



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

Department of Lands

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Department of Lands:

- (a) presents fairly the Department of Lands' financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 45E of the *Public Finance and Audit Act 1983* (the Act).

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

The Director-General's Role

The financial report is the responsibility of the Director-General of the Department of Lands. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows, the program statement – expenses and revenues, the summary of compliance with financial directives and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Director-General in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Director-General had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Department of Lands,
- that the Department of Lands has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or

- on the assumptions used in formulating the budget figures disclosed in the financial report.

Audit Independence

The Audit Office complies with all applicable Independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



S R Stanton CPA
Director, Financial Audit Services

SYDNEY
24 October 2005

DEPARTMENT OF LANDS**STATEMENT
OF
DIRECTOR-GENERAL**

Pursuant to section 45F (1B) of the Public Finance and Audit Act 1983, I state that:

- (a) the accompanying financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Financial Reporting Code for Budget Dependent General Government Sector Agencies, the applicable clauses of the Public Finance and Audit Regulation 2000 and the Treasurer's Directions;
- (b) the statements exhibit a true and fair view of the financial position and transactions of the Department; and
- (c) there are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



W. Watkins
Director-General
Department of Lands

Date *20 October 2005*



B. Costello
Acting Director, Financial Services
Department of Lands

Date *20 October 2005*

THE DEPARTMENT OF LANDS
Statement of Financial Performance
For the Year Ended 30 June 2005

		Actual	Budget	Actual
	Notes	2005 \$'000	2005 \$'000	2004 \$'000
Expenses				
Operating expenses				
Employee related	3(a)	88,339	114,210	107,069
Other operating expenses	3(b)	53,286	57,173	57,573
Maintenance		3,338	4,011	2,775
Depreciation and amortisation	3(c)	12,197	11,248	10,797
Grants and subsidies	3(d)	12,576	24,345	3,318
Borrowing costs	3(e)	575	282	321
Other expenses	3(f)	1,928	1,080	2,519
Total Expenses		172,239	212,349	184,392
Less:				
Retained Revenue				
Sale of goods and services	4(a)	151,424	145,214	150,695
Investment income	4(b)	4,171	2,158	4,351
Retained taxes, fees and fines	4(c)	3,139	3,000	3,118
Grants and contributions	4(d)	625	15,357	7,455
Other revenue	4(e)	5,241	1,384	2,467
Total Retained Revenue		164,600	167,113	168,086
Gain/(loss) on disposal of non-current assets	5	(232)	-	210
Net Cost of Services	26	7,871	45,236	16,096
Government Contributions				
Recurrent appropriation	6	56,923	55,037	40,000
Capital appropriation	6	1,757	2,152	1,400
Acceptance by the Crown Entity of employees benefits and other liabilities	9	3,498	2,547	4,936
Total Government Contributions		62,178	59,736	46,336
SURPLUS/(DEFICIT) FOR THE YEAR FROM ORDINARY ACTIVITIES	21	54,307	14,500	30,240
NON-OWNER TRANSACTION CHANGES IN EQUITY				
Net increase in asset revaluation reserve	21	180	-	153
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		180	-	153
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS.	21	54,487	14,500	30,393

The accompanying notes form part of these statements.

THE DEPARTMENT OF LANDS
Statement of Financial Position
As at 30 June 2005

	Notes	Actual 2005 \$'000	Budget 2005 \$'000	Actual 2004 \$'000
ASSETS				
Current Assets				
Cash	10	55,278	69,585	75,878
Receivables	11	23,739	19,327	20,389
Inventories	12	491	628	628
Other	16	4,448	1,393	1,393
Total Current Assets		83,956	90,933	98,288
Non-Current Assets				
Receivables	11	14,932	14,776	14,776
Inventories	12	1,396	1,306	1,306
Other financial assets	13	591	509	509
Property, Plant and Equipment	14			
Land and Buildings		58,076	57,833	56,943
Plant and Equipment		42,744	41,947	37,783
Infrastructure systems		16,026	1,100	-
Total Property Plant and Equipment		116,846	100,880	94,726
Total Non-Current Assets		133,765	117,471	111,317
Total Assets		217,721	208,404	209,605
LIABILITIES				
Current Liabilities				
Payables	17	45,787	42,807	42,947
Interest Bearing Liabilities	18	1,130	451	451
Provisions	19	10,481	5,364	11,066
Other	20	67	-	-
Total Current Liabilities		57,465	48,622	54,464
Non-Current Liabilities				
Interest Bearing Liabilities	18	14,452	5,572	5,497
Provisions	19	38,073	73,726	73,740
Other	20	112	160	160
Total Non-Current Liabilities		52,637	79,458	79,397
Total Liabilities		110,102	128,080	133,861
Net Assets		107,619	80,324	75,744
EQUITY				
Reserves	21	529	349	349
Accumulated Funds		107,090	79,975	75,395
Total Equity		107,619	80,324	75,744

The accompanying notes form part of these statements.

THE DEPARTMENT OF LANDS

Statement of Cash Flows
For the Year Ended 30 June 2005

		Actual	Budget	Actual
	Notes	2005 \$'000	2005 \$'000	2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
Employee related		(124,171)	(112,294)	(116,804)
Grants and subsidies		(12,576)	(24,345)	(3,318)
Borrowing costs		(575)	(282)	(321)
Other		(68,091)	(71,898)	(58,574)
Total Payments		(205,413)	(208,819)	(179,017)
Receipts				
Sale of goods and services		152,321	149,166	152,937
Retained taxes, fees and fines		3,129	-	3,330
Interest received		4,699	2,658	3,152
Other		9,540	27,066	9,377
Total Receipts		169,689	178,890	168,796
Cash Flows From Government				
Recurrent appropriation		56,923	55,037	40,000
Capital appropriation		1,823	2,152	1,400
Cash reimbursements from the Crown Entity		805	96	715
Net Cash Flows from Government		59,551	57,285	42,115
NET CASH FLOWS FROM OPERATING ACTIVITIES	26	23,827	27,356	31,894
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of Land & Buildings, Plant & Equipment		470	-	1,226
Purchases of Land & Buildings, Plant & Equipment		(18,244)	(17,402)	(14,857)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(17,774)	(17,402)	(13,631)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and advances		-	75	-
Repayment of borrowings and advances		(3,604)	-	(166)
Contribution to the Treasury NSW		(23,049)	(16,322)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		(26,653)	(16,247)	(166)
NET INCREASE (DECREASE) IN CASH		(20,600)	(6,293)	18,097
Opening cash and cash equivalents		75,878	75,878	57,781
CLOSING CASH AND CASH EQUIVALENTS	10	55,278	69,585	75,878

The accompanying notes form part of these statements.

