

FINANCIAL STATEMENTS – **Forests NSW and FORESTRY COMMISSION DIVISION**

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STATEMENT BY COMMISSIONER

(as Corporation Sole Under Section 7 (1) of the Forestry Act 1916)

Pursuant to the *Public Finance and Audit Act, 1983*, the statements are signed and attested in the following terms:

In my opinion, the accompanying financial statements present a true and fair view of the consolidated financial position of the Forestry Commission of New South Wales (trading as Forests NSW) as at 30 June 2006 and the results of its operations and transactions for the year then ended.

The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act, 1983*, and accompanying regulations, and the Treasurer's Directions.

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



Barry Buffier

Commissioner for the Forestry Commission of New South Wales

28th November, 2006



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT
FORESTRY COMMISSION OF NEW SOUTH WALES
(TRADING AS FORESTS NSW)

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Forestry Commission of New South Wales (the Commission):

- presents fairly the Commission's and the consolidated entity's (defined below) financial position as at 30 June 2006 and their performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act), and the Public Finance and Audit Regulation 2005.

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

Scope

The Financial Report and the Commissioner's Responsibility

The financial report comprises the balance sheets, income statements, statements of changes in equity, cash flow statements and accompanying notes to the financial statements for the Commission and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises the Commission and the entities it controlled during the year.

The Commissioner of the Forestry Commission of New South Wales is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Commissioner in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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 Commissioner had not fulfilled his reporting obligations.

My opinion does not provide assurance:

- about the future viability of the Commission or its controlled entities,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

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.

G J Gibson, FCPA
Assistant-Auditor General
SYDNEY
30 November 2006

CONSOLIDATED ANNUAL FINANCIAL REPORT

Year ending 30 June 2006

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE, 2006

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Continuing Operations				
Revenue from ordinary activities				
From sales of timber and related activities	3a	224 850	224 850	206 552
Income from Investment Properties	3b	139	139	139
From other operating activities	3b	68 122	63 021	40 855
Total Revenue		293 111	288 010	247 546
Less Expenses from continuing operations				
Contract harvest & haulage		90 002	90 002	76 893
Contractors		12 104	12 104	12 143
Depreciation	4a	9 784	9 784	9 967
Employee & related		62 933	56 204	85 185
Personnel Services	23(i)	4 367	5 995	-
Materials		18 902	18 902	18 176
Fees		10 034	10 034	9 339
Other		10 806	10 806	6 776
NMV Decrement/(Increment) Biological Assets	11(a) (c)	62 759	62 759	39 992
		281 691	276 590	258 471
Profit/(Loss) from continuing operations before income tax		11 420	11 420	(10 925)
Income tax expense	5	(8 584)	(8 584)	(12 937)
Profit/(Loss) after tax from continuing operations		2 836	2 836	(23 862)
Net Profit/(Loss) for the period		2 836	2 836	(23 862)

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

BALANCE SHEET AS AT 30 JUNE, 2006

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Current assets				
Cash and cash equivalents	6	6 987	6 987	8 377
Trade and other receivables	8	42 208	42 199	53 260
Inventories	7	6 935	6 935	6 951
Prepayment		2 264	2 264	3 155
Other assets	16(b) 23(ii)	9 858	9 858	-
Current Tax Asset	5	616	616	-
Total Current assets		68 868	68 859	71 743
Non-current assets				
Property, plant and equipment	9	888 142	888 142	901 581
Biological Assets	11	1 558 674	1 558 674	1 594 934
Investment Properties	10	4 778	4 778	4 778
Deferred income tax asset	5	8 345	8 345	70 367
Total Non-Current assets		2 459 939	2 459 939	2 571 660
TOTAL ASSETS		2 528 807	2 528 798	2 643 403
Current liabilities				
Trade and other payables	12	48 160	48 160	47 553
Interest-bearing loans and borrowings	13	20 809	20 809	29 365
Dividend provided	14	26 332	26 332	27 254
Provisions	15	11 326	770	6 463
Current Tax Liability	5	-	-	855
Other Liabilities	16(a)	-	-	33 204
Total Current Liabilities		106 627	96 071	144 694
Non-current liabilities				
Interest-bearing loans and borrowings	13	117 467	117 467	108 697
Provisions	15	2 900	2 600	25 465
Deferred income tax liability	5	462 641	462 641	522 205
Amount Due to Related Entities	23(ii)	22 502	33 349	-
Total non-current liabilities		605 510	616 057	656 367
Total liabilities		712 137	712 128	801 061
Net Assets		1 816 670	1 816 670	1 842 342
Equity				
Capital		421 706	421 706	421 706
Asset Revaluation Reserve		487 559	487 559	493 068
Retained profits		907 405	907 405	927 568
Total Equity		1 816 670	1 816 670	1 842 342

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE, 2006

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Cash flows from operating activities				
Receipts from customers		279 350	279 350	267 658
Payment to suppliers and employees		(232 038)	(232 038)	(224 583)
Interest received		592	592	400
Income Taxes Paid		(5 237)	(5 237)	(6 249)
Net cash inflow from operating activities		42 667	42 667	37 226
Cash flows from investing activities				
Payments for property, plant and equipment		(12 141)	(12 141)	(11 968)
Payments for plantation establishment		(19 310)	(19 310)	(19 563)
Capitalised Interest on Borrowings		(7 591)	(7 591)	(7 232)
Proceeds from sale of property, plant & equipment		19 693	19 693	2 469
Net cash outflow from investing activities		(19 349)	(19 349)	(36 294)
Cash flows from financing activities				
Proceeds from borrowings		32 000	32 000	29 789
Repayment of borrowings		(31 786)	(31 786)	(13 000)
Dividends paid	14	(24 922)	(24 922)	(13 096)
Net cash inflow (outflow) from financing activities		(24 708)	(24 708)	3 693
Net increase (decrease) in cash held		(1 390)	(1 390)	4 625
Cash at the beginning of the financial year		8 377	8 377	3 752
Cash and cash equivalents at the end of the period	6	6 987	6 987	8 377

The above cash flow statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE, 2005

	Economic Entity Capital	Statutory Corporation Capital	Economic Entity Accumulated Funds	Statutory Corporation Accumulated Funds	Economic Entity Asset Revaluation Reserve	Statutory Corporation Asset Revaluation	Economic Entity Total Equity	Statutory Corporation Total Equity
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
At July 2004	-	421 706	-	958 296	-	507 340	-	1 887 342
Profit/(Loss) for the year	-	-	-	(23 862)	-	-	-	(23 862)
Transfer from Asset Revaluation Reserve from Assets Disposals	-	-	-	20 387	-	(20 387)	-	-
Revocations	-	-	-	1	-	(1)	-	-
Tax Effect AASB 112	-	-	-	-	-	6 116	-	6 116
Equity Dividend	-	-	-	(27 254)	-	-	-	(27 254)
At 30 June 2005	-	421 706	-	927 568	-	493 068	-	1 842 342
At July 2005	421 706	421 706	927 568	927 568	493 068	493 068	1 842 342	1 842 342
Changes in equity-transaction with owners as owners (a)			(35 414)	(35 414)			(35 414)	(35 414)
Realised Gain on Land Revocated (a)			24 713	24 713	(24 713)	(24 713)	-	-
Deferred Tax Reversal on Realised Gain of Land Revocated (a)			10 591	10 591			10 591	10 591
Realised Gain on disposal of other fixed assets			962	962	(962)	(962)	-	-
Deferred Tax Reversal on Realised Gain of Fixed asset Disposed			149	149			149	149
Fair Value Revaluation of fixed Assets					20 166	20 166	20 166	
Equity Dividend			(24 000)	(24 000)			(24 000)	(24 000)
Profit/Loss for the Year			2 836	2 836			2 836	2 836
At 30 June 2006	421 706	421 706	907 405	907 405	487 559	487 559	1 816 670	1 816 670

(a) 359 000 hectares were revoked by Government Gazettes in 2005-2006 and transferred to NPWS and other related NSW State Government Agencies

Notes to and forming part of the financial statements for the year ended 30 June 2006

1. CORPORATE INFORMATION

Forests NSW is the trading name of Forestry Commission of NSW.

In June 2004, Forests NSW was aligned with the Department of Primary Industries (NSW DPI) but continues to operate as a self funded Public Trading Enterprise (PTE).

On 17th March, 2006 the Government proclaimed the *Public Sector Employment Legislation Amendment Act 2006*. This Act made fundamental changes to the employment arrangements of many statutory corporations through amendments to the *Public Sector Employment and Management Act 2002* (PSEMA) and other Acts. In particular, the status of employees of many statutory corporations has been changed. They are now employees of the Government of New South Wales in the service of the Crown. Employees of the Government were assigned to Divisions of the Government Service. Departments are now also known as Divisions of the Government Service, per Schedule 1 of the PSEMA. From 17th March, 2006 Forests NSW employees became

the employees of either NSW DPI or the new entity, Forestry Commission Division. As a PTE, Forests NSW continues to be responsible for making use of the employees and resources of both NSW DPI and Forestry Commission Division at its own cost, and must meet all expenses, taxes, duties and Government dividends from revenues earned from the commercial business activities it undertakes.

This supply and continued use of resources and shared services from NSW DPI and Forestry Commission Division is based on the signed Memorandum of Understanding.

Forestry Commission Division is a special purpose service entity created under Schedule 3 of PSEMA and Forests NSW administers and has dominant control of its day to day operation.

Forests NSW is the parent reporting entity and its operations are consolidated with the activities of Forestry Commission Division NSW to form the economic reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of Preparation**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the Public Finance and Audit (General) Regulation 2005. Australian Accounting Standards include Australian equivalents to International Financial Reporting standards.

2004-05 comparatives for the economic entity have not been provided as this entity is equivalent to the statutory corporation.

Forests NSW is a for profit entity and its accounts are consolidated as part of the NSW Total State Sector Accounts.

The accounts have been prepared on an accrual basis utilising conventional historical cost bases except for certain forest, non-forest assets and investment properties which, as indicated separately in the notes and financial statements, are at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

(b) Statement of Compliance

The consolidated and parent entity financial report complies with Australian Accounting Standards which include the Australian Equivalents to International Financial Reporting Standards (AEIFRS). This is the first financial report prepared based on AEIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly.

In accordance with AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards and Treasury Mandates, the date of transition to AASB 132 Financial

Instruments Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement was deferred to 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005. The basis used to prepare the 2004-05 comparative information for financial instruments under previous Australian Accounting Standards is discussed in Note 1(w) below.

Reconciliations of AEIFRS equity and surplus or deficit for 30 June 2005 to the balances reported in the previous AGAAP 2004-05 financial report are detailed in Note 1(w). This note also includes separate disclosure of the 1 July 2005 equity adjustments arising from the adoption of AASB 132 and AASB 139.

(c) Basis of Consolidation

The consolidated statements comprise the financial statements of Forests NSW (parent entity) and Forestry Commission Division as at 30 June 2006.

Financial year 2005-06 is the initial year in which consolidated statements are prepared for the economic entity.

The financial statements of Forestry Commission Division are prepared for period 17th March, 2006 to 30th June, 2006, using the same using consistent accounting policies with Forests NSW. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions are eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Forestry Commission Division financial statements are consolidated

Notes to and forming part of the financial statements for the year ended 30 June 2006

from the date on which control is transferred to Forests NSW and cease to be consolidated from the dates which control is transferred out of Forests NSW. The consolidated financial statements include the results of Forestry Commission Division from the 17th March, 2006.

Where there is loss of control of a subsidiary, consolidated financial statements include the results for the part of the reporting period during which Forests NSW has control.

The consolidated financial report for the year ended 30 June 2006 has been authorised for use by Barry Buffer on 28th November, 2006

(d) Income Tax (Tax equivalents regime) (refer Note 5)

As of 1 July 2001, Forests NSW is subject to the National Tax Equivalents Regime (NTER) which requires Government Trading Enterprises to be subject to the same taxes, including income tax and goods and services tax, as private sector organisations. Prior to this date Forests NSW were subject to the state based Tax Equivalents Regime.

Current tax payable is accounted by reference to the amount of income tax payable or recoverable in terms of the taxable profit and loss for the current reporting period. It is calculated by applying the applicable tax rates and laws. Tax for the current period/prior period is recognised as a liability (or asset) to the extent that is unpaid (or refundable).

The comprehensive balance sheet liability method of AASB 112 is used to account for temporary differences that eventuate to deferred assets and liabilities. They arise as a result of the differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of these items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax asset on the other hand, are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences and tax offsets can be utilised. Deferred tax asset items relating to tax losses will be carried forward as an asset as this benefit has largely arisen from the deductibility of plantation establishment activity. Whilst recognising the significant period involved (to maturity of these plantation assets), as these activities constitute Forests NSW core business, there is high likelihood the benefit will be fully realised in future periods.

