Tasmanian
Audit Office

Report of the Auditor-General
No. 5 of 2015-16

Auditor-General's Report on the Financial Statements of State entities

Volume 2

Government Businesses 2014-15

November 2015

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THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (Audit Act).

Our primary responsibility is to conduct financial or "attest" audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

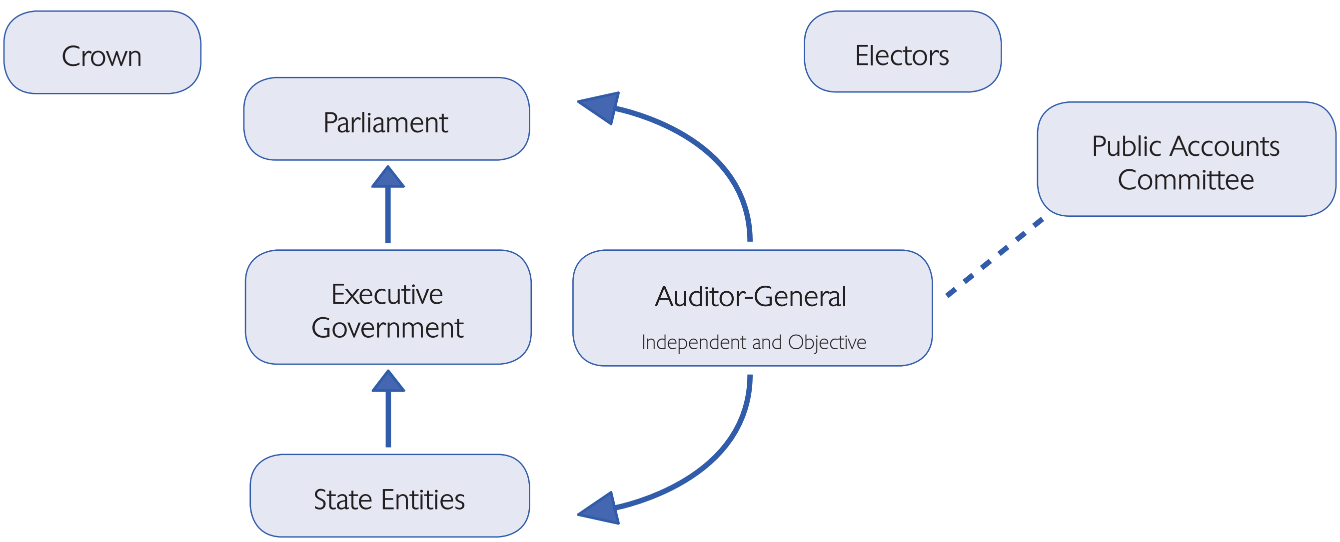
We can also carry out investigations but only relating to public money or to public property.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

The Auditor-General's Relationship with the Parliament and State Entities

The Auditor-General's role as Parliament's auditor is unique.



TASMANIA

2015
PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 5 of 2015-16

Volume 2

Government Businesses 2014-15.

November 2015

Presented to both Houses of Parliament in accordance with the requirements of Section 29 of the *Audit Act 2008*.

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

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17 November 2015

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Madam Speaker

Report of the Auditor-General No. 5 of 2015-16, Auditor-General's Report on the Financial Statements of State entities, Volume 2 – Government Businesses 2014-15

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of State entities - Volume 2 - Government Businesses 2014-15.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

This Report is the second Volume of my Report to Parliament outlining outcomes of our financial audit work for the 2014-15 financial year. It summarises the results of audits, key findings and developments and financial performance of those State entities comprising Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC) for the year ended 30 June 2015.

In the financial year ended 30 June 2015, entities making up the PNFC sector generated $3.613bn in revenue and incurred $3.198bn in expenditure. They managed total assets of $9.902bn and $5.951bn in liabilities which included borrowings from TASCORP of $2.612bn, superannuation obligations of $0.639bn and other liabilities of $2.700bn mainly comprising deferred tax provisions, employee entitlements, payables and financial liabilities.