Consolidated Supplementary Financial Statements

Program Statement - Expenses and Revenues for the Year Ended 30 June 2005

	Program 1*		Program 2*		Commercial Activity		Not Attributable		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
AGENCY'S EXPENSES & REVENUES										
Expenses										
Operating Expenses										
- Employee Related	25,345	27,056	10,089	10,458	52,905	69,573			88,339	107,089
- Other Operating Expenses	11,070	9,876	10,216	10,666	32,000	37,231			53,286	67,573
Maintenance	513	206	183	95	2,662	2,474			3,338	2,775
Depreciation and Amortisation	545	184	511	672	11,141	9,941			12,197	10,797
Grants and Subsidies	12,281	2,994	11	-	284	324			12,676	3,318
Borrowing Costs	-	1	39	42	536	278			575	321
Other Expenses	1,620	1,054	-	-	308	1,465			1,928	2,519
Total Expenses	51,374	41,173	21,029	21,933	99,836	121,285			172,839	184,892
Retained Revenue										
Sale of Goods and Services	1,674	1,348	16,177	18,760	133,573	130,587			151,424	160,695
Investment Income	787	1,022	363	5	3,031	3,324			4,171	4,351
Retained taxes, fines and fees	3,139	3,118	-	-	-	-			3,139	3,118
Grants and Contributions	625	7,041	-	414	-	-			625	7,465
Other Revenue	3,818	695	26	18	1,397	1,754			5,241	2,467
Total Retained Revenue	10,043	13,224	16,556	19,197	138,001	135,665			164,800	168,086
Gain / (Loss) on Disposal of Non Current Assets	-	-	-	101	(302)	110			(232)	210
NET COST OF SERVICES	41,331	27,950	4,403	2,635	(37,863)	(14,489)			7,871	16,096
Government Contributions**							(62,178)	(46,336)	(62,178)	(46,336)
NET EXPENDITURE/(REVENUE) FOR THE YEAR	41,331	27,950	4,403	2,635	(37,863)	(14,489)			(54,307)	(30,240)
ADMINISTERED EXPENSES & REVENUES										
Administered Expenses										
Transfer payments	-	-	-	-	-	-			-	-
Other	(60,962)	(164,583)	-	-	-	-			(60,962)	(164,583)
Total Administered Expenses	(60,962)	(164,583)	-	-	-	-			(60,962)	(164,583)
Administered Revenues										
Transfer receipts	115,383	53,042	-	-	-	-			115,383	53,042
Consolidated Fund	-	-	-	-	-	-			-	-
Taxes, fees and fines	-	-	-	-	-	-			-	-
Other	-	-	-	-	-	-			-	-
Total Administered Revenues	115,383	53,042	-	-	-	-			115,383	53,042
Administered Revenues less Expenses	54,421	(111,541)	-	-	-	-			54,421	(111,541)

* The name and purpose of each program are summarised in Note 6.

** Appropriate ones are made on an agency basis and not individual programs. Consequently government contributions must be included in the "Not Attributable" column.

DEPARTMENT OF LANDS
Supplementary financial statements
SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES
FOR THE YEAR ENDED 30 JUNE 2005

	2005			2004				
	Recurrent Appropriation \$'000	Expenditure/ Net Claim on Consolidated Fund \$'000	Capital Appropriation \$'000	Expenditure Net Claim on Consolidated Fund \$'000	Recurrent Appropriation \$'000	Expenditure \$'000	Capital Appropriation \$'000	Expenditure \$'000
ORIGINAL BUDGET APPROPRIATION / EXPENDITURE								
* Appropriation Act	55,037	55,037	2,152	1,521	39,584	39,584	1,000	1,000
	55,037	55,037	2,152	1,521	39,584	39,584	1,000	1,000
OTHER APPROPRIATIONS / EXPENDITURE								
* Treasurer's Advance	-	-	63	63	-	-	-	-
* Transfers to/from another agency (S27 of the Appropriation Act)	1,886	1,886	173	173	416	416	400	400
	1,886	1,886	236	236	416	416	400	400
Total Appropriations Expenditure / Net Claim on Consolidated Fund (including transfer payments)	56,923	56,923	2,388	1,757	40,000	40,000	1,400	1,400
Amount drawn down against Appropriation Liability to Consolidated Fund		56,923		1,824		40,000		1,400
		-		67		-		-

Notes:

- 1 The summary of compliance is based on the assumption that Consolidated Fund moneys are spent first
- 2 The Liability to Consolidated Fund represents the difference between the "Amount drawn down against Appropriation" and the "Total Expenditure / Net Claim on Consolidated Fund"

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

1. REPORTING ENTITY

The Department of Lands (the Department), as the reporting entity, was created on 2 April 2003, following an administrative restructure. It is responsible for the provision of land and property related spatial information, the management of Crown lands and the provision of soil conservation and land management services. The land and property information activities are operated as a non budget-dependent activity through Land and Property Information (LPI) and the semi-commercial conservation and land management services through Soil Services (SS). These financial statements do not include the results of the Crown Entities administered by the Department, which are reported elsewhere. The Department primarily operates in New South Wales, Australia. The Head Office is located at 1 Prince Albert Road, Queens Square, Sydney NSW 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Department's financial statements are a general-purpose financial report, which has been prepared on an accrual basis and in accordance with:

- applicable Australian Accounting Standards;
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- Urgent Issues Group (UIG) Consensus Views;
- the requirements of the Public Finance and Audit Act and Regulation; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under section 9(2)(n) of the Act.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

In the absence of a specific Accounting Standard, other authoritative pronouncement of the AASB or UIG Consensus View, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.

Except for certain investments, land and buildings and infrastructure assets, which are recorded at fair value, the financial statements are prepared in accordance with the historical cost convention. All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency. The accounting policies adopted are consistent with those of the previous period.

b. Administered Activities

The Department administers, but does not control, certain activities on behalf of the Crown. It is accountable for the transactions relating to those administered activities but does not have the discretion, for example, to deploy the resources for the achievement of the Department's own objectives. Transactions and balances relating to the administered activities are not recognised as the Department's revenues, expenses, assets and liabilities, but are disclosed in Notes 28 to 31 as "Administered Assets", "Administered Liabilities", "Administered Expenses", and "Administered Revenues".

The accrual basis of accounting and all applicable accounting standards have been adopted for the reporting of the administered activities.

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Revenue Recognition

Revenue is recognised when the Department has control of the good or right to receive, it is probable that the economic benefits will flow to the Department and the amount of revenue can be measured reliably. Additional comments regarding the accounting policies for the recognition of revenue are discussed below:

(i) Parliamentary Appropriations and Contributions from other Bodies

Parliamentary appropriations and contributions from other bodies (including grants and donations) are recognised as revenues when the Department obtains control over the assets comprising the appropriations/contributions. Control over appropriations and contributions is normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year end. In this case, the authority to spend the money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year. As a result, unspent appropriations are accounted for as liabilities rather than revenue.

The liability is disclosed in Note 20 as part of "Other current liabilities". The amount will be repaid and the liability will be extinguished next financial year.

Sale of Goods and Services

Revenue from the sale of goods and services comprises revenue from the provision of products or services ie user charges. User charges are recognised as revenue when the Department obtains control of the assets that result from them.

(ii) Investment Income

Interest revenue is recognised as it accrues. Rent revenue is recognised in accordance with AAS 17 "Accounting for Leases". Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

d. Employee Benefits and other provisions

(i) Salaries and Wages, Annual Leave, Sick Leave and On-costs

Liabilities for salaries and wages (including non-monetary benefits), annual leave and vesting sick leave are recognised and measured in respect of employees' services to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

The outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Employee Benefits and other provisions (continued)

(ii) Long Service Leave and Superannuation

The Department's liabilities (apart from the commercial and semi-commercial activities) for long service leave and superannuation are assumed by the Crown Entity. The Department accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of employee benefits and other liabilities".

Long service leave is measured at present value, based on the application of factors prescribed by TC03/08, to the amounts calculated using the actual remuneration rates for all employees with five or more years of service.

Superannuation expense for the financial year is determined by using the formula specified in the Treasurer's Directions. The expense for certain superannuation schemes (ie Basic Benefit and First State Super) is calculated as a percentage of the employee's salary. For other superannuation schemes (ie State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' superannuation contributions.

The Department's commercial (LPI) and semi-commercial (SS) activities are responsible for the employees' superannuation entitlements under the State Superannuation Scheme, State Authorities Superannuation Scheme and State Authorities Non-Contributory Superannuation Scheme. The superannuation liability under these schemes has been adjusted to reflect the liability as assessed by Pillar Administration. As advised by Pillar Administration Corporation, the commercial and semi-commercial activities make periodic contributions to the superannuation reserve account to discharge any emerging superannuation liabilities.