Other Taxes (GST)

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

- the amount of GST incurred by Forests NSW 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.

(e) Trade and Other Receivables (refer Note 8)

Receivables are recognised and carried at cost, based on the original invoice amount less a provision for any uncollectible debts.

Credit sales are generally 7, 14 or 30 days settlement.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(f) Inventories and Work in Progress (refer Note 7)

Inventories and Work in Progress (WIP) are stated at the lower of cost or net realisable value. In the case of materials and parts, cost comprises purchase price and incidental expenses. The valuation of WIP and finished goods is based on direct costs plus an appropriate proportion of production overheads.

(g) Non-Current Asset Valuations

Fixed Assets are reviewed and assessed periodically at each reporting cycle to assess fair value and impairment.

(i) Impairment

Where an indicator of impairment exists, the asset will be written down to the recoverable amount.

Recoverable amount is the greater of fair value less costs to sell. It is also used to determine assets that do not generate largely independent cash inflows

(ii) Property, Plant & Equipment (refer Note 9)

Land

All land, being Crown Land and Forests NSW owned land, under forests and plantations and under administrative buildings, offices, mechanical workshops and other non-forest installations were revalued by the State Valuation Office (SVO) on 30 June 2004. The carrying value as at 30 June 2006 approximates to the fair value. Fair value is based on current market buying price representing value in use. The SVO supported this basis of valuation by recognising that Forests NSW land was held for continued use and would be replaced if Forests NSW was deprived of them.

The valuation recognised areas that were currently utilised for timber producing purposes and other areas such as reserves and exclusion zones where no commercial activities are carried out by Forests NSW.

Independent valuations will be performed at least triennially for land, or earlier if significant market movements are detected, with purchases in the intervening periods taken to account at cost.

Roads & Bridges

Major Roads and Bridges have been independently revalued by the SVO at 30 June 2006 on the basis of written down replacement cost, which approximates fair value.

Costs of building or significantly upgrading primary access roads (Class A) and secondary access roads (Class B) are capitalised as incurred. Maintenance costs on these higher classification roads are expensed as incurred. All other costs of maintaining and developing the rest of the roading infrastructure are expensed as incurred.

Heavy Plant and Equipment, Motor Vehicles and Mobile Plant

Heavy Plant and Equipment have been independently revalued by Slattery Auctions at 30 June 2006 on the basis of market realisable

Notes to and forming part of the financial statements for the year ended 30 June 2006

estimate which approximates fair value.

Motor vehicles and Mobile Plant were revalued at 30 June 2006 by management. The carrying value as at 30 June 2006 approximates to the fair value. Revaluations will be performed at least triennially for motor vehicles, or earlier if significant market movements are detected, with purchases in the intervening periods taken to account at cost.

Other Assets

Radio Equipment was revalued at 30 June 2006 by management. The carrying value as at 30 June 2006 approximates to the fair value. Aircraft was revalued by Slattery Auctions at 30 June 2006. Other assets are stated at written down value as at 30 June 2006, which approximates fair value.

(iii) Biological Assets (refer Note 11)

Softwood Plantation Timber

The value of the Softwood Pine Plantation Growing Stock has been assessed utilising a Net Market Value model, which is based upon standing volumes and current prices less the direct costs of disposing of the timber.

The present valuation model differentiates between the following components of the plantation: Non commercial plantations are defined as those plantations which are less than 15 years of age and which have not yet undergone a commercial operation. As market prices cannot be readily determined for these plantations, they are valued on the basis of historical costs incurred in their establishment. Commercial plantations are defined as those plantations between 12 and 15 years of age which have experienced a commercial operation, and all plantations 15 years of age or greater. A commercial operation is defined as a thinning or clear felling which produces marketable quantities of forest products for sale.

Volume increments are determined both by periodic re-measurement of samples of plantations and by modelling growth from the date of most recent measurement to the valuation date. The modelled growth estimates are generally checked to physical data at five yearly intervals. The market valuation is prepared by qualified foresters, employed by Forests NSW using techniques/methods published in scientific journals and accepted by the forestry industry. The current product proportionment models, used to determine the component product volumes on which the valuations are based, were first implemented in 2002. To better reflect the effects of recent growth conditions and the usage of more genetically advanced seedling stock in more recent years, Forests NSW has recently commenced processes to test and validate the modelling projections to recent actual harvested volumes of various timber products. Until these validation processes are completed, there may be some variation between reported modelled volumes and actual standing volumes. Recalibration of the inventory models will then be made to ensure models closely align to current actual harvest records. Should any amendment to the valuation become necessary as a result of this testing, any resulting financial effects will be incorporated into future valuations.

The net change in market value (resulting from price and volume movements) from the beginning, to the end of the year is recognised as revenue or an expense in the Income Statement.

Costs capitalised in relation to plantations comprise the direct costs of establishment and development attributable to a new plantation of specific age class and species, and indirect costs attributable to the growing stock establishment activity. These indirect costs include fire prevention and suppression, road maintenance, forest management and planning, research, and administration and management. Other ongoing maintenance and management costs in relation to commercial pine plantations are expensed as incurred, with the exception of major post thinning fertilising and pruning programs. Where these programs are designed specifically to improve stand quality, the costs are capitalised.

Hardwood Plantation Timber

These plantations are less than 15 years of age and have yet to undergo a commercial operation. As market prices cannot be readily determined for these plantations and as the quality of inventory and growth data has not developed to a suitable standard to support a detailed growth model for these plantations at this time, this resource is valued on the basis of historical costs incurred in their establishment. As Hardwood plantations undergo a commercial operation or reach age 15, Forests NSW intends to move to market value for this resource. Land under these plantations and integral infrastructures have been independently valued and disclosed separately in these accounts.

Native Forest Timber

The value of the Native Forest timber resource, currently available for harvesting, has been assessed utilising a Net Market Value model, which is based upon standing volumes and current prices less direct costs of disposing of the timber.

Standing volume information has been sourced from the most recently available resource data. Only the standing volume of native forests that are available in a single harvest cycle is valued. Harvesting cycles vary between native forest types with a cycle of 25-30 years for native forest and 35-40 years for cypress. Where possible standing volume information has been grown forward to 30 June 2006 and reduced by volumes sold since the inventory date. Forests covered by the South East and South Coast Regional Forest Agreements (RFAs) have used the RFA data as the basis for valuation.

Standing volume is calculated based on data obtained from sample inventory plots. Inventory data for forests within the Upper and Lower North East RFA's were updated in the previous financial year. As part of a comprehensive improvement of inventory procedures a new sampling regime was introduced and a substantial number of new inventory plots were created to replace those lost to harvesting. Implementation of this regime resulted in a significant shift in available sawlog volumes between species, an increase in volumes of saleable species, and a reduction in available pulpwood. Forests NSW proposes to apply the new inventory regime to other RFA areas. At this stage, it is not known if similar changes might result in inventory for those other areas.

Notes to and forming part of the financial statements for the year ended 30 June 2006

A new approach has also been developed for estimating harvestable area. New biometric equations are being developed for purposes of measurement, estimating growth, estimating standing volume and for estimating product yields. In some cases interim models have been developed that will only apply to the current valuation. The modelling process is ongoing and the new inventory regime has been operating since 1 January 2004 and it will be continually reviewed and improved. The current estimate of volume is the best estimate available based on a sampling and modelling regime that was designed to improve the previous methodology used in 1998 for Regional Forestry Agreement assessment. In these localities the updated inventory and resource modelling tools have been used to calculate volume.

In determining the standing volume, the gross area of native forests is reduced by the extent where logging is excluded in certain areas. A net harvest area modifier is then applied to reflect the impact of other logging exclusions prescribed by licences that are not area specific. A further strike rate reduction factor is used to reduce the net harvest area for unmapped flora and fauna exclusions. After adjusting the gross standing volume for the above exclusions, only 30 per cent of the standing volume is valued, reflecting restrictions on the intensity of harvesting allowed for a native forest resource.

The market value for products by species was sourced from current years actual price data adjusted for marketing and selling costs.

Forests NSW older hardwood plantation resource has presently been valued as native forest until the plantations are accredited.

Forests NSW manages available native forest areas on a sustainable yield basis. Sustainable yield means that the volume harvested will approximate, over long-term harvest cycles, annual forest growth of the harvestable native forest areas. As a result, all costs incurred in managing, maintaining and developing the Native Forests timber resources are expensed as incurred on the basis that all relevant costs are incurred in maintaining a constant forest resource.

(h) Carbon Credits

Forests NSW participated in an inaugural sale of New South Wales Greenhouse Abatement Credits in 2004-05. For financial year ending 30 June, 2006, unsold carbon credit certificates are accounted for as inventory at lower of cost or net realisable value.

(i) Depreciation of Property, Plant and Equipment (refer table below).

Depreciation is charged on Property (other than land), and Plant & Equipment at rates which provide for the original cost or valuation to be written down over the expected useful life of the asset. Depreciation commences when the asset is brought into commercial operation.

(j) Maintenance and Repairs

Forests NSW policy is to maintain property, plant and equipment in good order and condition requiring ongoing maintenance and repair. The costs of maintenance and repairs are generally charged as expenses when incurred, except where they relate to the replacement of a significant component of an asset or a major upgrade of an asset, in which cases the costs are capitalised and depreciated. Other routine operating maintenance, repair and minor renewal costs are also expensed as incurred.

(k) Derecognition of Assets

Assets are derecognised upon disposal where there is no future economic benefits expected to arise from the continued used.

Any gain or loss from derecognition of assets upon disposal is included in the income statement in the year the item is derecognised.

(l) Other Financial Assets (refer Note 6)

Investments are initially recognised at fair values plus, in the case of investments not at fair values through profit and loss, transaction costs. Forests NSW determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this at each month reporting date

Forests NSW subsequently measures investments classified as 'held for trading' or designated 'at fair value through profit or loss' at fair value. Financial assets are classified as 'held for trading' if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading. Gains or losses on these assets are recognised in the income statement.

(i) *New Accounting Standards issued but not yet effective*

The following Accounting Standards are being early adopted. Any initial impacts on the first time adoption are detailed in the

Depreciation of Property Plant and Equipment

Type of Asset	Depreciation Method	Useful Life
Property (other than Land)	Straight Line	10 and 50 Years
Aircraft	Straight Line	10 years
Other Plant and Equipment	Straight Line	3 to 50 Years
Roads and Bridges		
- earthworks	Straight Line	100 Years
- paving (gravel)	Straight Line	30 Years
- paving (bitumen)	Straight Line	50 Years

Notes to and forming part of the financial statements for the year ended 30 June 2006

Statement of Changes in Equity and note 2(w)(iii).

AASB Amendment	Affected Standards
2005-4	AASB 139: Financial Instruments: Recognition and Measurement. Issued June 2005.

In this reporting period, the following recent Australian Accounting Standards that are not yet effective were not used in preparing this report.

AASB Amendment	Affected Standards
2005-1	AASB 139: Financial Instruments: Recognition and Measurement. Issued May 2005.
2005-5	AASB 1 First-time adoption of AIFRS AASB 139: Financial Instruments: Recognition and Measurement. Issued June 2006.
2005-9	AASB 132: Financial Instruments: Presentation AASB 139: Financial Instruments: Recognition and Measurement. Issued September 2005.
2005-10	AASB 101 Presentation of Financial Statements. AASB 117 Leases. AASB 132: Financial Instruments: Presentation AASB 139: Financial Instruments: Recognition and Measurement. Issued September 2005.
2005-11	AASB 101 Presentation of Financial Statements. AASB 132: Financial Instruments: Presentation. AASB 139: Financial Instruments: Recognition and Measurement. Issued September 2005.
AASB 7	AASB 7 Financial Instruments: Disclosures Issued August 2005.

All AASB amendments above are applicable for the year commencing 1 July 2006 with the exception of AASB 7 which is applicable for the year commencing 1 July 2007. No assessment has been made of the change in accounting policy in the year of change, or the financial impact of adoption of any of the amendments above.

(m) Interest-bearing Loans and Borrowings (refer Note 13)

Interest-bearing loans and borrowings are carried at current capital value, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(n) Guarantee Fee

Forests NSW is required to pay an annual Government Guarantee Fee to the NSW Treasury relative to the amount of loans at balance date based upon the differential between an independently assessed, stand alone, credit rating for Forests NSW and the NSW Government's AAA rating. The actual fee payable is calculated using factors provided by the NSW Treasury each year. Forests NSW has been assigned a qualified rating indication of 'BBB-' by Standard & Poor's Ratings Services. This is not necessarily the unqualified corporate credit rating that would otherwise apply to Forests NSW.

