117)
Total payments	<u>(57,828,749)</u>	<u>(56,426,627)</u>
Net cash flows used in operating activities	(705,253)	(2,362,506)
Other cash flows		
Borrowing transferred	(6,894,929)	(2,508,239)
Investment income transferred	104,400	89,900
Interest receipts transferred	360,652	351,160
Advance repayments transferred	201,155	191,156
Other	417,418	124,023
	<u>(5,811,304)</u>	<u>(1,752,000)</u>
Net decrease in cash and cash equivalents	(6,516,557)	(4,114,506)
Opening cash and cash equivalents	(10,249,526)	(6,197,657)
Cash transferred in as a result of restructuring	68,304	6,295
Return of capital	-	56,342
Closing cash and cash equivalents	<u>(16,697,779)</u>	<u>(10,249,526)</u>
Cash and cash equivalents		
Cash in transit	95,323	93,486
Bank overdraft	(16,793,102)	(10,343,012)
	<u>(16,697,779)</u>	<u>(10,249,526)</u>

Crown Entity

Notes to the financial statements for the year ended 30 June 2016

24. TRANSFER PAYMENTS

The Crown Entity receives contributions from the Commonwealth Government that are transferred to eligible beneficiaries. The beneficiaries are non-government schools and Local Governments.

Payments to non-government schools are paid directly by the Crown Entity while payments to Local Governments are made by the Local Government Division within the Department of Premier and Cabinet.

	2016 \$'000	2015 \$'000
Payments		
Non-Government schools - recurrent	(3,373,184)	(3,217,209)
Non-Government schools - targeted programs	-	(4,313)
Local Government - financial assistance	(508,088)	(510,450)
Local Government - roads	(204,073)	(205,226)
	<u>(4,085,345)</u>	<u>(3,937,198)</u>
Receipts		
Non-Government schools - recurrent	3,373,184	3,217,209
Non-Government schools - targeted programs	-	4,313
Local Government - financial assistance	508,088	510,450
Local Government - roads	204,073	205,226
	<u>4,085,345</u>	<u>3,937,198</u>

Transfer payments are not recognised as revenue or expenditure as the Crown Entity does not have control over these funds.

25. EQUITY TRANSFERS

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs / functions and parts thereof between NSW public sector agencies and 'equity appropriations' are designated or required by Accounting Standards to be treated as contributions by owners and recognised as an adjustment to "Accumulated Funds". This treatment is consistent with AASB 1004 *Contributions* and Australian Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

Transfers arising from an administrative restructure involving not-for-profit entities and for-profit government departments are recognised at the amount at which the assets and liabilities were recognised by the transferor immediately prior to the restructure. In most instances this will approximate fair value.

All other equity transfers are recognised at fair value.

25. EQUITY TRANSFERS (continued)

The following is a summary of increase/(decrease) in net liabilities from equity transfer during the year:

2015-16	\$'000
Investment in Sydney Motorway Corporation	(1,446,156)
Cash management policy reforms - return of cash surpluses	210,000
Net superannuation liabilities transferred in	(2,255,321)
Long Service Leave liabilities transferred in	(164,905)
Transfers from sale of Government businesses	6,211,451
Capital injection into Transport Asset Holding Entity	(1,847,053)
Capital injection into Pillar	(7,900)
Capital injection into Hunter Water	(850)
Capital injection into Sydney Water	(13,500)
	<u>685,766</u>
2014-15	
Capital injection for Housing Acceleration Fund projects	(2,850)
Capital injection for Delta Electricity	(150,000)
Investment in Sydney Motorway Corporation	(940,000)
Return of capital	56,342
Transfers from sale of Government businesses	693,354
Borrowings transferred	(1,117,152)
Superannuation liabilities transferred	(176,124)
Cash management policy reforms - return of cash surpluses	26,534
Transfers from dissolution of Government agencies	6,276
	<u>(1,603,620)</u>

26. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to reporting date requiring disclosure.