The Department's semi-commercial activities contribute up to 4.11% of the employees' salaries and wages to the Treasury Special Deposits (Extended Leave and Leave on Termination Pool) Account. This contribution which discharges all liability for long service leave is expensed as incurred. However, in accordance with Treasury requirements and AASB 1028 "Accounting for Employee Entitlements" the nominal value of long service leave is recognised both as a liability and as an asset.

(iii) Other Provisions

Other provisions exist when the Department has a present legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events. These provisions are recognised when it is probable that a future sacrifice of economic benefits will be required and the amount can be measured reliably.

Any provisions for restructuring are recognised when a detailed formal plan has been developed within prescribed time limits and where the entity has raised a valid expectation in those affected by the restructuring that it will carry out the restructuring.

e. Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

f. Insurance

The Department's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self-insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past experience and external benchmarking.

DEPARTMENT OF LANDS

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- the amount of GST incurred by the Department as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.
- Receivables and payables are stated with the amount of GST included.

h. Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Department. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair value at the date of acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the acquisition date. The discount rate used is the incremental borrowing rate being the rate at which a similar borrowing could be obtained.

i. Plant and equipment

Plant and equipment costing \$5,000 and above individually are capitalised. Individual items of computer equipment costing \$1,000 and above are capitalised when they form part of a network.

j. Revaluation of Physical Non-Current Assets

Physical non-current assets are valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 03-02). This policy adopts fair value in accordance with AASB 1041 from the financial years beginning on or after 1 July 2002. There is no substantive difference between the fair value valuation methodology and the previous valuation methodology adopted in the NSW public sector.

Where available, fair value is determined having regard to the highest and best use of the asset on the basis of current market selling prices for the same or similar assets. Where market selling price is not available, the asset's fair value is measured as its market buying price ie the replacement cost of the asset's remaining service potential.

Each class of physical non-current assets is revalued every five years and with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date. The last revaluation was completed on 30 June 2001 and was based on an independent assessment. Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

When revaluing non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and the related accumulated depreciation are separately restated.

Otherwise, any balances of accumulated depreciation existing at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j). Revaluation of Physical Non-Current Assets (continued)

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the surplus/deficit, the increment is recognised immediately as revenue in the surplus/deficit.

Revaluation decrements are recognised immediately as expenses in the surplus/deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within the same class of non-current assets but not otherwise. Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

k. Assets Not Able to be Reliably Measured

The Department does not hold assets that have not been recognised in the Statement of Financial Position.

l. Depreciation of Non-Current Physical Assets

Except for a limited number of heritage assets, depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the Department. The normal life expectancies of major asset categories are as follows:

Asset Class	Number of Years
Buildings—Cottages and Dwellings/ Office Buildings/ Accommodation	40
Leasehold Improvements	Life of lease
Plant and Equipment	5-15
Computers	4
Motor Vehicles	5
Marine Craft	5
Furniture and Major Fitouts	10
Infrastructure Systems	50

Land is not a depreciable asset. The Department's heritage buildings have an extremely long useful life. Depreciation for these buildings cannot be reliably measured because the useful life and the net amount to be recovered at the end of the useful life cannot be reliably measured. In these cases, depreciation is not recognised. The decision not to recognise depreciation for these assets is reviewed annually.

m. Maintenance and Repairs

The costs of maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated.

n. Leased Assets

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

Where a non-current asset is acquired by means of a finance lease, the asset is recognised at its fair value at the inception of the lease. The corresponding liability is established at the same amount.

DEPARTMENT OF LANDS**Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****n. Leased Assets (continued)**

Lease payments are allocated between the principal component and the interest expense. The Department does not have any finance leases.

Operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred.

o. Receivables

Receivables are recognised and carried at cost based on the original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

p. Inventories

Inventories are stated at the lower of cost and net realisable value. In the case of raw materials and spare parts, cost is assigned on the basis of Weighted Average method. Work-in-progress cost is determined by specific identification method and includes direct materials, direct labour and an appropriate proportion of overheads determined by reference to the percentage completed on each contract.

q. Other financial assets

"Other financial assets" are recognised at fair value. For non-current "other financial assets", revaluation increments and decrements are recognised in the same manner as physical non-current assets. For current "other financial assets", revaluation increments or decrements are recognised in the Statement of Financial Performance.

r. Trust Funds

The Australian Bureau of Statistics commissions the mapping agencies of all States to provide certain services. A Memorandum of Understanding governs the operations of the Public Sector Mapping Agencies (PSMA). The Department acquired an investment of \$1 in one share in PSMA Australia Limited, being an incorporated joint venture of the Public Sector Mapping Agencies. The investment is reflected in the Department's financial statements in accordance with AAS14 "Accounting for Investments in Associates". (Refer to note 27)

s. Restricted Assets

Legislation or Treasury Directions impose restrictions on the use of certain assets of the Department.

The Department administers the Torrens Assurance Fund. The Torrens Assurance Fund was established under S134(1) of the Real Property Act 1900 as a Special Deposit Account administered by the Register-General. (Refer to note 15)

The Department administers the Public Reserves Management Fund (PRMF) which provides funds for the development, maintenance and protection of Crown land reserves throughout NSW. Crown reserves are generally managed by reserve trusts which are incorporated bodies administered by local government councils, volunteer boards of management or other responsible organisations such as Rural Lands Protection Boards. (Refer to note 15)

The PRMF was established by the Public Reserves Management Fund Act 1987.

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Other assets

Other assets including prepayments are recognised on a cost basis.

u. Equity transfers

The transfer of net assets between agencies as a result of an administrative restructure, transfer of programs / functions and parts thereof between NSW public sector agencies is designated as a contribution by owners by NSWTC 01/11 and is recognised as an adjustment to "Accumulated Funds". This treatment is consistent with Urgent Issues Group Abstract UIG 38 "Contributions by Owners Made to Wholly Owned Public Sector Entities". Transfers arising from an administrative restructure between government departments are recognised at the amount at which the asset was recognised by the transferor government department immediately prior to the restructure. In most instances this will approximate fair value. All other equity transfers are recognised at fair value.

v. Payables

These amounts represent liabilities for goods and services provided to the Department and other amounts, including interest. Interest is accrued over the period it becomes due.

w. Interest bearing liabilities

All loans are valued at current capital value; any finance lease liability is determined in accordance with AAS 17 "Leases".

x. Contribution to Consolidated Fund

The Department operates a commercial activity through Land and Property Information NSW. From this operation the Department pays income tax equivalents and dividends to the Consolidated Fund. Tax effect accounting is not required to be applied. Income tax is calculated by applying the prevailing company tax rate to profits earned by LPI after adjusting for any actuarial adjustments to unfunded superannuation impacting the statement of financial performance. In previous years, dividends were paid at the rate of 85% of after tax profit in two equal instalments, in August and December. For 2004-05, and future years, dividends are calculated at 85% of after tax profit adjusted for actuarial adjustments to unfunded superannuation.

y. Budgeted Amounts

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year with any adjustments for the effects of additional appropriations, s 21A, s 24 and / or s 26 of the *Public Finance and Audit Act 1983*.

The budgeted amounts in the Statement of Financial Performance and the Statement of Cash Flows are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the Statement of Financial Position, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts ie per the audited financial statements (rather than carried forward estimates).