(o) Financial Instruments (refer Note 17)
(see table on next page).

(p) Cash and Cash Equivalents

For purposes of the cash flow statement, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(q) Finance Costs

Finance costs are recognised as expenses in the period in which they are incurred, except where they are include in the costs of qualifying assets (where valid).

Finance costs include:

- (i) interest on bank overdrafts and short-term and long-term borrowings
- (ii) amortisation of discounts or premiums relating to borrowings

Capitalisation of Borrowing Costs:

Borrowing costs are capitalised as these funds have been utilised for the acquisition of land and for the establishment and development of new plantations which by their nature take a substantial period of time to become commercially productive.

(r) Rounding of Amounts

The amounts in the Financial Statements have been rounded off to the nearest thousand dollars unless specifically stated to be otherwise.

(s) Provisions

Provisions are recognised when past events will result in a present obligation, that will involve a future sacrifice of economic resources and the amount of provision can be measured reliably.

The amount of provisions recognised at reporting date are derived after estimating the considerations required to settle the obligation, taking into account both the associated risks and uncertainties.

In circumstances where there are recoveries of settlement obligations from third parties, the receivable amount will be recognised as an asset if there is absolute certainty of recovery and recoverable monies can be reliably measured.

Provisions that are measured by expected cash outflows on future settlement dates to settle the present obligation will be discounted by an appropriate rate of discount so as to obtain the present value of the expected cash outflows.

Notes to and forming part of the financial statements for the year ended 30 June 2006

Financial instruments

Recognised Financial Instruments	Accounting Policies	Terms and Conditions
i) Financial Assets		
Cash	Short-term deposits are stated at net realisable value. Interest is recognised in the income statement when earned	Cash is deposited at call
Receivables	Trade receivables are carried at nominal amounts due less any provision for doubtful debts. A provision is recognised when the collection of the amount is no longer probable.	Credit sales are generally on 7, 14 or 30 day settlement terms
Other Financial Assets	Investments are stated at net realisable value. Interest and movements in market value are recognised in the income statement when earned	All Investments during the year were at call
ii) Financial Liabilities		
Accounts Payable and Other Creditors	Liabilities are recognised for amounts to be paid in the future for goods and services received.	Trade liabilities are settled within 30 days of the month in which they are incurred in line with NSW Government policy.
Interest-Bearing Loans and Borrowings	Liabilities for loans are recognised at the time of entering into the arrangement.	A liquidity risk policy has been adopted by which no more than 25% of the total debt matures in any one year. All borrowings are sourced from the NSW Treasury Corporation

The discount rate that is used to compute the present value of cash outflows reflects the specific risks pertaining to the obligation and the current market assessment of the present value of money. Any increase in the provision due to discounting is recognised as a finance cost.

(t) Lease Assets

Leases are classified as financial leases if at the end of the lease term, the risk and ownership of the leased assets substantially accrued to the lessee.

Financial leases are capitalised at the inception of the lease based on the fair value of the leased assets or the lower of, the present value of the minimum lease payments.

All other leases are classified as operating leases. Operating lease payments are recognised as expenses in the income statement on a straight-line basis over the lease term.

(u) Dividend (refer Note 14)

The amount of Dividend payable to the NSW Treasury is set at \$24 000 000. The dividend provided is payable to NSW Treasury in the following financial year.

(v) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Sale of Timber and Related Activities

Revenue from the sale of timber and related activities is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Grants

Government grants are recognised as income over the periods necessary to match them with related costs which they are intended to compensate, on a systematic basis.

(w) Impact of Adopting of AEIFRS

(i) Forests NSW has applied the AEIFRS for the first time in the 2005-06 financial report. The key areas where changes in accounting policies have impacted the financial report are disclosed below. Some of these impacts arise because AEIFRS requirements are different from previous AASB requirements (AGAAP). Other impacts arise from options in AEIFRS that were not available or not applied under previous AGAAP. Forests NSW has adopted the options mandated by NSW Treasury for all NSW public sector agencies. The impacts below reflect Treasury's mandates and policy decisions.

The impacts of adopting AEIFRS on total equity and surplus/(deficit) as reported under previous AGAAP are shown below. In accordance with NSW Treasury's indicative mandates, Forests NSW applied 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 applied from 1 July 2005. None of the information provided above includes any impacts for financial instruments. There are no material impacts on the Forests NSW cash flows.

Notes to and forming part of the financial statements for the year ended 30 June 2006

(i) Reconciliation of Total Equity under previous Accounting Standards (AGAAP) under to equity AEIFRS:	Notes	30 June 2005** Statutory Corporation \$'000	1 July 2004* Statutory Corporation \$'000
Total Equity Under Previous AGAAP		2 102 919	2 127 270
Adjustments to accumulated funds			
Effect of valuing individually rather than by class	1	10 676	10 676
Derecognition of Provisions [AASB 137]	2	1 383	1 234
Write back asset revaluation reserve for investment properties	3	3 574	3 393
Defined benefit superannuation adjustment for change in discount rate	4	(39 761)	(20 855)
Effect of discounting long-term annual leave	5	135	141
Tax effect adjustment	6	2 651	10 834
Grant Revenue accrued (AASB 120)	7	(13 851)	(13 851)
Adjustments to other reserves			
Effect of valuing individually rather than by class	1	(10 676)	(10 676)
Write back asset revaluation reserve for investment properties	3	(3 393)	(3 393)
Tax effect adjustment	6	(211 315)	(217 431)
Total equity under AEIFRS		1 842 342	1 887 342

*= adjustments as at the date of transition

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

Notes to table above

- AASB 116 Property, Plant and Equipment requires for-profit entities to offset revaluation increments and decrements on individual asset basis, rather than on a class basis. This change decreased accumulated funds and increased asset revaluation reserve
- 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. This treatment was not required under previous AGAAP. As a result, the provision, net carrying amount of property, plant and equipment, depreciation expense and finance costs related to the unwinding of the restoration provision have all increased
- Under AASB 140 Investment Property and NSW Treasury's mandates, investment property is recognised at fair value. In contrast to the previous treatment as property, plant and equipment, investment property recognised at fair value is not depreciated and changes in fair value are recognised in the income statement, rather than the asset revaluation reserve. Any asset revaluation reserve balances relating to such property have been written back to accumulated funds. Unrealised gains recognised in the income statement have increased and depreciation expense has decreased as a consequence
- 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. This will increase the defined benefit superannuation liability (or decrease the asset in an overfunded position) and change the quantum of the superannuation expense.
- AASB 119 Employee Benefits AASB 119 requires present value measurement for all long-term employee benefits. Previous AGAAP provides that wages, salaries, annual leave and sick leave are measured at nominal value in all circumstances. Forests NSW has long-term annual leave benefits and accordingly will measure these benefits at present value rather than nominal value, thereby decreasing the employee benefits liability and changing the quantum of the annual leave expense.
- 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. Previous AGAAP used an income statement method that accounted for income tax by adjusting accounting profit for temporary and permanent differences to determine taxable income. The AASB 112 approach alters the quantum and timing of tax assets and liabilities recognised. The balance sheet approach resulted in the recognition of a deferred tax liability in relation to revalued assets that were not recognised under previous AGAAP. This also changed the quantum and timing of the tax expense
- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance requires for-profit entities to spread income recognition over the period necessary to match related costs. This has delayed income recognition and increased liabilities. Under previous AGAAP, grants were normally recognised revenue when received.

Notes to and forming part of the financial statements for the year ended 30 June 2006

(ii) Reconciliation of Profit before tax under previous AGAAP to that under AIFRS

	Notes	Statutory Corporation 2005 \$'000
Prior year profit before tax as previous reported		7,656
Defined benefit superannuation adjustment for change in discount rate	1	(18,907)
Effect of discounting long-term Employees' related costs	2	155
Derecognition of Provisions	3	(10)
Write back of Depreciation for Investment Property	4	181
Prior year Loss before tax under AIFRS		(10,925)

Notes to tables above

- 1 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.
- 2 AASB 119 requires present value measurement of all long term benefits. Previous AGAAP provided that annual leave was measured at nominal value in all circumstances. Forests NSW has long term annual leave benefits that are now measured at present value rather than at nominal value. This has decreased the employee benefits liability and employee benefits expense.
- 3 AASB 137 requires extinguishment and adjustments to all general and not specific provisions.
- 4 Under AASB 140 Investment Property and NSW Treasury's mandates, investment property are recognised at fair value. In contrast to previous treatment as property, plant and equipment, investment property recognised at fair value is not depreciated and changes in fair value are recognised in the income statement, rather than the asset revaluation reserve. Any asset revaluation reserve balances relating to such property have been written back to accumulated funds. Unrealised gains recognised in the operating statement have increased and depreciation expense has decreased as a consequence

(iii) Financial Instruments - 1 July 2005 first time adoption impacts

As discussed in 1(w) the comparative information for 2004-05 for financial instrument has not been restated and is presented in accordance with previous AGAAP (refer 1(w) above). AASB 132 and AASB 139 have been applied from 1 July 2005. Accordingly, the 1 July 2005 AIFRS opening equity adjustments for the adoption of AASB 132/ASB 139 follow and there is nil effect on the restated opening 1st July, 2005 AEIRS equity.

	Note	Statutory Corporation		Total \$'000
		Accumulated Funds \$'000	Other Reserves \$'000	
Total opening 1st July, 2005 AIFRS equity		927 568	493 068	1 420 636
Adjustment as a result of change to impairment	1	-	-	-
Movements in Fair Value recognised in the asset revaluation reserve rather than through the profit and loss	2	-	-	-
Interest-free loan measured at fair value on initial recognition	3	-	-	-
Medium and long term Hour Glass growth facilities -change to bid price	4	-	-	-
Financial instruments held for trading	5	-	-	-
Available for sale financial assets	6	-	-	-
Restated opening 1st, July 2005 AIFRS equity (after applying AASB 139)		927 568	493 068	1 420 636

Notes to and forming part of the financial statements for the year ended 30 June 2006

Notes to table above:

1. Impairment testing. Under AASB 139, all financial assets except those measured at fair value through profit or loss is subject to review for impairment. The Standard requires a specific impairment test which needs to be supported by objective evidence that the group of assets is impaired or uncollectible. This means that agencies can no longer raise a general provision for doubtful debts. As a result, the allowance for impairment recognised under previous AGAAP has been reduced.
2. Movements in fair value recognised in the asset revaluation reserve rather than through the profit or loss. Under AASB 139, net gains on 'available for sale' financial assets are recognised through the asset revaluation reserve. Previously, where these assets were measured at fair value and classified as 'current' assets, movements in fair value were recognised through profit or loss. This change has resulted in the reclassification of these gains from accumulated funds to the reserves.
3. Interest-free and low interest loans. Under AASB 139, these types of loans must initially be recognised at fair value, and thereafter at amortised cost. The fair value of a long-term loan receivable that carries no interest or below market interest is estimated as the present value of all future cash receipts, discounted using the prevailing market rates of interest for a similar instrument with a similar credit rating (based on the NSW TCorp government bond rate). Any additional amount lent is an expense or grant unless it qualifies for recognition as some other type of asset. Amortisation of the loan is recognised as investment revenue. Previously, such loans were measured at nominal amount or face value, with no grant or expense recognised. This change has reduced the amount of the loan receivable.
4. Medium and long term TCorp Hour Glass growth facilities – change to bid price. Under AASB 139, these facilities are measured using the 'bid' price, rather than 'mid-point' market prices. This results in the opening balance on 1 July 2005 being slightly lower than the closing balance on 30 June 2005 under previous AGAAP.
5. Financial instruments held for trading. Under AASB 139, financial assets and financial liabilities held for trading (including derivatives) must be recognised at fair value through profit or loss. Previously, derivatives were not recognised in the balance sheet (disclosed in the notes only) and other financial instruments that are now regarded as held for trading were recognised at amortised cost. This change has increased the recognised financial assets and unrealised gains/losses.
6. Available for sale financial assets. Under AASB 139, available for sale financial assets are recognised at fair value through a reserve. Previously, some of these assets were recognised at amortised cost. This change has increased the financial assets and other reserves.

(x) Employee Benefits

Annual leave

Liability for Annual Leave is recognised and measured in respect of employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Long Service Leave

A liability for Long Service Leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expect future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on notional government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Long Service Leave liability was assessed by actuaries at 30th June, 2006.

Sick Leave

Sick leave is non-vesting and is expensed as incurred. In line with past results, sick leave taken in future periods is expected to be well below entitlements in those periods.

Superannuation

Calculation of the total liability for superannuation is based on actuarial advice provided by Pillar Administration.

The superannuation liability in the Balance Sheet is the difference between the gross liabilities and the stake in the funds at reporting date in respect of Forests NSW employees (refer Note 16).