Included in PNFC entities are Macquarie Point Development Corporation and Private Forests Tasmania. These entities are neither government business enterprises nor state owned companies but are regarded as PNFCs for financial reporting purposes. At 30 June 2015, these entities held net assets of $47.687m, with total liabilities of $1.421m.

There are two entities making up the PFC sector; TASCORP and Motor Accidents Insurance Board, with combined assets of $7.760bn consisting of cash, investments and loans to participating state entities. Total liabilities were $7.267bn which included borrowings and provisions for outstanding and unreported insurance claims.

Of the 16 entities included in the Report, 10 recorded Underlying Profits and six reported Underlying Losses. Results after taxation remained consistent with underlying profits and losses, with the exception of three entities who recorded a loss after tax, but an underlying profit.

The Report also includes commentary on the following matters:

- how Government Business Enterprises and State Owned Companies responded to complying with remunerations guidelines issued by the Department of Treasury and Finance
- how they have accounted for changes in the calculation of defined benefit superannuation liabilities
- the basis they adopted for recognition and valuation of their primary assets.

All audits were completed within specified deadlines and unqualified audit opinions were issued in all cases.

H M Blake

Auditor-General

17 November 2015

TABLE OF CONTENTS

INTRODUCTION

SCOPE OF THIS REPORT

This Report deals with the outcomes from audits completed of the financial statements prepared by Public Non-Financial Corporations and Public Financial Corporations, together with comments on other audit matters.

STATUS OF AUDITS

All audits for the year ended 30 June 2015 have been completed. The financial statements of these entities, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in each case.

Compliance with statutory financial reporting requirements is detailed in individual Chapters. A summary dealing with the timeliness and quality of financial statements submitted for audit will be included in Volume four to be tabled in 2016.

FORMAT OF THIS REPORT

Unless specifically indicated, comments in this Report were current as at 7 November 2015.

In addition to this Introduction, this Report includes:

- Key Points
- Remuneration Disclosure Guidelines
- Changes in the Calculation of Defined Benefit Superannuation Liabilities for Government Businesses
- Valuation of Primary Assets
- Audit Summary Government Business Enterprises – these pages provide a summary focussing on financial performance
- individual Chapters for each Government Business Enterprise
- Audit Summary State Owned Corporations – similarly, these pages provide a summary focussing on financial performance
- individual Chapters for each State Owned Company
- Audit Summary Public Non-financial Corporations – similarly, these pages provide a summary focussing on financial performance
- individual Chapters for Other PNFC entities.

Individual Chapters for State entities were structured as follows:

- overall conclusion
- a snapshot of the entity
- introduction
- audit of the 2014-15 statements
- key areas of audit attention*
- key findings*
- key developments*
- analysis of financial performance, concentrating on Underlying Result*
- analysis of financial position reviewing total assets and net assets*
- appendices covering the statements of comprehensive income, financial position, cash flows and financial analysis*.

**Because of the small size of some entities, some sections were combined and where not relevant left out altogether.*

Underlying Result

Entities are required to follow an applicable financial reporting framework specified in relevant law or regulations. State entities prepare general purpose financial statements in accordance with Australian Accounting Standards. In certain circumstances a small number of State entities prepared special purpose financial statements.

In our analysis of financial performance we have, if necessary, reallocated certain revenue or expenditure items to better assist readers to interpret financial performance. We use the term 'Underlying Profit (Loss)' throughout the Report. We define 'underlying' as from continuing operations, excluding:

- non-operational capital funding
- revenue and expenses which are outside the normal course of operations, for example the cost of restructuring or significant gains or losses on sale or transfer of assets
- non-recurring items which are part of recurrent activities but unusual due their size and nature.