DEPARTMENT OF LANDS

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

3. EXPENSES

3(a). EMPLOYEE RELATED EXPENSES

	2005 \$'000	2004 \$'000
Employee related expenses comprise the following specific items:		
Salaries & wages (including Recreation Leave)	80,693	86,545
Superannuation	(4,479)	4,754
Long service leave	4,624	6,807
Workers compensation insurance	759	1,047
Payroll tax and fringe benefits tax	6,296	5,738
Redundancies	446	2,198
	88,339	107,089

In addition to the \$88.339 million, \$877,416 was incurred in employee related expenses in respect of grants provided for Tweed River Sand Bypass project directly undertaken and/or managed by the Department. \$1,710,355 of salaries and wages were capitalised as part of computerisation project for titling system.

3(b). OTHER OPERATING EXPENSES

Valuation services contractors	10,893	9,453
Operating lease rental expense		
- Minimum lease payments	4,386	2,864
EDP – Information Technologies Services	2,884	3,904
Furniture, plant and equipment	667	631
Stores & Materials	3,735	5,798
Consultancies & Other Contractors	5,362	2,804
Promotion, publicity and events management	428	614
Travel expenses	1,220	1,169
Telecommunication expenses	2,489	2,023
Motor vehicle expenses	6,846	7,422
Insurance	2,986	3,405
Auditor's remuneration –audit or review of financial reports	293	284
Freight & postage	1,002	832
Legal fees	181	82
Staff related & development	949	898
Administration	1,434	2,209
Taxes	6,449	11,947
Bad & doubtful debts	115	738
Other	967	496
	53,286	57,573

In addition to the \$53.286 million, \$5.508 million was incurred in other operating expenses in respect of grants provided for Tweed River Sand Bypass project \$5,501,933 and Fishing Port annual provision \$6,068 directly undertaken and/or managed by the Department.

3(c). DEPRECIATION

Buildings and Leasehold Improvements	871	847
Plant and Equipment	10,976	9,950
Infrastructure Systems	350	-
	12,197	10,797

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

	<u>2005</u> <u>\$'000</u>	<u>2004</u> <u>\$'000</u>
3(d). GRANTS AND SUBSIDIES		
Tweed River Sand Bypass Project	7,818	-
Fishing Ports Annual Provisions	387	792
Public Reserve Management Fund	1,356	954
Rural Fire Service	20	-
Board of Surveying and Spatial Information	-	260
State Park Trusts	1,358	-
Other	1,637	1,312
	<u>12,576</u>	<u>3,318</u>

3(e). BORROWING COSTS

Interest payable on loans	42	42
Finance lease interest charges	533	279
	<u>575</u>	<u>321</u>

In addition to the \$575,000, \$1.03 million was incurred in borrowing cost in respect of grants provided for the Tweed River Sand Bypass project undertaken/or managed by the Department.

3 (f). OTHER EXPENSES

Fishing Port Maintenance	1,556	1,054
Waterways Maintenance	64	-
Torrens Assurance Fund	308	1,465
	<u>1,928</u>	<u>2,519</u>

4. REVENUES

4(a) SALE OF GOODS AND SERVICES

Title	103,009	101,017
Valuation	23,406	22,937
Mapping	3,117	3,657
Torrens Assurance Fund	3,228	2,017
Fees for Services	1,131	754
Soil Services	14,037	17,344
Search Fees	341	285
Agistment Fees	823	745
Other	2,332	1,939
	<u>151,424</u>	<u>150,695</u>

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

4(b) INVESTMENT INCOME

	<u>2005</u> <u>\$'000</u>	<u>2004</u> <u>\$'000</u>
Rents	6	117
Interest	4,165	4,234
	<u>4,171</u>	<u>4,351</u>

4(c) RETAINED FEES

Caravan Park Levy	3,139	3,118
	<u>3,139</u>	<u>3,118</u>

4(d) GRANTS AND CONTRIBUTIONS

Contributions from Other Entities	625	7,439
Other	-	16
	<u>625</u>	<u>7,455</u>

4(e) OTHER REVENUE

Tweed River Sand Bypass Project – Queensland Government's contribution	3,158	-
Printing and publishing	922	418
Digital database sales	2	13
International projects	209	651
Corporate support	103	520
Other revenue	847	865
	<u>5,241</u>	<u>2,467</u>

Other revenue comprises Public Reserves Management Fund income and income from sale of surveyor maps etc.

5. GAIN / (LOSS) ON DISPOSAL OF NON-CURRENT ASSETS**Gain/(loss) on disposal of land and buildings**

Proceeds from disposal	-	-
Carrying value of assets disposed	(8)	(70)
Net (loss) on disposal of land and buildings	<u>(8)</u>	<u>(70)</u>

Gain/(loss) on disposal of plant and equipment

Proceeds from disposal	470	1,226
Carrying value of assets disposed	(694)	(946)
Net (loss)/ gain on disposal of plant and equipment	<u>(224)</u>	<u>280</u>

(Loss)/gain on disposal of Non-Current Assets	<u>(232)</u>	<u>210</u>
--	--------------	------------

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

6. APPROPRIATIONS

	2005 \$'000	2004 \$'000
Recurrent Appropriations		
Total recurrent drawdowns from Treasury (per Summary of Compliance)	56,923	40,000
Less: Liability to Consolidated Fund (per Summary of Compliance)	-	-
Total	56,923	40,000
Comprising:		
Recurrent appropriations (per Statement of Financial Performance)	56,923	40,000
Total	56,923	40,000
Capital Appropriations		
Total capital drawdowns from Treasury (per Summary of Compliance)	1,824	1,400
Less: Amount repaid for lapsed Appropriation	-	-
Less: Liability to Consolidated Fund (per Summary of Compliance)	(67)	-
Total	1,757	1,400
Comprising:		
Capital appropriations (per Statement of Financial Performance)	1,757	1,400
Total	1,757	1,400

7. INDIVIDUALLY SIGNIFICANT ITEMS

Included in expenses from ordinary activities is \$22.513m for superannuation expenses written back due to the income earned in the superannuation fund reserves (2004 - \$15.940m).

Subsequent to the LPI's financial statement for the financial year ended 30 June 2004 being signed off by the Audit Office NSW in October 2004, it was found that the income tax equivalent was calculated based on the accounting profit without adjusting for the actuarial adjustments of \$15.958m to unfunded superannuation impacting the statement of financial performance. This resulted in an overpayment of income tax equivalent of \$4.782m to Office of State Revenue and an under payment of dividend of \$4.064m to the Treasury NSW.

These amounts have been adjusted in the financial year ended 30 June 2005.

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

8. PROGRAMS/ACTIVITIES OF THE DEPARTMENT

(a) Program 1 – Crown Lands Services

Objectives: Effective and sustainable use of the Crown Estate of New South Wales to achieve economic, environmental, community and client benefits.

(b) Program 2 – Soil Conservation Services and The Office of Rural Affairs

Objectives: To achieve the protection and conservation of farm water supplies, soil and related resources. Facilitate the development of sustainable rural communities.

(c) Commercial Activity – Land and Property Information New South Wales

Objectives: To provide integrated and enhanced land and property information services through innovative use of information and communications technology and expand the range of services delivered online.