Workers Compensation Insurance

Forests NSW is a licensed self insurer under the provisions of the *Workers Compensation Act 1987*. In accordance with regulations that govern the operations of Workers Compensation, an independent actuary has determined the value of the outstanding claims liability as at 30th June 2006. In addition separate insurance cover is held with private insurance companies for excess total incident and total claims costs.

From 17th, March 2006 onwards, the NSW Government proclaimed the PSELAA (*Public Sector Employment Legislation Amendment Act 2006*). As of that date, all related employee costs and entitlements are recognised as Personnel Services from the supply of labour related services from either NSW DPI and Forestry Commission Division.

Employee related liabilities are transferred from Forests NSW's statutory accounts to New South Wales Department of Primary Industries (NSW DPI) and Forestry Commission Division in accordance with the established memorandum of understanding. In the Forests NSW's (Statutory Balance Sheet), they are disclosed as amounts due to related entities.

Upon consolidation of the year end financial statements, employee related liabilities from the Forestry Commission Division are shown as current and non current provisions.

(Y) Investment Property

Investment Property is property held to earn rentals or for capital appreciation is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of the investment property are included in the profit and loss in the period which they arise.

Notes to and forming part of the financial statements for the year ended 30 June 2006

Investment properties are derecognised when they have been either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

3. REVENUE

	Economic Entity 2006 \$ 000	Statutory Corporation 2006 \$ 000	Statutory Corporation 2005 \$ 000
Revenue			
a) from timber and related operating activities			
Royalties from sale of timber and related products	134 668	134 668	128 188
Contract Harvest and Haulage	90 182	90 182	78 364
	224 850	224 850	206 552
b) from other operating activities			
Community Service Obligations	9 557	9 557	9 557
Other Services Rendered	16 952	16 952	18 101
Interest received	592	592	400
Rental Income from Investment Properties	139	139	139
Other rental	2 783	2 783	2 815
Gain/(Loss) on Sale of Non Current Assets	(1 540)	(1 540)	3 193
Other State Government Grants	6 414	6 414	6 789
Superannuation Gain	33 364	28 263	-
	68 261	63 160	40 994
Total Revenue	293 111	288 010	247 546

Community Services and Government Grants

Forests NSW Community Service and Government Grants totalled \$15 971 000 (2005: \$16 346 000). Grants included capital and revenue components, which are detailed in the following notes:

(i) Community Service Obligations

The State Government contributed \$9 557 000 (2005: \$9 557 000) towards the cost of providing Community Services. This contribution was included in the accounts as revenue. In 2005-06, these services, which include provision of recreation facilities, education and advisory services, government liaison and regulatory services, community fire protection and research cost Forests NSW \$10 258 000 (2005: \$10 193 000). These costs are included in operating expenditure.

(ii) Other Government Grants

The State Government also paid Forests NSW \$6 414 000 (2005: \$6 789 000) for the performance of specific services including tasks associated with the Interim Assessment Process and related Comprehensive Resource Assessments, and for cost of redundancy payments resulting from initiatives to better align Forests NSW structures and functions to current trading conditions, \$0 (2005: \$3 594 000).

Notes to and forming part of the financial statements for the year ended 30 June 2006

4. EXPENSES

a) Expenses

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Finance costs				
Interest and finance charges		7 591	7 591	7 224
Less: Amount capitalised		(7 591)	(7 591)	(7 224)
Finance costs expensed		-	-	-
Written down value of property, plant and equipment disposed		6 834	6 834	16 878
Depreciation				
Buildings		934	934	1 467
Roads & bridges		3 705	3 705	3 553
Plant and equipment		5 145	5 145	4 947
Total depreciation		9 784	9 784	9 967
Other charges against assets				
Bad debts written off - trade debtors		98	98	20
Provisions/Expense				
Doubtful debts		(70)	(70)	(36)
Personnel Services/Employee entitlements		(6 627)	(6 627)	12 237
Workers compensation		(550)	(550)	(50)
Dividend		24 000	24 000	27 334
Total other provisions		16 753	16 753	39 485
	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000

(b) Individually Significant Items

Operating profit after income tax includes the following individually significant items:

Expenses				
Net gain/(loss) from staff superannuation fund		3 506	-	(12 662)
Applicable income tax credit		-	-	3 799
		3 506	-	(8 863)
Net Movement in Staff Superannuation Fund				(8 863)
Net Increment/(decrement) in net market value of timber (refer Note 11)		(62 759)	(62 759)	(39 992)
Write off of failed hardwood plantations (refer Note 11)		(183)	(183)	(647)
Redundancy Payments		-	-	(3 926)
Total of significant items		(62 942)	(62 942)	(53 428)

Notes to and forming part of the financial statements for the year ended 30 June 2006

5. INCOME TAXES**A) Income Tax recognised in Profit and Loss**

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Tax expense/(income) comprises:				
Current tax expense/(income)		3 765	3 765	5 290
Deferred Income tax				
Relating to origination and reversal of timing differences that are part of :				
Deferred tax liability		(57 203)	(57 203)	12 319
Deferred tax Asset		62 022	62 022	(4 672)
Total expense/(income)		8 584	8 584	12 937
Attributable to :				
Continuing operations		8 584	8 584	12 937
Discontinued operations		-	-	-
		8 584	8 584	12 937

**The prima facie income tax expense on pre-tax accounting profit from
Operation reconciles to the income tax expense in the financial
statements as follows:**

Accounting Profit/(Loss) from continuing operations		11 420	11 420	(10 925)
Accounting Profit/(Loss) from discontinued operations		-	-	-
At the statutory income tax rate of 30%		3 426	3 426	(3 278)
Excess/(Deficit) of accounting depreciation over tax		231	231	307
Non revenue expenditures		23	23	266
Loss on discontinued assets		1 665	1 665	1 588
Provisions and accruals expenses		791	791	(727)
Unearned revenue		(210)	(210)	1 026
Decrement in net market value of biological assets		18 828	18 828	11 999
Non Assessable Income		(12 919)	(12 919)	2 295
Capitalised Finance Costs		(2 277)	(2 277)	(2 318)
Capital Expenditures on Plantation Establishment		(5 793)	(5 793)	(5 868)
Deferred Income Tax Relating to origination and reversal of timing differences		4 819	4 819	7 647
Income tax expense reported in income statement		8 584	8 584	12 937

Notes to and forming part of the financial statements for the year ended 30 June 2006

5. INCOME TAXES (continued)
B) Income Tax Equivalents

	Balance Sheet			Income Statement			
	Notes	Economic Entity	Statutory Corporation	Statutory Corporation	Economic Entity	Statutory Corporation	Statutory Corporation
		2006	2006	2005	2006	2006	2005
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deferred Income tax equivalent at 30 June relates to the following:							
Deferred income tax equivalent liabilities							
Property Plant & Equipment		(234 047)	(234 047)	(235 248)	1 160	1 160	1 327
Biological Assets		(228 594)	(228 594)	(239 472)	(10 878)	(10 878)	5 816
Superannuation		-	-	(47 485)	(47 485)	(47 485)	5 139
Gross Deferred income tax equivalent liabilities		(462 641)	(462 641)	(522 205)			
Deferred income tax equivalent assets							
Superannuation		-	-	57 446	57 446	57 446	(3 716)
Provision of expenses		650	650	9 172	8 522	8 522	107
Revenue in Advance		7 695	7 695	3 749	(3 946)	(3 946)	(1 026)
Gross Deferred income tax equivalent assets		8 345	8 345	70 367			
Deferred income tax equivalent charge					4 819	4 819	7 647

6. CASH AND CASH EQUIVALENTS

	Notes	Economic Entity	Statutory Corporation	Statutory Corporation
		2006	2006	2005
		\$'000	\$'000	\$'000
Cash at bank		4 149	4 149	6 054
Cash on hand		63	63	63
NSW Treasury Corporation Hour Glass Cash Facility		2 250	2 250	2 018
Other Financial Assets		525	525	242
Balances as per cash flow statement		6 987	6 987	8 377

Investments at call

The NSW Treasury Corporation Hour glass cash facility have been subject to floating interest rates between 5.34% and 5.86% (2005: 5.30% and 6.17%).

Notes to and forming part of the financial statements for the year ended 30 June 2006

7. INVENTORIES

The basis for valuation of Inventories is set out in Note 2(f).

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Materials and parts – at cost		4 892	4 892	4 541
Work in progress and finished goods – at cost and net realisable value		2 056	2 056	2 423
		6 948	6 948	6 964
Provision for stock losses		(13)	13)	(13)
Total Inventories at lower of cost and net realisable value		6 935	6 935	6 951

8. TRADE AND OTHER RECEIVABLES

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Receivables		42 172	42 172	34 761
Less: Specific debts		(28)	(28)	(99)
		42 144	42 144	34 662
Other debtors		64	55	18 598
Total		42 208	42 199	53 260

During the year bad debts amounting to \$98 000 (2005: \$20 000) were written off.

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

Statutory Corporation

Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
At 1 July 2005							
At Fair Value	742 117	3 413	23 071	191 023	43 964	6 068	1 009 656
Accumulated depreciation and impairment	-	-	(1 176)	(97 862)	(9 037)	-	(108 075)
Net Carrying Amount	742 117	3 413	21 895	93 161	34 927	6 068	901 581
At 30 June 2006							
At Fair Value	715 833	3 413	24 803	109 115	32 260	5 017	890 441
Accumulated depreciation and impairment	-	-	(2 299)	-	-	-	(2 299)
Net Carrying Amount	715 833	3 413	22 504	109 115	32 260	5 017	888 142

Reconciliation

A reconciliation of the carrying amount of each class of property plant and equipment at the beginning and end of the current reporting period is set out below.

Notes to and forming part of the financial statements for the year ended 30 June 2006

9. NON-CURRENT ASSETS – PROPERTY PLANT AND EQUIPMENT (continued)

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
Year ended 30 June 2006								
Net carrying amount at start of year		742 117	3 413	21 895	93 161	34 927	6 068	901 581
Additions/(transferred to Fixed Assets)		1	-	1 818	4 791	6 581	(1 051)	12 140
Asset Dedications		222	-	-	-	-	-	222
Disposals		(98)	-	(78)	(1 324)	(2 133)	-	(3 633)
Asset Revocation		(35 414)	-	-	-	-	-	(35 414)
Depreciation/amort'n expense*	4(a)	-	-	(1 131)	(3 705)	(5 224)	-	(10 060)
Revaluation Increments (Decrements)		9 005	-	-	16 192	(1 891)	-	23 306
Net carrying amount at end of year		715 833	3 413	22 504	109 115	32 260	5 017	888 142

*Note: Depreciation expense differs from Income Statement by \$276 000 (2005 \$297 000). This amount represents depreciation held in inventories work in progress as a cost of production of nursery seedlings

Independent valuation:

- (a) Land values assessed by SVO as at 30 June 2004. In 2005-06, 359 000 hectares were revoked and transferred to NPWS and other NSW related government agencies. 2 731 hectares were dedicated and transferred across to Forests NSW.
- (b) Building values assessed by SVO as at 30 June 2004
- (c) Roads and bridges revalue by SVO as at 30 June 2006.
- (d) Motor Vehicles were assessed by management valuation at 30 June 2006.
- (e) Heavy plant valuation by Slattery auction as at 30 June 2006.
- (f) Other plant and equipment assessed by management valuation as at 30 June 2006.

Reconciliation

A reconciliation of the carrying amount of each class of property plant and equipment at the beginning and end of the current reporting period is set out below.

Statutory Corporation

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
At 1 July 2004								
At Fair Value		742 700	5 028	34 394	187 016	42 766	3 686	1 015 590
Accumulated depreciation and impairment		-	-	-	(94 310)	(4 526)	-	(98 836)
Net Carrying Amount		742 700	5 028	34 394	92 706	38 240	3 686	916 754
At 30 June 2005								
At Fair Value		742 117	3 413	23 071	191 023	43 964	6 068	1 009 656
Accumulated depreciation and impairment		-	-	(1 176)	(97 862)	(9 037)	-	(108 075)
Net Carrying Amount		742 117	3 413	21 895	93 161	34 927	6 068	901 581

Reconciliation

A reconciliation of the carrying amount of each class of property plant and equipment at the beginning and end of the current reporting period is set out below.