End of audited financial statements

2015–16 Crown Entity Expenditure on Consultants

Consultant	Project Description	Amount (excl GST) \$
Consultants costing \$50,000 or more		
Finance and Accounting/Tax		
Ernst & Young	Financial advice for Disability and Customer Care Services Transfer Project	4,450,711
Ernst & Young	Accounting and tax advice for Electricity Networks Transaction project	17,053,399
Ernst & Young	Financial advice for Social and Affordable Housing Fund (SAHF)	813,696
Mercer Consulting (Australia) Pty	Actuarial advice for Electricity Networks Transaction project	126,554
Mercer Consulting (Australia) Pty	Actuarial Advice for Generation Assets and Cobbora Mine project	85,416
UBS AG	Financial advice for Electricity Networks Transaction project	13,996,226
Goldman Sachs Australia Pty Ltd	Financial Advice for Generation Assets and Cobbora Mine project	2,044,393
KPMG Corporate Finance	Accounting and tax advice for Generation Assets and Cobbora Mine project	631,973
KPMG Corporate Finance	Accounting and tax advice for Land and Property Information (LPI) project	1,026,009
KPMG Corporate Finance	Financial advice for Pillar transaction (Pillar)	1,125,647
Department of Transport	Reimbursement of financial transaction, modelling and business optimisation performed by Ernst & Young.	556,506
Information Technology		
Ansarada	Data room services for Electricity Networks Transaction project	409,091
Ansarada	Data room services for Generation Assets and Cobbora Mine project	130,851
Newgate Communications Australia	Communications Advice for Electricity Networks Transaction project	473,292
Newgate Communications Australia	Communications advice for Generation Assets and Cobbora Mine project	115,920
Management Services		
Environmental Resources Management Aust	Environmental engineering advice for Electricity Networks Transaction project	973,723
The Boston Consulting Group Pty Ltd	Business optimisation advisor for Electricity Networks Transaction project	1,800,000
WorleyParsons	Technical engineering advisor for Electricity Networks Transaction project	3,648,440
WorleyParsons	Technical engineering advisor for Generation Assets and Cobbora Mine project	81,837
HDR Pty Ltd	Specialist advice for Generation Assets and Cobbora Mine project	60,000
Ironstone Capital Advisory Pty Ltd	Transaction advice for Disability and Customer Care Services Transfer Project	3,152,545
KPMG Australia	Specialist advice for Disability and Customer Care Services Transfer Project	1,292,310
IPART	Specialist Advice for Electricity Networks Transaction project	682,842

Consultant	Project Description	Amount (excl GST) \$
Consultants costing \$50,000 or more		
Legal		
Allens	Legal advice for Electricity Networks Transaction project	14,053,424
Allens	Legal advice for Generation Assets and Cobbora Mine project	129,218
Allens	Legal advice for Pillar	471,645
O'Connor Marsden & Associates Pty	Probity advice for Generation Assets and Cobbora Mine project	94,839
RSM Bird Cameron	Probity advice for Electricity Networks Transaction project	461,023
RSM Bird Cameron	Probity advice for Disability and Customer Care Services Transfer Project	52,460
Baker & McKenzie	Legal advice for Disability and Customer Care Services Transfer Project	919,653
Baker & McKenzie	Legal advice for Generation Assets and Cobbora Mine project assets	1,186,161
Gilbert & Tobin	Legal advice for Land and Property Information project (LPI)	1,087,000
Economic Services		
BIS SHRAPNEL Pty Ltd	Economic advice for Electricity Networks Transaction project	229,955
Houston Kemp Pty Ltd	Regulatory advice for Electricity Networks Transaction project	652,932
ACIL Allen Consulting Pty Ltd	Marketing advisor for Generation Assets and Cobbora Mine project	242,871
	Sub-total:	74,312,562
Consultants costing less than \$50,000		
Finance, Accounting and/or Tax	5 Projects totalling	94,295
Information Technology	4 Project totalling	87,588
Management Services	3 Project totalling	43,200
Legal	6 Project totalling	106,718
	Sub-total:	331,801
Total expenditure on consultants¹		74,644,363

¹ Total consultancy cost reported in the Crown Entity financial statements of \$74.463 million include an expense reclassification from consultancy to contractor costs.

Restart NSW Fund

Financial Report
for the year ended 30 June 2016



INDEPENDENT AUDITOR'S REPORT

Restart NSW Fund

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements, being a special purpose financial report of the Restart NSW Fund (the Fund), which comprise the statement of cash receipts and payments for the year ended 30 June 2016, notes comprising a summary of significant accounting policies, other explanatory information, and the Secretary of Treasury's (the Secretary) assertion statement. The financial statements have been prepared by the Secretary using the basis of accounting described in Note 2 to the financial statements to help the Treasurer fulfil the annual reporting obligations under the *Restart NSW Fund Act 2011* (the Act).

In my opinion, the financial statements are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the financial statements.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report.

I am independent of the Fund in accordance with the auditor independence requirements of:

- Australian Auditing Standards
- ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (the Code).

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The *Public Finance and Audit Act 1983* (PF&A Act) further promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies, but precluding the provision of non-audit services.

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

Basis of Accounting

Without modifying to my opinion, I draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to help the Treasurer fulfil the annual reporting obligations under the Act. As a result, the financial statements may not be suitable for another purpose.

The Secretary's Responsibility for the Financial Statements

The Secretary is responsible for the preparation of the financial statements in accordance with the basis of accounting describe in Note 2 to the financial statements, and for such internal control as the Secretary determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Fund carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial report on any website where they may be presented.