9. ACCEPTANCE BY THE CROWN ENTITY OF EMPLOYEE BENEFITS AND OTHER LIABILITIES

	<u>2005</u> <u>\$'000</u>	<u>2004</u> <u>\$'000</u>
The following liabilities and expenses have been assumed by the Crown Entity.		
Superannuation	2,368	2,157
Long service leave	988	2,650
Payroll tax on superannuation	142	129
	<u>3,498</u>	<u>4,936</u>

10. CURRENT ASSETS – CASH

Cash at bank and on hand	<u>55,278</u>	<u>75,878</u>
Closing Cash and Cash Equivalents	<u>55,278</u>	<u>75,878</u>

For the purpose of the Statement of Cash Flows, cash includes cash on hand and cash at bank. Cash recognised in the Statement of Financial Position is reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

Cash at bank and on hand (per Statement of Financial Position)	<u>55,278</u>	<u>75,878</u>
Closing Cash and Cash Equivalents (per Statement of Cash Flows)	<u>55,278</u>	<u>75,878</u>

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

11. CURRENT/NON-CURRENT ASSETS – RECEIVABLES

	<u>2005</u> <u>\$'000</u>	<u>2004</u> <u>\$'000</u>
Current Receivables:		
Sale of goods and services	11,565	9,050
Accrued income – Sale of goods and services	4,229	3,082
GST receivable	910	1,086
Short-term loans	5,375	4,927
Retained taxes, fees and fines	139	128
Interest Receivable	1,564	2,099
Long Service Leave (note 19)	284	298
Other	151	252
Less: Provision for doubtful debts	(478)	(533)
	<u>23,739</u>	<u>20,389</u>
Non-Current Receivables:		
Public Reserve Management Fund	12,380	12,096
Long Service Leave (note 19)	2,552	2,680
	<u>14,932</u>	<u>14,776</u>

12. CURRENT/NON-CURRENT ASSETS – INVENTORIES

Current Inventories		
At Cost		
Raw materials	-	9
Goods for resale	349	326
Consumables and spare parts	175	326
Provision for obsolescence	(33)	(33)
	<u>491</u>	<u>628</u>
Non-Current Inventories		
At Cost		
Goods for resale	1,396	1,306
	<u>1,396</u>	<u>1,306</u>

Raw materials are classified as current assets because they are used within a short time. Goods for resale (map stocks) are split 20% current and 80% non-current based on 5-year usage. There was no write down of inventories during the financial year ended 30 June 2005 (2004 - NIL).

13. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

Non-Current		
Investment in Public Sector Mapping Authority (PSMA)	591	509
(Refer to Note 27)	<u>591</u>	<u>509</u>

Investment in PSMA is treated as non-current asset as it is not readily tradeable in the market and is the subject of a NSW Government Regulation that is unlikely to change in the short-term.

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

14. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	<u>2005</u> <u>\$'000</u>	<u>2004</u> <u>\$'000</u>
LAND AND BUILDINGS		
At Fair Value	60,243	58,240
Less:		
Accumulated Depreciation	<u>(2,167)</u>	<u>(1,297)</u>
	<u>58,076</u>	<u>56,943</u>
 PLANT AND EQUIPMENT		
At Fair Value	93,231	79,483
Less:		
Accumulated Depreciation	<u>(50,487)</u>	<u>(41,680)</u>
	<u>42,744</u>	<u>37,783</u>
 INFRASTRUCTURE SYSTEMS		
At Fair Value	16,376	-
Less:		
Accumulated Depreciation	<u>(350)</u>	<u>-</u>
	<u>16,026</u>	<u>-</u>
 Total Property, Plant and Equipment at Net Book Value	<u>116,846</u>	<u>94,726</u>

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are set out below:

	Land and Buildings \$'000	Plant and Equipment \$'000	Infrastructure systems \$'000	Total \$'000
2005				
Carrying amount at 1/07/04	56,943	37,783	-	94,726
Additions	2,012	16,527	-	18,539
Disposals	(8)	(694)	-	(702)
Revaluation increment	-	98	-	98
Depreciation expense	(871)	(10,976)	(350)	(12,197)
Transfer in due to Admin Restructure	-	6	16,376	16,382
Carrying amount at 30/06/05	<u>58,076</u>	<u>42,744</u>	<u>16,026</u>	<u>116,846</u>

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

15. RESTRICTED ASSETS

Legislation or Treasury Directions impose restrictions on the use of certain assets of the Department. As such, the following are considered to be restricted assets:

	2005 \$'000	2004 \$'000
Public Reserve Management Fund		
Current Assets:		
Cash	8,555	8,314
Receivables	5,375	4,927
	13,930	13,241
Non-Current Asset :		
Receivables	12,380	12,096
	26,310	25,337

Under Current Assets, Cash comprises Public Reserves Management Fund of \$8.555m (2004 - \$8.314 m). Receivables both current and non-current comprise Public Reserves Management Funds.

Public Reserve Management Fund (PRMF)

The Department administers the PRMF under the Public Reserve Management Fund Act 1987 within the Special Deposit Account in Treasury called the Public Reserves Management Fund. The fund is only to be used for grants and loans allocated for the following programs:

- a. Caravan park levy income development works
- b. Showgrounds assistance scheme
- c. Local parks, reserves and walking tracks
- d. Reserves of high visitation/regional significance
- e. Consultancies for plans of management and business plans
- f. Commercial initiatives on Crown reserves
- g. Major regional recreation projects (across a number of reserves) managed the Department of Lands.

Torrens Assurance Fund – Special Deposit Account

The Department operates the Torrens Assurance Fund within the Special Deposit Accounts. The Fund was established under Section 134(1) of the Real Property Act 1900. It meets claims for loss arising out of fraud or agency error and is funded by a \$4 charge on each land dealing lodged. The following is a summary of transactions in the Torrens Assurance Fund (note 24(a)).

Opening cash balance	8,825	8,273
<i>Add:</i>		
Revenue	3,228	2,017
<i>Less:</i>		
Expenditure	(308)	(1,465)
Cash balance at year end	11,745	8,825

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

16. CURRENT/NON-CURRENT ASSETS – OTHER

	2005	2004
	\$'000	\$'000
Current Assets – Other		
Prepayments	1,659	1,393
Prepaid superannuation – SSS (Note 19)	2,789	-
	<u>4,448</u>	<u>1,393</u>

17. CURRENT LIABILITIES – PAYABLES

Accrued salaries, wages and on-costs	2,098	1,724
Creditors	9,677	5,633
Fees in Advance	2,392	1,746
Contributions to Consolidated Fund (note 21)	25,804	23,049
Income Tax Equivalent payable	4,928	9,034
Other	888	1,761
	<u>45,787</u>	<u>42,947</u>

18. CURRENT/NON-CURRENT LIABILITIES - INTEREST BEARING LIABILITIES

Secured/Unsecured

Current Liabilities

Finance lease commitments	-	446
Promissory Note (unsecured)	1,125	-
Advance from Treasury (unsecured)	5	5
	<u>1,130</u>	<u>451</u>

Secured/Unsecured

Non-Current Liabilities

Finance lease commitments	-	2,323
Promissory Note (unsecured)	11,283	-
Advance from Treasury (unsecured)	3,169	3,174
	<u>14,452</u>	<u>5,497</u>

Repayment of Borrowings (excluding finance leases)

Not later than 1 year	1,130	5
Between 1 year and 5 years	5,620	21
Later than 5 years	8,831	3,153
Total borrowings at face value (excluding finance leases)	<u>15,582</u>	<u>3,179</u>

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

19. CURRENT/NON-CURRENT LIABILITIES - PROVISIONS

	2005 \$'000	2004 \$'000
Current employee benefits and related on-costs		
Recreation leave	5,881	6,482
Long service leave	4,054	3,865
Oncosts on employee benefits	499	679
Fringe Benefits Tax	47	40
Total provisions	10,481	11,066
Non-Current employee benefits and related on-costs		
Recreation leave	3,885	4,046
Long service leave	30,356	31,926
Superannuation	2,684	34,482
Oncosts on employee benefits	1,148	3,286
	38,073	73,740
Aggregate employee entitlements		
Provisions – current	10,481	11,066
Provisions – non-current	38,073	73,740
Accrued salaries, wages and on-costs (note 17)	2,098	1,724
	50,652	86,530

Superannuation liability

The Department's commercial and semi-commercial activities are responsible for funding the employer's superannuation liability through monthly contributions to the Department's reserve account held at the Pillar Administration. Superannuation payments to retiring employees are made out of this reserve account. Periodically the Department's reserve account balance is augmented by interest distributions made at the discretion of the Pillar Administration. The Department has no control over interest distributions. The reserve account can only be used for the settlement of superannuation liabilities.