Notes to and forming part of the financial statements for the year ended 30 June 2006

9. NON-CURRENT ASSETS – PROPERTY PLANT AND EQUIPMENT (continued)

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
Year ended 30 June 2005								
Net carrying amount at start of year		742 700	5 028	34 394	92 706	38 240	3 686	916 754
Additions		329	-	973	4 007	4 277	2 382	11 968
Asset Dedications		1	-	-	-	-	-	1
Disposals		(407)	(1 650)	(11 794)	-	(2 556)	-	(16 407)
Asset Revocation		(471)	-	-	-	-	-	(471)
Depreciation/amort'n expense*	4(a)	-	-	(1 678)	(3 552)	(5 034)	-	(10 264)
Group Reclassification		(35)	35	-	-	-	-	-
Revaluation Increments (Decrements)		-	-	-	-	-	-	-
Net Carrying amount at end of year		742 117	3 413	21 895	93 161	34 927	6 068	901 581

*Note: Depreciation expense differs from Income Statement by \$276 000 (2005 \$297 000). This amount represents depreciation held in inventories work in progress as a cost of production of nursery seedlings

Economic Entity

	Note	Crown Land \$'000	Freehold Land \$'000	Buildings \$'000	Roads & Bridges \$'000	All Plant & Equipment \$'000	PPE WIP \$'000	Total \$'000
Year ended 30 June 2006								
Net carrying amount at start of year		742 117	3 413	21 895	93 161	34 927	6 068	901 581
Additions/Transferred to Fixed Assets		1	-	1 818	4 791	6 581	(1 051)	12 140
Asset Dedications		222	-	-	-	-	-	222
Disposals		(98)	-	(78)	(1 324)	(2 133)	-	(3 633)
Asset Revocation		(35 414)	-	-	-	-	-	(35 414)
Depreciation/amort'n expense*	4(a)	-	-	(1 131)	(3 705)	(5 224)	-	(10 060)
Revaluation Increments (Decrements)		9 005	-	-	16 192	(1 891)	-	23 306
Net Carrying amount at end of year		715 833	3 413	22 504	109 115	32 260	5 017	888 142

*Note: Depreciation expense differs from Income Statement by \$276 000 (2005 \$297 000). This amount represents depreciation held in inventories work in progress as a cost of production of nursery seedlings

Notes to and forming part of the financial statements for the year ended 30 June 2006

10. INVESTMENT ASSETS

	Notes	Economic Entity 2006 \$ '000	Statutory Corporation 2006 \$ '000	Statutory Corporation 2006 \$ '000
Net market value of timber at beginning of reporting period (a)		4 778	4 778	4 778

(a) At Valuation 2004: Land \$797 000 Buildings \$3 981 000. Update factors were obtained from SVO as at 30 June 2006 and did not warrant material adjustments to the fair values.

11. BIOLOGICAL ASSETS

Summary of Biological assets

	Notes	Economic Entity 2006 \$ '000	Statutory Corporation 2006 \$ '000	Statutory Corporation 2006 \$ '000
Softwood Plantation Timber Net Market Value at reporting date	10a(i)	1 110 668	1 110 668	1 132 909
Hardwood Plantation Timber carrying amount as at reporting date	10b(i)	61 659	61 659	60 094
Native Forest Timber Net Market Value at reporting date	10c(i)	386 347	386 347	401 931
		1 558 674	1 558 674	1 594,934

(a) Softwood Plantation Timber
i) Valuation

	Notes	Economic Entity 2006 \$ '000	Statutory Corporation 2006 \$ '000	Statutory Corporation 2006 \$ '000
Net market value of timber at beginning of reporting period		1 132 909	1 132 909	1 178 350
Capital expenditure - plantation establishment & development		17 343	17 343	17 458
Capitalisation of borrowing costs		7 591	7 591	7 724
Write-off of growing stock &/or establishment costs				(102)
Sale of Plantations				(972)
Carrying amount as at the reporting date (prior to adjusting for changes in net market value)		1 157 843	1 157 843	1 202 458
Net market value at reporting date		1 110 668	1 110 668	1 132 909
Net increment/(decrement) in the net market value of timber		(47 175)	(47 175)	(69 549)

Notes to and forming part of the financial statements for the year ended 30 June 2006

11. BIOLOGICAL ASSETS (continued)

ii) Plantation area by species and age class

	Notes	Economic Entity 2006 Hectares	Statutory Corporation 2006 Hectares	Statutory Corporation 2005 Hectares
Pinus radiata				
0-14 years		59 479	59 479	58 276
15-30 years		98 315	98 315	100 259
31 years and over		30 203	30 203	30 101
Total		187 997	187 997	188 636
Southern Pine				
0-14 years		3 905	3 905	3 765
15-30 years		3 918	3 918	3 687
31 years and over		1 563	1 563	1 844
Total		9 386	9 386	9 296
Other major species				
0-14 years		57	57	57
15-30 years		153	153	170
31 years and over		2 963	2 963	3 027
Total		3 173	3 173	3 254
Total Area of Softwood Plantation		200 556	200 556	201 186

iii) Softwood Plantation - standing volumes by major species

	Notes	Economic Entity 2006 Standing Volume	Statutory Corporation 2006 Standing Volume	Statutory Corporation 2005 Standing Volume
Pinus radiata		40 664 199	40 664 199	40 394 398
Southern Pine		962 251	962 251	983 684
Other Major		552 629	552 629	560 139
Other Species		231 111	231 111	227 462

Notes to and forming part of the financial statements for the year ended 30 June 2006

11. BIOLOGICAL ASSETS (continued)**(b) Hardwood Plantation Timber****i) Valuation**

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Carrying amount of timber at beginning of reporting period – at fair value		60 094	60 094	58 665
Capital expenditure - plantation establishment & development		1 967	1 967	2 105
Sale of Plantations		(219)	(219)	(29)
Write off of failed plantations		(183)	(183)	(647)
Carrying amount as at the reporting date – at fair value (Note 2(g)(iii))		61 659	61 659	60 094

ii) Plantation area by species (all less than 15 years old)

	Notes	Economic Entity 2006 Hectares	Statutory Corporation 2006 Hectares	Statutory Corporation 2005 Hectares
Eucalyptus dunnii		8 353	8 353	8 384
Corymbia maculate		4 307	4 307	4 320
Eucalyptus pilularis		4 807	4 807	4 807
Other Hardwood Plantation Species		9 008	9 008	9 405
Total Area of Hardwood Plantation		26 475	26 475	26 916

(c) Native Forest Timber**i) Valuation**

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Net market value of timber at beginning of reporting period		401 931	401 931	372 374
Net market value at reporting date		386 347	386 347	401 931
Net increment in the net market value of timber		(15 584)	(15 584)	29 557

ii) Species Mix of Native Forest areas

	Notes	Economic Entity 2006 Hectares	Statutory Corporation 2006 Hectares	Statutory Corporation 2005 Hectares
Productive forest areas:				
Alpine Ash		17 330	17 330	16 916
Blackbutt		95 292	95 292	84 155
Blue Gum		91 854	91 854	66 185

Notes to and forming part of the financial statements for the year ended 30 June 2006

11. BIOLOGICAL ASSETS (continued)

	Notes	Economic Entity 2006 Hectares	Statutory Corporation 2006 Hectares	Statutory Corporation 2005 Hectares
Messmate		159 204	159 204	171 136
Mixed Coastal Eucalypt		169 670	169 670	109 586
Other Inland Eucalypt types		89 742	89 742	245 087
Rainforest		7 275	7 275	6 673
River Red Gum		91 100	91 100	93 300
Snow Gum		20 085	20 085	19 049
Spotted Gum		147 806	147 806	136 185
Stringybark		171 971	171 971	170 032
Un-classified		200 601	200 601	53 369
White Cypress Pine		156 652	156 652	234 232
Total		1 418 582	1 418 582	1 405 905
Total non productive forest areas		603 530	603 530	886 281
Total Area of Native Forest		2 022 112	2 022 112	2 292 186

* Native Forests are not homogenous by species. A total hectare by species is a proportional measure rather than representing discreet forests by species type.

12. TRADE AND OTHER PAYABLES

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Current				
Trade		22 510	22 510	19 951
Receipts in Advance		25 650	25 650	26 349
Accrued Salaries, Wages & On-Costs		-	-	1 253
Total		48 160	48 160	47 553

13. INTEREST-BEARING LOANS AND BORROWINGS

(i) Forests NSW Interest-Bearing Loans and Borrowings are recognised at Current Capital value and are made up of:

	Notes	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
NSW Treasury Corporation Loans		138 276	138 276	138 062

i. Repayment details of these loans shown on the Balance Sheet are as follows:

Notes to and forming part of the financial statements for the year ended 30 June 2006

13. INTEREST-BEARING LOANS AND BORROWINGS (continued)

	Notes	Economic Entity 2006 \$ '000	Statutory Corporation 2006 \$ '000	Statutory Corporation 2005 \$ '000
Not later than 1 year (Current)		20 809	20 809	29 365
		20 809	20 809	29 365
Later than 1 year but not later than 5 years (Non Current)		49 601	49 601	26 624
Later than 5 years (Non Current)		67 866	67 866	82 073
		117 467	117 467	108 697
Total borrowings		138 276	138 276	138 062

NSW Treasury Corporation outstanding loan interest rates ranged between 5.30% and 6.17% (2005: 5.08% and 6.73%).

14. DIVIDENDS PAID/PROPOSED

	Notes	Economic Entity 2006 \$ '000	Statutory Corporation 2006 \$ '000	Statutory Corporation 2005 \$ '000
Provision for dividend at beginning of year		(27 254)	(27 254)	(13 096)
Dividend paid		24 922	24 922	13 096
Dividend provided		(24 000)	(24 000)	(27 254)
Provision for dividend at end of the year		(26 332)	(26 332)	(27 254)

15. PROVISIONS

	Notes	Economic Entity 2006 \$ '000	Statutory Corporation 2006 \$ '000	Statutory Corporation 2005 \$ '000
Current Liabilities				
Employee Benefits		10 329	-	6 003
Workers Compensation		770	770	460
Other		227	-	-
Total Current Provisions		11 326	770	6 463
Non Current Liabilities				
Employee Benefits		300	-	22 155
Workers Compensation		2 600	2 600	3 310
Total Non current provisions		2,900	2 600	25 465
Total Provisions		14 226	3 370	31 928

Notes to and forming part of the financial statements for the year ended 30 June 2006

16(a) OTHER LIABILITIES**Employee Superannuation Funds**

The Employee Benefits liability for June 2005 was determined by the Fund's actuary based upon membership information as at 31 March, 2005.

Statutory Corporation 2005

	SASS \$'000	SANCS \$'000	SSS \$'000	2005 \$'000
Estimated Reserve Account balance	32 313	9 074	116 895	158 282
Accrued Employees Benefits Liability	(38 189)	(10 121)	(143 176)	(191 486)
	(5 876)	(1 047)	(26 281)	(33 204)

All references are to the July 2004 version of AASB 119.

Accounting policy for recognising actuarial gains/losses

Actuarial gains and losses are recognised in profit or loss in the year they occur.

General description of the type of plan

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

State Authorities Superannuation Scheme (SASS)

State Superannuation Scheme (SSS)

State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

Reconciliation of the assets and liabilities recognised in the balance sheet

	SASS Financial Year to 30 June 2005 \$	SANCS Financial Year to 30 June 2005 \$	SSS Financial Year to 30 June 2005 \$
Present value of defined benefit obligations	58 607 891	10 121 436	162 344 061
Fair value of plan assets	(52 731 934)	(9 073 815)	(136 062 968)
	5 875 957	1 047 621	26 281 093
Surplus in excess of recovery available from schemes	0	0	0
Unrecognised past service cost	0	0	0
Net (asset)/liability to be disclosed in balance sheet	5 875 957	1 047 621	26 281 093

Assets invested in entity or in property occupied by the entity

All Fund assets are invested by STC at arm's length through independent fund managers.