Margaret Crawford
Auditor-General

5 September 2016
SYDNEY

Restart NSW Fund
Financial Report
for the year ended 30 June 2016

STATEMENT BY DEPARTMENT HEAD

1. Pursuant to Section 9 of the *Restart NSW Fund Act 2011*, I declare that in my opinion:
- (a) The accompanying financial report provides details of the transactions of the Restart NSW Fund for the year ended 30 June 2016; and
 - (c) The financial report has been prepared as a special purpose financial statement and related notes in accordance with the basis of accounting described in Note 2.

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



Rob Whitfield
Secretary

1 September 2016

Restart NSW Fund

Statement of Cash Receipts and Payments for the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Receipts			
Windfall tax revenue	3	814,397	1,166,375
Proceeds from issue of bonds by the State	3	108,557	450,741
Interest earned	3	160,568	135,848
Other authorised transfers	3	6,162,164	686,147
Contributions from other Government agencies	3	200,202	-
Total receipts		<u>7,445,888</u>	<u>2,439,111</u>
Payments			
Infrastructure projects	4	1,224,256	330,845
Administrative expenses	4	10	7
Other authorised payments	4	1,125,000	500,000
Total payments		<u>2,349,266</u>	<u>830,852</u>
Net receipts		<u>5,096,622</u>	<u>1,608,259</u>
Opening balance of Special Deposit Account		7,834,994	6,226,735
Closing balance of Special Deposit Account		<u>12,931,616</u>	<u>7,834,994</u>

The accompanying notes form part of the financial report.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2016

1. RESTART NSW FUND INFORMATION

Reporting entity

Restart NSW Fund (the Fund) is a not-for-profit entity (as profit is not its principal objective) and is required to prepare an annual report under Section 9 of the *Restart NSW Fund Act 2011* (“the Act”). Section 6 of the Act states that the purpose of the Fund is to improve economic growth and productivity in the State, and for that purpose:

- a) to fund major infrastructure projects, and
- b) to fund infrastructure projects that will improve:
 - i) public transport, and
 - ii) roads, and
 - iii) infrastructure required for the economic competitiveness of the State (including the freight, inter-modal facilities and access to water), and
 - iv) local infrastructure in regional areas that are affected by mining operations, and
 - v) hospital and other health facilities and services, and
 - vi) workplaces for law and justice officers, teachers, nurses and other staff providing services to the public.

Section 6(2) of the Act states a reference to **funding a project** includes a reference to funding the planning, selection, implementation and delivery of the project.

Section 5 of the Act establishes the Fund as a Special Deposit Account. Section 5 of the *Public Finance and Audit Act 1983* defines Special Deposit Account as an account which the Treasurer is required, by statutory or other authority, to hold apart from the Consolidated Fund. The Treasurer is responsible for the Act and the Fund.

The annual report for the Fund is a Special Purpose Financial Report with the “financial year” being from 1 July to 30 June.

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

Key Activities

The Fund was established for the purpose of setting aside funding for, and securing the delivery of, major infrastructure projects and other necessary infrastructure.

Funding Sources for Restart NSW Fund

Section 7(1) of the Act states the amounts payable into the Fund. These are:

- a) all money advanced by the Treasurer or appropriated by Parliament for the purposes of the Fund, including any such money that is certified by the Treasurer as windfall tax revenue in excess of Budget forecasts, and
- b) money borrowed for the purposes of the Fund, including by the issue of special bonds to the people of the State and others, and
- c) the proceeds of the investment of money in the Fund, and
- d) all money directed or authorised to be paid into the Fund by or under this or any other Act or law, and
- e) all money received from voluntary contributions to the Fund made by a government agency or other person or body.

Section 7(2) gives authority to Government agencies to make voluntary contributions to the Fund.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2016

1. RESTART NSW FUND INFORMATION (continued)

Payments out of the Fund

Section 8 of the Act prescribes the payments from the Fund. These are:

- a) any money approved by the Minister on the recommendation of Infrastructure NSW to fund all or any part of the cost of any project that the Minister is satisfied promotes a purpose of the Fund, and
- b) any money required to meet administrative expenses related to the Fund, and
- c) any money directed or authorised to be paid from the Fund by or under this or any other Act or law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Fund's financial report is a special purpose financial statement which has been prepared on a cash basis. The cash basis of accounting recognises transactions and events only when cash is received or paid by the Fund. Revenues are realised and recorded when received in cash. Expenditures are recorded when cash is actually paid.

The measurement focus in the financial statement is balances of cash at the reporting date and changes during the year.

All amounts are rounded to the nearest thousand (\$'000) dollars and are expressed in Australian dollars.