Actuarial assessments for the defined benefit schemes: State Superannuation Scheme, State Authorities Superannuation Scheme and State Authorities Non-Contributory Superannuation Scheme (SSS, SASS and SANCSS) have been made for the year ended 30 June 2005 based on the full requirements of AAS25.

	Assessed Liability		Reserve Account		Superannuation Prepaid/(Deficit)	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
State Superannuation Scheme	205,696	199,000	208,485	168,936	2,789	(30,064)
State Authorities Superannuation Scheme	18,726	16,595	16,749	13,347	(1,977)	(3,248)
Sub-Total	224,422	215,595	225,234	182,283	812	(33,312)
State Authorities Non-Contributory Superannuation Scheme	14,890	13,692	14,183	12,522	(707)	(1,170)
Total	239,312	229,287	239,417	194,805	105	(34,482)

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

19. CURRENT/NON-CURRENT LIABILITIES – PROVISIONS (continued)

The Department's commercial and semi-commercial services' superannuation liabilities as at 30 June 2005 as assessed by Pillar Administration were based on the following key assumptions:

	2005	2006	2007
	%	%	%
• Rate of Investment Return	7.0	5.2	5.2
• Rate of General Salary Increase	4.0	4.0	4.0
• Rate of Increase in CPI	2.5	2.5	2.5

Employees' long service leave liability

The Department's semi-commercial services' long service leave liability and the corresponding receivable from the Treasury are reported as follows:

	2005 \$'000	2004 \$'000
Current Liability	284	298
Non-Current Liability	2,552	2,680
	2,836	2,978
Current Receivable (note 11)	284	298
Non-Current Receivable (note 11)	2,552	2,680
	2,836	2,978

20. CURRENT/NON-CURRENT LIABILITIES - OTHER

Liability to Consolidated Fund	67	-
Interest free advance from Treasury (unsecured)	112	160
	179	160
Reported as follows:		
Current Liabilities	67	-
	67	-
Non-Current Liabilities	112	160
	112	160

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

21. CHANGES IN EQUITY

	Accumulated Funds		Asset Revaluation Reserve		Total Equity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at the beginning of the financial year	75,395	68,167	349	196	75,744	68,363
Transactions with owners as owners						
Fair value of net assets transferred in on administration restructure (Note 22)	3,192	-	-	-	3,192	-
Contributions to Consolidated Fund	(25,804)	(23,049)	-	-	(25,804)	(23,049)
Transfers from asset revaluation reserve on administration restructure	-	37	-	-	-	37
Total	52,783	45,155	349	196	53,132	45,351
Other than transactions with owners as owners						
Surplus for the year	54,307	30,240	-	-	54,307	30,240
Increment on revaluation	-	-	180	153	180	153
Total	54,307	30,240	180	153	54,487	30,393
Balance at the end of the financial year	107,090	75,395	529	349	107,619	75,744

Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets. This accords with the Department's policy on the "Revaluation of Physical Non-Current Assets" as discussed in Note 2(j).

22. INCREASE IN NET ASSETS FROM EQUITY TRANSFERS

The Tweed River Entrance Sand Bypassing project, the River Entrance management and Waterways programs were transferred from the Department of Infrastructure, Planning and Natural Resource to the Department of Lands on 18 August 2004.

	2005 \$'000	2004 \$'000
Total Assets - Infrastructures and equipment	16,382	-
Total Liabilities - Promissory notes	(13,190)	-
Net assets	3,192	-

23. COMMITMENTS FOR EXPENDITURE**(a). Other Expenditure Commitments**

Aggregate of other expenditure for the acquisition of items as detailed below contracted for at balance date and not provided for:

Not later than 1 year	13,043	12,698
Later than 1 year and not later than 5 years	10,438	11,370
Total (including GST)	23,481	24,068

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

23. COMMITMENTS FOR EXPENDITURE (continued)

(b). Operating Lease Commitments

Future non-cancellable operating lease rentals not provided for and payable for property, plant and equipment for varying contract periods/suppliers.

	<u>2005</u> <u>\$'000</u>	<u>2004</u> <u>\$'000</u>
Not later than 1 year	3,776	3,873
Later than 1 year but not later than 5 years	4,078	4,140
Total (including GST)	<u>7,854</u>	<u>8,013</u>

(c) Finance Lease Commitments

Not later than 1 year	-	446
Later than 1 year but not later than 5 years	-	1,783
Later than 5 years	-	2,229
Minimum lease payments	-	4,458
Less: future finance charge	-	(1,689)
Total (including GST)	<u>-</u>	<u>2,769</u>

Classified as:

Current	-	446
Non-current	-	2,323
	<u>-</u>	<u>2,769</u>

The total 'other expenditure commitments' and 'operating lease commitments' above include input tax credits of \$2.849 m (2004 - \$2.917m) that are expected to be recovered from the Australian Taxation Office.

24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) The Department maintains a special deposit account for claims arising through fraud or Departmental error (Torrens Assurance Fund). As at 30 June 2005 known claims were assessed to have an estimated gross liability of \$4.779 m (2004 - \$8.127m). These liabilities have been estimated on the assumption that all disputed claims will be lost by LPI branch.

(b) The Department may be liable for payment of compensation payments arising from claims and other matters subject to litigation. The amounts involved cannot be accurately determined and in some instances are subject to arbitration. These claims are covered by the Treasury Managed Fund, and are not expected to exceed \$5.4 m (2004 - \$7.4m). In addition, applications for native title under the Native Title Act 1993 and Aboriginal Land Rights Act 1983 have been made over various areas of land and water in New South Wales which might ultimately result in a liability being incurred by the Department. It is not possible to estimate this potential liability.

DEPARTMENT OF LANDS**Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005****25. BUDGET REVIEW****STATEMENT OF FINANCIAL PERFORMANCE****Net Cost of Services**

The Employee related expenses comparison between Budget and Actual was primarily impacted by the positive earnings on superannuation reserve assets, which in turn reduced the superannuation expense by \$21 million.

In respect to Other operating expenses actual expenses were less than budget by \$3.9 million. This was primarily caused by lower than expected Torrens Assurance Fund claims (\$2.7 million) and other operating cost savings achieved.

Grants & subsidies expenditure reflects the Australian Accounting Standard requirement to eliminate payments made between divisions of the same economic entity. As a result the community service obligation subsidy paid to LPI in 2004/05 is not included in these accounts. This is the reason for the lower than budget expenditure in this area.

Retained revenues in 2004/05 increased against Budget in the areas of cost recovery from Queensland (Tweed River Sand Bypassing project) \$3.2 million and interest on invested funds \$2 million. Revenue from the sale of goods and services remained relative in total to the previous financial year, where the Budget was based on an expected decline against 2003/04 actual levels. Grant and contributions income appears to have fallen in 2004/05 where in fact this presentation is due to the accounting treatment required as mentioned in the previous paragraph.

STATEMENT OF FINANCIAL POSITION**Assets and Liabilities**

Non current assets increased by \$16 million during 2005 following the transfer in August 2004 of the Tweed River Sand Bypassing infrastructure from the Department of Infrastructure Planning and Natural Resources.

Current liabilities increased by \$3 million due to the provision for tax equivalent and dividends owed to NSW Treasury on the Land and Property Information business. Non current employee liabilities declined by \$36 million. The major components were payments made to Pillar Administration during the financial year and the above benchmark returns achieved on invested employee and employer reserve assets (refer to note 19).