Notes to and forming part of the financial statements for the year ended 30 June 2006

16(a) OTHER LIABILITIES (continued)

Movement in net liability/asset recognised in balance sheet

	SASS Financial Year to 30 June 2005 \$	SANCS Financial Year to 30 June 2005 \$	SSS Financial Year to 30 June 2005 \$
Net (asset)/liability at start of year	4 848 383	830 582	20 217 360
Net expense recognised in the income statement	2 930 387	905 868	7 534 129
Contributions	(1 902 813)	(688 829)	(1 470 396)
Net (asset)/liability to be disclosed in balance sheet	5 875 957	1 047 621	26 281 093

Total expense recognised in income statement

	SASS Financial Year to 30 June 2005 \$	SANCS Financial Year to 30 June 2005 \$	SSS Financial Year to 30 June 2005 \$
Current service cost	1 627 543	580 701	1 231 317
Interest on obligation	3 280 174	535 096	8 621 463
Expected return on plan assets	(3 419 301)	(613 410)	(8 716 963)
Net actuarial losses (gains) recognised in year	1 441 971	403 481	6 398 313
Change in surplus in excess of recovery available from scheme	0	0	0
Past service cost	0	0	0
Losses (gains) on curtailments and settlements	0	0	0
Total included in "employee benefits expense"	2 930 387	905 868	7 534 129

Actual return on plan assets

	SASS Financial Year to 30 June 2005 A\$	SANCS Financial Year to 30 June 2005 A\$	SSS Financial Year to 30 June 2005 A\$
Actual return on plan assets	6 146 326	1 079 615	15 844 835

Valuation method and principal actuarial assumptions at the reporting date

a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) Economic Assumptions

	30-Jun-05
Discount rate at 30 June	5.2% pa
Expected return on plan assets at 30 June	7.3%
Expected salary increases	4.0% pa
Expected rate of CPI increase	2.5% pa

Notes to and forming part of the financial statements for the year ended 30 June 2006

16.(b) Other Assets**Employee Benefits Liability for June 2006****Economic Entity 2006**

	SASS	SANCS	SSS	2006
	\$'000	\$'000	\$'000	\$'000
Estimated Reserve Account balance	38 132	3 923	-	42 055
Accrued Employees Benefits Liability	(35 192)	(3 357)	-	(38 549)
	2 940	566	-	3 506

SASS	<i>State Authorities Superannuation Scheme</i>
SANCS	<i>State Authorities Non-Contributory Superannuation Scheme</i>
SSS	<i>State Superannuation Scheme</i>

All references are to the July 2004 version of AASB 119.

Accounting policy for recognising actuarial gains/losses.

Actuarial gains and losses are recognised in profit or loss in the year they occur.

General description of the type of plan

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

State Authorities Superannuation Scheme (SASS)

State Superannuation Scheme (SSS)

State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

Reconciliation of the assets and liabilities recognised in the balance sheet

	SASS	SANCS	SSS	TOTAL
	Financial Year to 30 June 2006	Financial Year to 30 June 2006	Financial Year to 30 June 2006	Financial Year to 30 June 2006
	\$	\$	\$	\$
Present value of defined benefit obligations	35 192 664	3 357 132	0	38 549 796
Fair value of plan assets	(38 132 139)	(3 923 711)	0	(42 055 851)
	(2 939 475)	(566 579)	0	(3 506 055)
Surplus in excess of recovery available from schemes	0	0	0	0
Unrecognised past service cost	0	0	0	0
Net (asset)/liability to be disclosed in balance sheet	(2 939 475)	(566 579)	0	(3 506 055)

Assets invested in entity or in property occupied by the entity

All Fund assets are invested by STC at arm's length through independent fund managers.

Notes to and forming part of the financial statements for the year ended 30 June 2006

16.(b) Other Assets (continued)

Movement in net liability/asset recognised in balance sheet

	SASS Financial Year to 30 June 2006 \$	SANCS Financial Year to 30 June 2006 \$	SSS Financial Year to 30 June 2006 \$	TOTAL Financial Year to 30 June 2006 \$
Net (asset)/liability at start of year	2 713 645	359 282	0	3 072 928
Net expense recognised in the income statement	(2 502 554)	(332 590)	0	(2 835 144)
Contributions	(3 150 567)	(593 272)	0	(3 743 839)
Net (asset)/liability transferred on 17 March 2006	0	0	0	0
Net (asset)/liability to be disclosed in balance sheet	(2 939 475)	(566 579)	0	(3 506 055)

Total expense recognised in income statement

	SASS Financial Year to 30 June 2006 \$	SANCS Financial Year to 30 June 2006 \$	SSS Financial Year to 30 June 2006 \$	TOTAL Financial Year to 30 June 2006 \$
Current service cost	891 197	200 329	0	1 091 525
Interest on obligation	1 963 123	172 938	0	2 136 061
Expected return on plan assets	(2 285 033)	(233 268)	0	(2 518 300)
Net actuarial losses (gains) recognised in year	(3 071 841)	(472 589)	0	(3 544 430)
Change in surplus in excess of recovery available from scheme	0	0	0	0
Past service cost	0	0	0	0
Total included in 'employee benefits expense'	(2 502 554)	(332 590)	0	(2 835 144)

Actual return on plan assets

	SASS Financial Year to 30 June 2006 \$	SANCS Financial Year to 30 June 2006 \$	SSS Financial Year to 30 June 2006 \$	TOTAL Financial Year to 30 June 2006 \$
Actual return on plan assets	4 796 206	515 782	0	5 311 988

Valuation method and principal actuarial assumptions at the reporting date

a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) Economic Assumptions

	30-Jun-06
Discount rate at 30 June	5.9% pa
Expected return on plan assets at 30 June	7.6%
Expected salary increases	4.0% pa to 2008; 3.5% pa thereafter
Expected rate of CPI increase	2.5% pa

Notes to and forming part of the financial statements for the year ended 30 June 2006

17. FINANCIAL INSTRUMENTS**(a) Credit Risk Exposures**

The credit risk on the financial assets of Forests NSW have been recognised in the Balance Sheet at the carrying amount, net of any provision for doubtful debts.

Forests NSW has a Credit Policy, which aims to mitigate the credit risk exposure to our sales customers. Customers are assessed with some required to lodge suitable security for the estimated maximum credit exposure based on average monthly sales. The policy requires stringent credit assessment of customers before the granting of any unsecured credit.

(b) Interest Rate Exposures

Forests NSW's exposure to interest rates is set out in notes 6 and 13. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the Forests NSW intends to hold fixed interest assets and liabilities to maturity. Interest rate exposure is limited to interest rates available at the time of entering into arrangements with NSW Treasury Corporation. The assets or liabilities are held until maturity.

Statutory Corporation

2005	Notes	1 Year or Less \$'000	Over 1 to 5 years \$'000	More than 5 Years \$'000	Non interest bearing \$'000	Total \$'000
Financial Assets						
Cash and Cash Equivalents	6	8 377	-	-	-	8 377
Receivables	8	-	-	-	53 260	53 260
Total Financial Assets		8 377	-	-	53 260	61 637
Financial Liabilities						
Bank Overdraft and Loans	13	29 365	26 624	82 073	-	138 062
Trade and Other Creditors	12	-	-	-	21 204	21 204
Total Financial Liabilities		29 365	26 624	82 073	21 204	159 266
Net Financial Liabilities		(20 988)	(26 624)	(82 073)	32 056	(97 629)

The carrying values of financial instruments equal to the fair value except for loans where the fair value is \$143 713 839

2005	Note	Weighted Average Rate
Commonwealth Bank Rate		4.44%
T-Corp hour Glass Cash Facility		5.53%

Notes to and forming part of the financial statements for the year ended 30 June 2006

17. FINANCIAL INSTRUMENTS (continued)

2006	Notes	1 Year or Less \$'000	Over 1 to 5 years \$'000	More than 5 Years \$'000	Non interest bearing \$'000	Total \$'000
Financial Assets						
Cash and Cash Equivalents	6	6 987				6 987
Receivables	8				42 199	42 199
Total Financial Assets		6 987			42 199	49 186
Financial Liabilities						
Bank Overdraft and Loans	13	20 809	49 601	67 866		138 276
Trade and Other Creditors	12				22 510	22 510
Total Financial Liabilities		20 809	49 601	67 866	22 510	160 786
Net Financial Liabilities		(13 822)	(49 601)	(67 866)	19 689	(111 600)

The carrying values of financial instruments equal to the fair value except for loans where the fair value is \$140 332 693

2006	Note	Weighted Average Rate
Commonwealth Bank Rate		5.00%
T-Corp Hour Glass Cash Facility		5.60%

Economic Entity

2006	Notes	1 Year or Less \$'000	Over 1 to 5 years \$'000	More than 5 Years \$'000	Non interest bearing \$'000	Total \$'000
Financial Assets						
Cash and Cash Equivalents	6	6 987				6 987
Receivables	8				42 208	42 208
Total Financial Assets		6 987			42 208	49 195
Financial Liabilities						
Bank Overdraft and Loans	13	20 809	49 601	67 866		138 276
Trade and Other Creditors	12				22 510	22 510
Total Financial Liabilities		20 809	49 601	67 866	22 510	160 786
Net Financial Liabilities		(13 822)	(49 601)	(67 866)	19 689	(111 600)

The carrying values of financial instruments equal to the fair value except for loans where the fair value is \$140 332 693

2006	Weighted Average Rate
Commonwealth Bank Rate	5.00%
T-Corp Hour Glass Cash Facility	5.60%

Notes to and forming part of the financial statements for the year ended 30 June 2006

17. FINANCIAL INSTRUMENTS (continued)**(c) Net Fair Value of Financial Assets and Liabilities****(i) On Balance Sheet**

The net fair value of cash and cash equivalents, the non interest bearing monetary financial assets, and the financial liabilities of Forests NSW approximate their carrying value. Monetary dealing of the financial assets and liabilities are restricted to trading with and by the NSW Treasury Corporation.

All Balance Sheet assets are disclosed in the above table.

(ii) Off Balance Sheet

Forests NSW have potential financial liabilities which may arise from certain contingencies disclosed in Note 21- Contingent Liabilities. As explained in the note some of the claims can't be quantified in terms of the likely impact on the carrying value of the Forests NSW asset

18. OPERATING LEASES AND HIRE PURCHASE

At balance date Forests NSW had operating lease/rental agreements totalling \$2 604 000 (2005: \$3 792 000). These agreements relate to occupancy of offices throughout the State. Forests NSW had no other material lease and hire purchase agreements.

	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Not later than one year	1 453	1 453	1 531
Later than one year and not later than five years	708	708	1 716
Later than five years	443	443	545
Total (including GST)	2 604	2 604	3 792

19. REMUNERATION OF EXTERNAL AUDITORS

	Economic Entity 2006 \$'000	Statutory Corporation 2006 \$'000	Statutory Corporation 2005 \$'000
Audit Office of NSW – Audit of financial statements	275	275	247

20. CONSULTANTS

Forests NSW engaged consultants to undertake activities, which require specialist or independent skills. In 2006 the total cost for consultants was \$458 000 (2005: \$634 000).

Notes to and forming part of the financial statements for the year ended 30 June 2006

21. CONTINGENT LIABILITIES

During the financial year, the Victorian Court of Appeal has allowed Forests NSW to appeal against a decision of the Victorian Supreme Court in finding for an individual (plaintiff) who had sustained an injury in a diving accident against both a Shire Council and Forests NSW. The Court of Appeal has subsequently made orders in relation to the following:

- a) A Shire Council is to pay Forests NSW and plaintiff's costs of the Shire Council's appeal;
- b) A Shire Council and the plaintiff's are to pay Forests NSW's costs of the Forests NSW appeal
- c) The plaintiff is to pay the Shire Council's and Forests NSW's costs of the plaintiff cross appeal
- d) A Shire Council is to pay the costs of Forests NSW cross claim against the Shire Council
- e) The plaintiff is to pay Forests NSW's costs including any reserved costs and the Shire Council is to the plaintiff's costs.

These potential claims can't be easily quantified (2005:\$153 000) and Forests NSW considers that it has no liability associated with the above case.

At balance sheet date, various areas of Forests NSW (approx. 234 995 hectares) have been subject to claims under the Native Title Act. The impact of these claims on the carrying values of the assets cannot be quantified at this time.

22. COMMITMENTS

At balance date Forests NSW had capital commitments, primarily for growing stock establishment and Plant and Equipment purchases, amounting to \$9 909 485 (2005: \$8 483 000). Operating commitments at balance date amounted to \$21 589 (2005: \$562 000).

All commitments are to be expended in the next financial year. In 2006, total commitments of \$9 931 074 (2005: \$9 044 000) includes input tax credits of \$653,000 (2005: \$814,000) that are expected to be recoverable from the Australian Taxation Office.

23. RELATED ENTITIES

The Public Sector Employment & Management (Department of Primary Industries) Order 2004, made on 23rd June 2004 established the NSW Department of Primary Industries (NSW DPI). The Department comprises the former NSW Agriculture, Mineral Resources NSW, NSW Fisheries and Forests NSW. Forests NSW continues to operate as a self funded Public Trading Enterprise (PTE) aligned with NSW DPI's Primary Industries trading division which has responsibility for identification and development of commercial trading activities and opportunities. Forests NSW is presently the only PTE or commercial activity contained within this section of NSW DPI.