Statement of compliance

The financial report and notes have been prepared in accordance with the policies detailed in this accounting policy note.

Cash Controlled by the Fund

Cash is controlled by the Fund when the Fund can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to the Fund, which the Fund can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the Fund.

Receipts and Payments

Receipts are recognised and recorded when received in cash. Payments are recorded when cash is actually paid.

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2016

3. RECEIPTS

The Fund is authorised to receive amounts in accordance with Section 7 of the Act.

	2016	2015
	\$'000	\$'000
Section 7(1)(a) receipts - windfall tax		
Windfall tax revenue	814,397	1,166,375
Section 7(1)(b) receipts - issue of bonds		
Proceeds from Waratah bonds	108,557	450,741
Section 7(1)(c) receipts - interest earned		
Interest earned	160,568	135,848
Section 7(1)(d) receipts - other monies authorised to be paid into the Fund		
Proceeds from the long term lease of Port of Newcastle	-	3,208
Proceeds from sale of Green State Power	-	62,680
Proceeds from sale of Macquarie Generation	-	620,245
GST received	713	14
Proceeds from the long term lease of TransGrid	6,140,185	-
Proceeds from the sale of Vales Point	21,266	-
	<u>6,162,164</u>	<u>686,147</u>
Section 7(1)(e) receipts - contributions from other Government agencies		
Contribution from Government Property NSW - sale proceeds of Government properties	200,202	-
Total Receipts	<u>7,445,888</u>	<u>2,439,111</u>

Proceeds from Waratah bonds issued were paid into the Fund by the Crown Entity. The Fund has no obligation to repay these bonds. The liability is assumed by the Crown Entity.

As at 30 June 2016 the Fund held all of its cash in the Treasury Banking System. Interest receivable by the Fund and not yet received was \$131.736 million (2015: \$78.077 million).

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2016

4. PAYMENTS

Payments from the Fund are in accordance with Section 8 of the Act.

	2016 \$'000	2015 \$'000
Section 8(a) payments - infrastructure projects		
<i>Local Government and Community Projects and Programs</i>		
Resources for Regions	41,003	33,181
Fixing Country Roads	24,896	-
Illawarra Infrastructure Fund	22,621	8,227
Regional Water Security	19,764	4,201
Cobbora Transition Fund	6,699	2,649
Regional Tourism Infrastructure Program	2,668	-
<i>NSW Government Projects and Programs</i>		
Rebuilding NSW projects	717,030	4,182
Northern Beaches Hospital Roads	108,000	10,000
Western Sydney Infrastructure Plan	63,237	27,493
Easing Sydney's Congestion (Pinch Points)	52,132	25,405
Princes Highway	46,000	64,000
Bridges for the Bush Program	25,472	18,795
Western NSW Freight Productivity Improvement Program	19,213	10,000
Regional Freight Pinch Point Program	13,679	8,537
Grafton Bridge	13,500	-
Pacific Highway	11,699	15,770
Bells Line of Road Corridor Improvement Program	8,285	12,000
Sydney Motorway Network Planning	7,288	7,711
WestConnex Enabling Works	6,000	4,000
WestConnex Gateway (Planning)	4,350	-
Newcastle Inner City Bypass (Rankin Park to Jesmond)	4,000	-
Taronga Zoo Visitor Plan	3,200	-
Regional Water Security - Broken Hill	1,636	36,500
Hawkesbury - Nepean Flood Mitigation Strategy	1,884	2,994
NorthConnex (M1 to M2 connection)	-	35,000
Centre of Excellence for Aged Care - Bulli Hospital	-	200
	1,224,256	330,845
Section 8(b) payments - administrative expenses		
Bank charges	1	-
Auditors Remuneration	9	7
	10	7
Section 8(c) payments - other monies authorised to be paid from the Fund		
Investment in shares in Sydney Motorway Corporation for WestConnex	1,125,000	500,000
Total payments	2,349,266	830,852

Restart NSW Fund

Notes to the Financial Report for the year ended 30 June 2016

4. PAYMENTS (continued)

	2016 \$'000	2015 \$'000
<u>Percentage of payments made to regional and rural areas</u>		
Section 9(2) payments - payments made to regional and rural areas	241,137	204,355
% of total payments from the Fund	10%	25%

5. FINANCIAL INSTRUMENTS

Risk management

The Fund's only financial instrument is the cash deposit in the Treasury Banking System and is subject to interest rate risk. As at 30 June 2016, a rise or fall of 1 per cent in interest rate over the course of the year would result in an increase or decrease in interest earned of approximately \$129.316 million (2015: \$78.350 million)

The cash held by the Fund is classified as a restricted asset as it can only be applied as allowed by the Act as detailed in Note 1.

6. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to reporting date requiring disclosure.

End of audited financial report



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