Interest bearing liabilities increased by \$10 million due to the promissory notes for the Tweed River Sand Bypass project of \$12.4 million and the payment of the Bathurst building finance lease liability of \$2.3 million.

Cash Flows

Net operating cash flows reflect the slow down in the property related transactions and increased payment in respect to superannuation liabilities of Land and Property Information business.

Investing cash flows reflect the capital asset investment strategy for the Department with the majority of this investment in 2004/05 in new and improved business systems and information technology infrastructure.

DEPARTMENT OF LANDS

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

26. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES

	2005 \$'000	2004 \$'000
Net Cash flow from / (used in) Operating Activities	23,827	31,894
Depreciation	(12,197)	(10,797)
Non-cash revenue	297	-
Acceptance by the Crown Entity of Employee entitlements and other liabilities	(2,693)	(4,221)
Net (loss)/gain on sale of non-current assets	(232)	210
Cash flows from Government	(59,552)	(42,115)
Decrease in Provisions	36,184	13,463
(Decrease)/increase in Receivables	6,560	4,750
(Decrease) in Inventories	(47)	(190)
Decrease/(increase) in Current liabilities	(18)	(9,090)
Net Cost of Services	(7,871)	(16,096)

27. TRUST FUNDS**Public Sector Mapping Agency (PSMA)**

Refer to note 2 (r)

Opening accumulated surplus/(deficit) at start of the year	4,071	2,850
Income earned during the year	3,531	2,807
Less:		
Expenses paid during the year	(2,871)	(1,586)
Accumulated surplus/(deficit) at end of the year	4,731	4,071

The Department has a one-eighth (1/8) equity in the closing accumulated surplus, ie:

Accumulated surplus/(deficit) at end of the year	591	509
---	------------	------------

28. ADMINISTERED ASSETS AND LIABILITIES

	Crown Leasehold \$'000	Land Development Working Acct \$'000	2005 \$'000	2004 \$'000
Administered Assets				
Cash	8,607	40,644	49,251	26,670
Receivables	49,566	687	50,253	45,071
Land in course of development	-	12,024	12,024	6,802
Vacant Crown land & Land under Tenure	4,538,692	-	4,538,692	4,379,242
Total Administered Assets	4,596,865	53,355	4,650,220	4,457,785
Administered Liabilities				
Unearned revenue	25,320	-	25,320	11,852
Accounts payable & provisions	4,990	33,212	38,202	13,490
Liability to Consolidated Fund	337	-	337	3,010
Amount due to Crown Leasehold	-	11,157	11,157	9,591
Treasury advance	-	3,000	3,000	3,000
Total Administered Liabilities	30,647	47,369	78,016	40,943

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

29. ADMINISTERED REVENUE - DEBTS WRITTEN OFF

Administered debts for lease income of \$292,871 were written off during the year (30 June 2004-\$35,301).

30. ADMINISTERED REVENUE - SCHEDULE OF UNCOLLECTED AMOUNTS

	2005 \$'000	2004 \$'000
Analysis of uncollected amounts in respect of Land revenue –		
Crown Leasehold:		
Less than 90 days	10,094	3,724
Greater than 90 days	17,411	14,812
	<u>27,505</u>	<u>18,536</u>
Less: Provision for doubtful debts	3,956	4,173
	<u>23,549</u>	<u>14,363</u>
Amounts not yet called	26,017	27,288
Total	<u>49,566</u>	<u>41,651</u>

31. ADMINISTERED REVENUE AND EXPENSES

	Crown Leasehold \$'000	Land Development Working Acct \$'000	2005 \$'000	2004 \$'000
Revenue	69,825	45,558	115,383	53,042
Expenses	(44,238)	(16,724)	(60,962)	(164,583)
Operating surplus/(loss)	<u>25,587</u>	<u>28,834</u>	<u>54,421</u>	<u>(111,541)</u>

Details of Crown revenue collected by the Department and remitted to the Treasury:

Land sales, term purchase instalments and other misc land sales	25,449	10,831
Leases, licences and related land receipts	37,919	28,877
	<u>63,368</u>	<u>39,708</u>

32. FINANCIAL INSTRUMENTS

Cash

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation 11.00 am unofficial cash rate adjusted for a management fee to Treasury. Interest is reported in the financial statements as it is earned. For the purposes of the Statement of Cash Flows, cash comprises cash on hand and at bank and short-term deposits at call.

Receivables

All trade and other debtors are recognised as amounts receivable at balance date. Collectability of all debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). No interest is earned on trade debtors. The carrying amount approximates net fair value. Sales are generally made on 30 day terms.

DEPARTMENT OF LANDS

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

32. FINANCIAL INSTRUMENTS (continued)**Bank Overdraft**

The Department does not have any bank overdraft facility.

Trade Creditors and Accruals

The 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 the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made not later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment. No interest was paid during the year (30 June 2004-Nil). The carrying amount approximates net fair value.

Interest Bearing Liabilities

The interest bearing liabilities are the promissory notes issued by ANZ bank which are used to fund the Department's Tweed River Sand Bypass project jointly with Queensland government. New South Wales government owns 75% of the project and 25% owned by the Queensland government. The total face value of the promissory notes is \$21 million, 75% of which is recognised by the Department as interest bearing liabilities. The promissory notes are repayable in 12 year term with 4 quarterly repayments a year.

(a) Interest Rate Risk

	Weighted Average Effective Interest rate	Floating Interest Rate	Fixed Interest Rate Maturities			Non Interest Bearing	Total Carrying Amount As per the Statement of Financial Position \$'000
			1 year or less	1 to 5 years	More than 5 Years		
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2005							
Financial Assets							
Cash	4.33	55,278	-	-	-	-	55,278
Receivables	4.43	17,755	-	-	-	20,916	38,671
Total Financial Assets		73,033	-	-	-	20,916	93,949
30 June 2004							
Cash	4.18	75,878	-	-	-	-	75,878
Receivables	3.75	17,023	-	-	-	18,142	35,165
Total Financial Assets		92,901	-	-	-	18,142	111,043
30 June 2005							
Financial Liabilities							
Payables	-	-	-	-	-	45,787	45,787
Interest Bearing	8.81	-	1,130	5,615	8,837	-	15,582
Other	-	-	-	-	-	179	179
Total Financial Liabilities			1,130	5,615	8,837	45,966	61,548
30 June 2004							
Payables	-	-	-	-	-	42,947	42,947
Interest Bearing	1.3	-	5	21	3,154	-	3,180
Finance lease	9.75	-	446	1,783	540	-	2,769
Other	-	-	-	-	-	160	160
Total Financial Liabilities			451	1,804	3,694	43,107	49,056

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

32. FINANCIAL INSTRUMENTS (continued)

(b) Credit Risk

Credit risk is the risk of financial loss arising from another party to a contract/or financial position failing to discharge a financial obligation thereunder. The Department's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Statement of Financial Position.

33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Department of Lands NSW will apply the Australian Equivalents to International Financial Reporting Standards (AEIFRS) from 2005-06.

The following strategy is being implemented by the Department to manage the transition to AEIFRS:

- Forming AEIFRS steering committee
- Send steering committee members to attend AIEFRS seminars
- Engaging accounting professional to provide expert advice
- AEIFRS Business Impact Analysis
- Changes to systems, processes and policies
- Train staff
- Implementation

To date, the Department has sent the financial steering committee members to attend seminars on AEIFRS implementation issues and AEIFRS annual reports presentation and disclosures sponsored by the NSW Treasury and the CPA Australia. The consultants from the accounting firm, Deloitte, have been engaged to provide the expert advice to the steering committee. The AEIFRS business impact analysis and the revised opening balance in compliance with AEIFRS have also been completed.