Forests NSW's main related parties for trading in 2005-06 are Forestry Commission Division and Department of Primary Industries. Related party transactions based on the Memorandum of Understanding are as follows:

(i) Income Statements

	Supply of Personnel Services \$ '000	Less Charge back for transfer of Superannuation Gain \$ '000	Total Net Supply \$ '000	Income Statements 2006	
				Economic Entity \$ '000	Statutory Corporation \$ '000
Department of Primary Industries	14 065	(9 698)	4 367	4 367	4 367
Forestry Commission Division	6 730	(5 102)	1 628	-	1 628
Total	20 795	(14 800)	5 995	4 367	5,995

Notes to and forming part of the financial statements for the year ended 30 June 2006

23. RELATED ENTITIES (continued)

(ii) Balance Sheet

	Notes	Economic Entity Other Assets \$'000	Statutory Corporation Other Assets \$'000	Economic Entity Non Current Liabilities \$'000	Statutory Corporation Non Current Liabilities \$'000
Department of Primary Industries		6 352	6 352	22 502	22 502
Forestry Commission Division		*-	3 506	-	10 847
Prepaid Superannuation Assets	16(b)	3 506	-	-	-
Total		9 858	9 858	22 502	33 349

*On consolidation, the economic entity has a prepaid superannuation asset. Refer to note 16(b)

Key Management Personnel:

- i) Barry Buffier Commissioner for Forests NSW
- ii) Peter Duncan Former Chief Executive Officer (8 December 2003 - 5 March 2006)
- iii) Alastair Howard Acting CEO (10 March 2006)

	Short-Term Employee Benefits \$'000	Post Employment Benefits \$'000	Other Long Term Benefits \$'000	Termination Benefits \$'000	Share-based payment \$'000	Total \$'000
30 June 2006 Total Compensation	250	-	-	-	-	250
30 June 2005 Total Compensation	188	-	-	-	1	188

The Commissioner for Forests NSW does not receive any remuneration for services rendered to Forests NSW.

All transactions by Forests NSW with key management personnel are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

There are no outstanding balances relating to any key management personnel and no guarantees provided or received as well by the key management personnel. For the year ended 30 June 2006, Forests NSW has not raised any provision for doubtful debts relating to amounts owed by key management personnel (2005 nil)

Notes to and forming part of the financial statements for the year ended 30 June 2006

24. RECONCILIATION OF OPERATING PROFIT (after Income Tax) TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Economic Entity 2006 \$ '000	Statutory Corporation 2006 \$ '000	Statutory Corporation 2005 \$ '000
Net/(loss) after income tax	2 836	2 836	(23 862)
	2 836	2 836	(23 862)
Adjusted for non-cash items:			
Depreciation	10 060	10 060	10 264
Loss/(Profit) on disposal of non-current assets	1 540	1 540	(3 193)
Write-down of plantation Asset Revocations and Decrement to Profit and Loss from Revaluation	5 383	5 383	1 750
Revaluation (Increment)/Decrement - Native Forests - Softwood Plantations	15 584	15 584	(29 557)
	47 175	47 175	69 549
	79 742	79 742	48 813
Change in operating assets and liabilities			
Movement in receivables	(7 892)	(7 892)	(4 632)
Movement in inventories	24	24	609
Movement in creditors	3 459	3 459	3 491
Movement in provisions	(38 850)	(38 850)	5 160
Movement in Income tax	3 348	3 348	7 647
	(39 911)	(39 911)	12 275
Net cash inflow from operating activities	42 667	42 667	37 226

As at 30 June 2006, Forests NSW had \$5 000 000 available in unused credit a 'Come and Go' Facility held with NSW T-Corp.

End of Audited Financial Statements

STATEMENT BY DIVISION HEAD

(as Corporation Sole Under Section 7 (1) of the Forestry Act 1916)

Pursuant to the *Public Finance and Audit Act 1983* the statements are signed and attested in the following terms:

In my opinion the accompanying financial statements present a true and fair view of the financial position of the Forestry Commission Division as at 30 June 2006 and the results of its operations and transactions for the period 17th March 2006 to 30th June 2006

The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983* and accompanying regulations and the Treasurer's Directions.

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



Barry Buffier

Director-General

NSW Department of Primary Industries.

28th November 2006



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

Forestry Commission Division

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Forestry Commission Division (the Division):

- presents fairly the Division's financial position as at 30 June 2006 and its performance for the period ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41 B of the *Public Finance and Audit Act 1983* (the Act) and the Public Finance and Audit Regulation 2005.

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

Scope

The Financial Report and the Director-General's Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Division, for the period ended 30 June 2006.

The Director-General of the Department of Primary Industries is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Director-General in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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 Director-General had not fulfilled his reporting obligations.

My opinion does not provide assurance:

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

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.

G J Gibson FCPA
Assistant-Auditor General

SYDNEY
30 November 2006

CONSOLIDATED ANNUAL FINANCIAL REPORT

Year ending 30 June 2006

INCOME STATEMENT FOR THE PERIOD 17 MARCH 2006 TO 30 JUNE, 2006

	Notes	2006 \$'000
Income		
Personnel Services	4	1 628
Total Revenue		1 628
Less Expenses from continuing operations		
Wages		4 911
Superannuation		(4 786)
Annual and Long Service Leave		953
Payroll tax		540
Workers Compensation		(19)
Fringe Benefits Tax		29
Total expenses		1 628
Net profit/(Loss) for the period		0

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

BALANCE SHEET AS AT 30 JUNE, 2006

	Notes	2006 \$'000
Current assets		
Receivables		10 847
Other Assets	2	3 506
Total Assets		14 353
Current Liabilities		
Provisions	3	10 547
Amount Due to Related Entity	4	3 506
Total Current liabilities		14 053
Non Current Liabilities	3	300
Total Liabilities		14 353
Equity		
Accumulated Funds		0
Total Equity		0

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE, 2006

	Notes	2006 \$'000
Cash flows from operating activities		
Receipts from customers		-
Payment to suppliers and employees		-
Interest received		-
Income Taxes Paid		-
Net cash inflow from operating activities		0
Cash flows from investing activities		
Payments for property, plant and equipment		-
Payments for plantation establishment		-
Capitalised Interest on Borrowings		-
Proceeds from sale of property, plant & equipment		-
Net cash outflow from investing activities		0
Cash flows from financing activities		
Proceeds from borrowings		-
Repayment of borrowings		-
Dividends paid		-
Net cash inflow (outflow) from financing activities		0
Net increase (decrease) in cash held		-
Cash at the beginning of the financial year		-
Cash and cash equivalents at the end of the period		0

The above cash flow statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE, 2006

	Statutory Corporation Capital	Economic Entity Accumulated Funds	Accumulated Funds	Total Equity
	\$'000	\$'000	\$'000	\$'000
At 17 March 2006	0	0	0	0
At 30 June 2006	0	0	0	0

Notes to and forming part of the financial statements for the year ended 30 June 2006

1. Summary of Significant Accounting policies

a) Reporting entity

Forestry Commission Division is a Division of the Government Service established to Part 3 of the Schedule 1 to the *Public Sector Employment and Management Act 2002*. It is a not for profit entity as profit is not its principal objective. It is consolidated as part of Forests NSW and the NSW Total Sector Accounts. It is domiciled in Australia and its principal office is at Building 2 423 Pennant Hills Road NSW 2120

Forestry Commission Division objective is to provide personnel services to Forestry Commission of NSW (trading as Forests NSW)

Personnel Service provided to Forestry Commission of NSW is based on Memorandum On Understanding established on 17th March 2006.

Forestry Commission Division commenced operation on 17th March 2006 and assumed the responsibility for the employees and employee-related liabilities of the section 10 of the Forestry Commission of NSW.

The liabilities were recognised on the 17th March 2006 together with an offsetting receivable from Forestry Commission of NSW.

The financial report was authorised for issue by Barry Buffier on 28th November 2006

(b) Basis of preparation

This is a general purpose financial report and has been prepared in accordance with Australian Accounting Standards, the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2005 and specific directions issued by the Treasurer.

This is the first financial report prepared on the basis of Australian equivalent to International Financial Reporting Standards.

Generally the historical cost basis of accounting has been adopted and the financial report does not take into account changing money values or current valuations. However certain provisions are measured at fair value.

The accrual basis of accounting has been adopted in the preparation of the financial report

(c) Comparative information

As this is Forestry Commission Divisions' first financial report comparative information for the previous year is not provided.

(d) Income

Income is measured at the fair value of the consideration received or receivable. Revenue from the rendering of personnel services is recognised when the service is provided and only to the extent that the associated recoverable expenses are recognised.

(e) Receivables

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual or other rights to future cash flows from it expire or are transferred.

A receivable is measured initially at fair value and subsequently at amortised cost using the effective interest rate method less any allowance for doubtful debts. A short-term receivable with no stated interest rate is measured at the original invoice amount where the effect of discounting is immaterial. An invoiced receivable is due for settlement within thirty days of invoicing. If there is objective evidence at year end that a receivable may not be collectable, its carrying amount is reduced by means of an allowance for doubtful debts and the resulting loss is recognised in the income statement. Receivables are monitored during the year and bad debts are written off against the allowance when they are determined to be irrecoverable. Any other loss or gain arising when a receivable is derecognised is also recognised in the income statement.

(f) Payables

Payables include accrued wages, salaries and related on costs (such as payroll tax, fringe benefits tax and workers' compensation insurance) where there is certainty as to the amount and timing of settlement.

A payable is recognised when a present obligation arises under a contract or otherwise. It is derecognised when the obligation expires or is discharged cancelled or substituted. A short-term payable with no stated interest rate is measured at historical cost if the effect of discounting is immaterial.

(g) Employee benefit provisions and expenses

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement. Employee benefit provisions represent expected amounts payable in the future in respect of unused

Notes to and forming part of the financial statements for the year ended 30 June 2006

entitlements accumulated as at the reporting date. Liabilities associated with but that are not employee benefits (such as payroll tax) are recognised separately. Superannuation and leave liabilities are recognised as expenses and provisions when the obligations arise which is usually through the rendering of service by employees.

Long-term annual leave (ie that is not expected to be taken within twelve months) is measured at present value using a discount rate equal to the market yield on government bonds.

Long Service leave liability was actuarially assessed as at 30 June 2006. Superannuation liability for defined benefit funds for NSW state employees are actuarially assessed by Pillar administration prior to each reporting date and are measured at the present value of the estimated future payments.

All other employee benefit liabilities (ie for benefits falling due wholly within twelve months after reporting date are assessed by management and are measured at the undiscounted amount of the estimated future payments.

The amount recognised for superannuation and long service leave provisions is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the income statement for superannuation and long service leave is the net total of current service cost, interest cost, the expected return on any plan assets and actuarial gains and losses. Actuarial gains or losses are recognised as income or expense in the year they occur.

The actuarial assessment of superannuation and long service leave provisions uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

(h) The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

(i) New Accounting Standards issued but not yet effective

The following Accounting Standards are being early adopted. Any initial impacts on the first time adoption are detailed in the Statement of Changes in Equity.

AASB Amendment	Affected Standards
2005-4	AASB 139: Financial Instruments: Recognition and Measurement. Issued June 2005.

In this reporting period the following recent Australian Accounting Standards that are not yet effective were not used in preparing this report.

AASB Amendment	Affected Standards
2005-1	AASB 139: Financial Instruments: Recognition and Measurement. Issued May 2005.
2005-5	AASB 1 First-time adoption of AIFRS AASB 139: Financial Instruments: Recognition and Measurement. Issued June 2006.
2005-9	AASB 132: Financial Instruments: Presentation AASB 139: Financial Instruments: Recognition and Measurement. Issued September 2005.
2005-10	AASB 101 Presentation of Financial Statements. AASB 117 Leases. AASB 132: Financial Instruments: Presentation. AASB 139: Financial Instruments: Recognition and Measurement. Issued September 2005.
2005-11	AASB 101 Presentation of Financial Statements. AASB 132: Financial Instruments: Presentation. AASB 139: Financial Instruments: Recognition and Measurement. Issued September 2005. AASB 7 Financial Instruments: Disclosures Issued August 2005.

All AASB amendments above are applicable for the year commencing 1 July 2006 with the exception of AASB 7 which is applicable for the year commencing 1 July 2007. No assessment has been made of the change in accounting policy in the year of change or the financial impact of adoption of any of the amendments above.

Notes to and forming part of the financial statements for the year ended 30 June 2006

2. Other Assets

Employee Superannuation Funds

The Employee Benefits liability was determined by the Fund's actuary at 30 June 2006 based upon membership information as at 31 March 2006.

	SASS \$'000	SANCS \$'000	SSS \$'000	2006 \$'000
Estimated Reserve Account balance	38 132	3 923	-	42 055
Accrued Employees Benefits Liability	(35 192)	(3 357)	-	(38 549)
	2 940	566	-	3 506

SASS *State Authorities Superannuation Scheme*

SANCS *State Authorities Non-Contributory Superannuation Scheme*

SSS *State Superannuation Scheme*

Accounting policy for recognising actuarial gains/losses.

Actuarial gains and losses are recognised in profit or loss in the year they occur.

General description of the type of plan.