The Department has determined the key areas where changes in accounting policies are likely to impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts are likely to arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector. The impacts disclosed below reflect Treasury's likely mandates (referred to as "indicative mandates").

The Department has referred to AASB 136 – Impairment of Assets, the draft HOTARAC (Head of Treasuries Accounting and Reporting Advisory Committee) policy for the definition of 'a not-for-profit entity' and has considered the following factors in determining the status of a 'not-for-profit' entity for the Department

DEPARTMENT OF LANDS

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- Statements by owners about objectives of the entity
- Governance framework-extent that private sector type frameworks apply
- Purpose, nature and extent of funding from owners
- Targeted financial performance of the entity, agreed between owners and board/management
- Classification under Government Finance Statistics (GFS)
- Comparison with Treasury's previous approach

Shown below are management's best estimates as at the date of preparing the 30 June 2005 financial report of the estimated financial impacts of AEIFRS on the Department's equity and profit/loss.

The Department does not anticipate any material impacts on its cash flows. The actual effects of the transition may differ from the estimated figures below because of pending changes to the AEIFRS, including the UIG Interpretations and / or emerging accepted practice in their interpretation and application. The Department's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

(a) Reconciliation of key aggregates**Reconciliation of equity under existing Standards (AGAAP) to equity under AEIFRS:**

	Notes	30 June 2005** \$'000	1 July 2004* \$'000
Total equity under AGAAP		107,619	75,744
Adjustments to accumulated funds			
Effect of valuing assets individually rather than by class	1	-	-
Grants [AASB 120]	2	-	-
Recognition of major inspection costs	3	-	-
Recognition of restoration costs	4	-	-
Write back asset revaluation reserve for investment properties	5	-	-
Derecognition of intangible assets	6	-	-
Derecognition of capitalised interest	7	-	-
Defined benefit superannuation adjustment of change in discount rate	8	(88,625)	(45,168)
Effect of discounting long-term annual leave	9	-	-
Tax effect adjustment	10	-	-
Adjustments to other reserves			
Effect to valuing assets individually rather than by class	1	-	-
Write back asset revaluation reserve for investment properties	5	-	-
Write back asset revaluation reserve for intangibles	6	-	-
Capitalised interest derecognised	7	-	-
Tax effect adjustment	10	-	-
Total equity under AEIFRS		18,994	30,576

*=adjustments as at the date of transition

**=cumulative adjustments as at date of transition plus the year ended 30 June 2005

DEPARTMENT OF LANDS
Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of surplus / (deficit) under AGAAP to surplus / (deficit) under AEIFRS:		
Year ended 30 June 2005	Notes	\$'000
Surplus / (deficit) under AGAAP		54,307
Grants [AASB 120]	2	-
Major inspection costs	3	-
Restoration costs	4	-
Investment properties	5	-
Research costs expensed	6	-
Borrowing costs expensed	7	-
Defined benefit superannuation	8	(43,457)
Long term annual leave	9	-
Income tax expense	10	-
Assets held for sale	11	-
		-
Surplus / (deficit) under AEIFRS		10,850
Based on the above, if AEIFRS were applied in 2004/05 this would increase the Net Cost of Services from \$7.871m to \$51.328m		

Notes to tables above

1. AASB 116 Property, Plant and Equipment require for-profit entities to recognise revaluation increments and decrements on an individual asset basis, rather than a class basis. This change will decrease accumulated funds and increase the asset revaluation reserve.
2. AASB 120 Accounting for Government Grants and Disclosure of Government Assistance requires for-profit entities to recognise grant income over the period necessary to match related costs. This has the effect of delaying revenue recognition and increasing liabilities. Under current AGAAP, grants are normally recognised on receipt. It is possible that AASB 120 may be amended to adopt the approach in AASB 141 Agriculture where grants are recognised as revenue when conditions are satisfied. However, at this stage, the timing and dollar impact of these amendments is uncertain.
3. AASB 116 requires major inspection costs to be capitalised, where these are currently expensed. This will require that fair value and depreciation of the related asset to be re-allocated.
4. AASB 116 requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration costs, where restoration provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. These restoration costs must be depreciated and the unwinding of the restoration provision must be recognised as a finance expense. This treatment is not required under current AGAAP.
5. Under AASB 140 Investment Property and Treasury's indicative mandates investment property will be recognised at fair value. In contrast to their current treatment as property, plant and equipment, investment property recognised at fair value will be not be depreciated and changes in fair value will be recognised in the operating statement rather than the asset revaluation reserve. This means that any asset revaluation reserve balances relating to such property will be written back to accumulated funds

DEPARTMENT OF LANDS

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

6. AASB 138 Intangible Assets requires all research costs to be expensed and restricts the capitalisation of development costs. Current AGAAP permits some research and development costs to be capitalised when certain criteria are met. As a result, some currently recognised intangible assets will need to be derecognised. Further, intangibles can only be revalued where there is an active market, which is unlikely to occur. Therefore, revaluation increments and decrements will need to be derecognised and intangible assets recognised at amortised cost.

The application of AASB 138 will also result in certain reclassifications from property, plant and equipment to intangible assets (e.g. computer software and easements)

7. Current AGAAP requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised and other borrowing costs to be expensed.

AASB 123 Borrowing Costs provides the option to expense or capitalise borrowing costs. NSW Treasury's indicative mandate requires all General Government Sector agencies except PTEs to expense all borrowing costs to harmonise with Government Finance Statistics reporting. This reduces the recognised value of assets and reduces profits.

8. AASB 119 Employee Benefits requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. Where the superannuation obligation is not assumed by the Crown, this will increase the defined benefit superannuation liability (or decrease the asset for those agencies in an overfunded position) and change the quantum of the superannuation expense.
9. AASB 119 requires present value measurement for all long-term employee benefits. Current AGAAP provides that wages, salaries, annual leave and sick leave are measured at nominal value in all circumstance.
10. AASB 112 Income Taxes uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be recognised as deferred tax assets or liabilities. Current AGAAP uses an operating statement method that accounts for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach alters the quantum and timing of tax assets and liabilities recognized. In particular, the balance sheet approach results in the recognition of a deferred tax liability in relation to revalued assets that is generally not recognised under current AGAAP. This also changes the quantum and timing of the tax expenses.
11. AASB 5 Non-Current Assets Held for Sale and Discontinued Operations requires non-current assets classified as 'held for sale' to be reclassified as current and recognised at the lower of the carrying amount and the fair value less costs to sell. Unlike current AGAAP, 'held for sale' assets are not depreciated, thereby reducing the depreciation expense.

DEPARTMENT OF LANDS**Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005****33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)****(b) Financial Instruments**

In accordance with NSW Treasury's indicative mandates, the Department will apply the exemption provided in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards not to apply the requirements of AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. These Standards will apply from 1 July 2005. None of the information provided above includes any impacts for financial instruments. However, when these Standards are applied, they are likely to impact on retained earnings (on first adoption) and the amount and volatility of profit / loss. Further, the impact of these Standards will in part depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics.

(c) Grant recognition for not-for-profit entities

The Department will apply the requirements in AASB 1004 Contributions regarding contributions of assets (including grants) and forgiveness of liabilities. There are no differences in the recognition requirements between the new AASB 1004 and the current AASB 1004. However, the new AASB 1004 may be amended by proposals in Exposure Draft (ED) 125 Financial Reporting by Local Governments. If the ED 125 approach is applied, revenue and / or expense recognition will not occur until either the Department supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied. ED 125 may therefore delay revenue recognition compared with AASB 1004, where grants are recognised when controlled. However, at this stage, the timing and dollar impact of these amendments is uncertain.

END OF AUDITED FINANCIAL STATEMENTS