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

State Authorities Superannuation Scheme (SASS)

State Superannuation Scheme (SSS)

State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

Reconciliation of the assets and liabilities recognised in the balance sheet

	SASS Financial Year to 30 June 2006 \$	SANCS Financial Year to 30 June 2006 \$	SSS Financial Year to 30 June 2006 \$	TOTAL Financial Year to 30 June 2006 \$
Present value of defined benefit obligations	35 192 664	3 357 132	0	38 549 796
Fair value of plan assets	(38 132 139)	(3 923 711)	0	(42 055 851)
	(2 939 475)	(566 579)	0	(3 506 055)
Surplus in excess of recovery available from schemes	0	0	0	0
Unrecognised past service cost	0	0	0	0
Net (asset)/liability to be disclosed in balance sheet	(2 939 475)	(566 579)	0	(3 506 055)

Assets invested in entity or in property occupied by the entity

All Fund assets are invested by STC at arm's length through independent fund managers.

Notes to and forming part of the financial statements for the year ended 30 June 2006

Movement in net liability/asset recognised in balance sheet

	SASS Financial Year to 30 June 2006 \$	SANCS Financial Year to 30 June 2006 \$	SSS Financial Year to 30 June 2006 \$	TOTAL Financial Year to 30 June 2006 \$
Net (asset)/liability at start of year	2 713 645	359 282	0	3 072 928
Net expense recognised in the income statement	(2 502 554)	(332 590)	0	(2 835 144)
Contributions	(3 150 567)	(593 272)	0	(3 743 839)
Net (asset)/liability transferred on 17 March 2006	0	0	0	0
Net (asset)/liability to be disclosed in balance sheet	(2 939 475)	(566 579)	0	(3 506 055)

Total expense recognised in income statement

	SASS Financial Year to 30 June 2006 \$	SANCS Financial Year to 30 June 2006 \$	SSS Financial Year to 30 June 2006 \$	TOTAL Financial Year to 30 June 2006 \$
Current service cost	891 197	200 329	0	1 091 525
Interest on obligation	1 963 123	172 938	0	2 136 061
Expected return on plan assets	(2 285 033)	(233 268)	0	(2 518 300)
Net actuarial losses (gains) recognised in year	(3 071 841)	(472 589)	0	(3 544 430)
Change in surplus in excess of recovery available from scheme	0	0	0	0
Past service cost	0	0	0	0
Total included in "employee benefits expense"	(2 502 554)	(332 590)	0	(2 835 144)

Actual return on plan assets

	SASS Financial Year to 30 June 2006 \$	SANCS Financial Year to 30 June 2006 \$	SSS Financial Year to 30 June 2006 \$	TOTAL Financial Year to 30 June 2006 \$
Actual return on plan assets	4 796 206	515 782	0	5 311 988

Valuation method and principal actuarial assumptions at the reporting date

a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) Economic Assumptions

	30-Jun-06
Discount rate at 30 June	5.9% pa
Expected return on plan assets at 30 June	7.6%
Expected salary increases	4.0% pa to 2008; 3.5% pa thereafter
Expected rate of CPI increase	2.5% pa

Notes to and forming part of the financial statements for the year ended 30 June 2006

3. Provisions

	Notes	2006 \$'000
Current Liabilities		
Accrued Wages		541
Payroll Tax		211
Leave Entitlements		9 787
FBT		17
Less other miscellaneous provision		(9)
Total Current Liabilities		10 547
Non Current Liabilities		
Leave Entitlements		300
Total Non Current Liabilities		300
Total Liabilities		10 847

All personnel administration costs and related audit fees are met by the parent entity Forests NSW.

4. Related Parties Transactions

	Notes	2006 \$'000
Supply of Personnel Services to Forestry Commission of NSW		1 628
Current Amount due to Forestry Commission of NSW		3 506

End of Audited Financial Statements

FINANCIAL STATEMENTS – MARINE PARKS AUTHORITY

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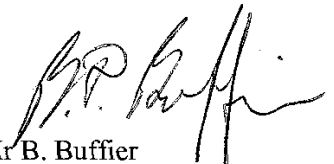
STATEMENT BY MARINE PARKS AUTHORITY

Pursuant to Section 41C (1b) and (1C) of the *Public Finance and Audit Act 1983*, and Clause 11(a) and (b) of the Public Finance and Audit Regulation 2005, we state that:

- (a) The accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2005 and the Treasurer's Directions.
- (b) The statements exhibit a true and fair view of the financial position and transactions of the Authority; and
- (c) There are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



Dr Col Gellatly
Chair, Marine Parks Authority



Mr B. Buffier
Member, Marine Parks Authority



Dr T. Fleming
Member, Marine Parks Authority

28/SEPT/06



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT
MARINE PARKS AUTHORITY

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Marine Parks Authority (the Authority):

- presents fairly the Authority's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act), and the *Public Finance and Audit Regulation 2005*.

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

Scope

The Financial Report and the Board's Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Authority, for the year ended 30 June 2006.

The members of the Board of the Authority are responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order 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 Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Board in preparing the financial report, and
- examined a sample of evidence that supports the amounts and 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 Board members had not fulfilled his reporting obligations.

My opinion does not provide assurance:

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

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.


R Hegarty FCPA
Director, Financial Audit Services

SYDNEY
19 December 2006

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Actual 2006 \$'000
Revenue		
Sale of goods and services	2(a)	2
Investment income		-
Retained taxes fees and fines	2(b)	3
Grants and contributions		-
Other revenue	2(c)	28
Government grants	2(d)	8 050
Total Revenue		8 083
Expenditure		
Operating expenses		
Employee related		-
Other operating expenses	3(a)	1 338
- Operating expenses for personnel services	3(b)	2 256
Depreciation and amortisation		-
Grants and subsidies		-
Other expenses	3(c)	4 414
Total Expenditure		8 008
SURPLUS FOR THE YEAR	5	75

The accompanying notes form part of these statements

BALANCE SHEET AS AT 30 JUNE 2006

	Notes	Actual 2006 \$'000
ASSETS		
Current Assets		
Cash	4,6	75
Receivables		-
Other		-
Total Current Assets		75
Non-Current Assets		
Property, Plant and Equipment		
- Land and Buildings		-
- Plant and Equipment		-
Total Non-Current Assets		-
Total Assets		75
LIABILITIES		
Current Liabilities		
Payables		-
Interest bearing liabilities		-
Provisions		-
Other		-
Total Current Liabilities		-
Non-Current Liabilities		
Interest bearing liabilities		-
Provisions		-
Total Non-Current Liabilities		-
Total Liabilities		-
Net Assets		75
EQUITY		
Accumulated funds		75
Total Equity		75

The accompanying notes form part of these statements

CASHFLOW STATEMENT FOR THE ENDED 30 JUNE 2006

	Notes	Actual 2006 \$'000
CASHFLOWS FROM OPERATING ACTIVITIES		
Payments		
Employee related		-
Borrowing costs		-
Other		(8 008)
Total Payments		(8 008)
Receipts		
Sale of goods and services		2
Retained fees		3
Other		28
Government contributions		8 050
Total Receipts		8 083
NET CASH FLOWS FROM OPERATING ACTIVITIES	5	75
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land and buildings, plant and equipment		-
Purchase of land and buildings, plant and equipment		-
NET CASH FLOWS FROM INVESTING ACTIVITIES		-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings and advances		-
Repayment of borrowings and advances		-
NET CASH FLOWS FROM FINANCING ACTIVITIES		-
NET INCREASE/(DECREASE) IN CASH		75
Opening cash and cash equivalents		75
CLOSING CASH AND CASH EQUIVALENTS		75

The accompanying notes form part of these statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Actual 2006 \$'000
Accumulated funds Opening Balance		-
Surplus for the Year	5	75
Closing Balance		75

The accompanying notes form part of these statements

Notes to and forming part of the financial statements for the year ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Reporting Entity**

The Marine Parks Authority (MPA), is a reporting entity, whose activities are administered by the Department of Primary Industries, the Department of Environment and Conservation, and the Premier's Department.

The MPA has no staff of its own, no material assets under its control and no liabilities. The Department of Primary Industries is provided with a protected allocation from the Consolidated Fund for partial operations of the MPA.

Transactions relating to the operations of the MPA, as represented in the financial statements are salaries and operational expenses, and any revenues identified by the administering agencies.

This is the first set of financial statements prepared for the Marine Parks Authority. The Marine Parks Authority is prescribed as a statutory body under the *Public Finance and Audit Act 1983*. The financial report has been prepared for the period 1 July 2005 to 30 June 2006 and was authorised for issue by the MPA board on 28 September 2006.

(b) Basis of Preparation

The Authority's financial report is a general purpose financial report which has been prepared in accordance with:

- applicable Australian Accounting Standards (which include Australian equivalents to International Financial Reporting Standards (AEIFRS)); and
- the requirements of the *Public Finance and Audit Act* and Regulations;

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

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Income Recognition

Income is when the controlling 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.

(d) Employee Benefits

The Marine Parks Authority does not employ staff of its own. Staff are contracted from the Department of Primary Industries, Department of Environment and Conservation and Premier's Department to perform various functions in relation to the activities of the MPA.

(e) Capital charge

The Marine Parks Authority does not own assets. It utilises assets controlled by the Department of Primary Industries, Department of Environment and Conservation and Premier's Department for the undertaking of its functions. A charge out cost has been included within operating to reflect the use of these assets. The Marine Parks Authority utilises items such as marine craft, computers, buildings and general plant and equipment.

(f) Marine Parks Act

The *Marine Parks Act 1997* ('the Act') commenced on 1 July 1998. The objects of the Act are: to conserve marine biological diversity and marine habitats by declaring and providing for the management of a comprehensive system of marine parks; to maintain ecological processes in marine parks; to provide for the ecologically sustainable use of fish (including commercial and recreational fishing) and marine vegetation in marine parks; and to provide opportunities for public appreciation, understanding and enjoyment of marine parks

The Act provides for the establishment of a marine parks fund in which all fees and charges under the Act and money received in connection with administration of the Act are paid. The Act also allows for payment of all costs and expenses incurred by the three agencies in administration of the Act as approved by the relevant Ministers. The flow of funds into and out of this fund is outlined in note 6.

(g) Buyout of commercial fishers

In 2005-06 the Department of Primary Industries received funding of \$4.4 million to buyout commercial fishers in the Cape Byron Marine Park. An amount of \$4.414 million was expended as at 30 June 2006.

(h) Impact of the adoption of Australian Equivalents to International Financial Reporting Standards

The administering Departments of the MPA have determined the key areas where changes in accounting policies impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it has mandated for the NSW Public Sector.

Notes to and forming part of the financial statements for the year ended 30 June 2006

2. REVENUES		2006
		\$'000
(a) Sale of goods and services		
Sale of goods		2
		2
(b) Retained taxes, fees and fines		
Retained taxes, fees and fines		3
		3
(c) Other revenue		
Other		28
		28
(d) Government Contributions		
Recurrent grant		7 107
Capital grant		42
Agency contributions		907
		8 050
3. EXPENSES		2006
		\$'000
(a) Other operating expenses		
Fees - General		1 338
Auditor's remuneration (audit of the financial reports)		-
		1 338
(b) Operating expenses for personnel services		
Personnel services are acquired from Department of Primary Industries, Department of Environment and Conservation, and the Premier's Department.		2 256
		2 256
(c) Other expenses		
Buyout of commercial fishers (refer to Note 1(g))		4 414
		4 414
4. CURRENT ASSETS		2006
		\$'000
Cash at Bank		75
		75

Notes to and forming part of the financial statements for the year ended 30 June 2006

5. STATEMENT OF CASHFLOWS	2006 \$'000
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(a) Reconciliation of Cash	
Cash	75
	75
 (b) Reconciliation of Cash Flows from Operating Activities to Net Cost of Services	
Net cash used on operating activities	75
Surplus for year	75

6. MARINE PARKS FUND

The Marine Parks Fund was established under the provisions of the *Marine Parks Act 1997*. The Department of Primary Industries and the Department of Environment and Conservation administer operations of the fund jointly. The receipts and expenditure of the Fund administered by the Department of Primary Industries in 2005-06 were \$nil and \$68 000 respectively, leaving a balance of \$75 000 at 30 June 2006.

7. COMMITMENTS

The Marine Parks Authority did not have any commitments at 30 June 2006.

8. CONTINGENT LIABILITIES

The MPA board is not aware of any contingent liabilities at 30 June 2006.

9. EARLY ADOPTION OF AUSTRALIAN ACCOUNTING STANDARDS

At reporting date a number of Australian Accounting Standards have been issued by the AASB but are not yet operative. These have not been early adopted by the Authority. These standards have been assessed for their possible impact on the financial report, if any, in the period of their initial application. The assessment concluded that there will be no material impact.

END OF AUDITED FINANCIAL STATEMENTS