SUBMISSIONS AND COMMENTS RECEIVED

A copy of each Chapter in this Report was provided to the relevant Government Business and Other PNFCs for comment and response. Hydro-Electric Corporation Pty Ltd and Tasmanian Networks Pty Ltd were the only entities to provide commentary, which was included in their individual Chapters.

Comments provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response or comment.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention have been included in the Report to assist Parliamentarians and other users understand our approach in auditing Government Business and Other PNFCs.

The identification of these areas, which are considered 'risks' associated with the entity's operation, ensure audit resources are allocated efficiently and effectively.

KEY POINTS AND RECOMMENDATIONS

The summary below notes the key points identified in this Report.

Page

REMUNERATION DISCLOSURE GUIDELINES (GOVERNMENT BUSINESSES) 17

Revised Guidelines were issued in December 2014. Government businesses were required to disclose Director and Executive Remuneration in the notes to financial statements, consistent with the template approved by Treasury. The disclosure was comparable with those established by AASB 124 *Related Party Disclosures* when read together with the *Corporations Act 2000.*

Remuneration disclosures by GBEs and SOCs this year were an improvement compared to prior years resulting in greater accountability, transparency and comparability. We commend the Treasurers and the Department of Treasury and Finance for preparing and re-issuing the Guidelines.

CHANGES IN THE CALCULATION OF DEFINED BENEFITS SUPERANNUATION LIABILITIES 19

A recent study by the Group of 100 concluded that Australia has a sufficiently deep market in high quality corporate bonds and that corporate bond rates can be used to discount long-term employee obligations for entities in the for-profit sector. Corporate bond rates were higher than government bond rates at 30 June 2015.

Government businesses used corporate bond rates to discount their defined benefit plan obligations and long service leave provisions for the first time in 2014-15. The combined Net defined benefit liability recognised by Government businesses totalled $643.692m at 30 June 2015. If that liability was calculated using the government bond rates, it would total $773.796m. The impact of the difference between the corporate and government bond rates was $130.104m. Government businesses recognised the decrease in their superannuation liability as an actuarial gain in other comprehensive income and therefore the movement did not impact on their net profit after tax.

VALUATION OF PRIMARY ASSETS 21

Government Business Enterprises (GBEs) and State Owned Companies (SOCs) were responsible for assets totalling $16.622bn. Eleven Government businesses recognised their primary assets at fair value, six adopted a market valuation approach, four an income approach and two a combination of market, cost and income approaches.

Regardless of the valuation approach applied, valuing long-lived infrastructure assets is not an exact science and outcomes can vary significantly from one year to the next. It is not uncommon for valuations to be expressed in a range. That is, for example, the value of generation assets may be expressed as being between two amounts.

The majority of Government businesses used a fair value basis for valuing their primary assets. In all cases, we were satisfied with the work done and conclusions reached by management and that valuations were within acceptable ranges.

Regardless of the asset valuation approaches adopted, the assets of all Government businesses were subject to annual impairment testing.

GOVERNMENT BUSINESS ENTERPRISES 28

Audits of the financial statements of the six GBEs, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in all cases. However, in the case of Forestry Tasmania our audit opinion included reference to an emphasis of matter in which we drew attention to why the directors were satisfied in preparing financial statements based on Forestry being a going concern.

All audits were completed satisfactorily with no major items outstanding.

Financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.

FORESTRY TASMANIA (Forestry) 31

- Forestry continued to record Underlying Losses, with a loss of $25.626m in 2014-15, $18.349m higher than 2013-14.
- Government support in the form of Deficit funding was not received in 2014-15, ($23.000m received in 2013-14 and $15,000m in 2012-13) which contributed strongly to the higher Underlying Loss.
- The Underlying Losses included redundancy expenses of $3.335m.
- On 1 July 2015, Forestry received an equity contribution from Government, funded via TasNetworks, of $30.000m which was used to reduce debt and will have the effect of eliminating Forestry's negative net working capital which totalled $20.927m at 30 June.
- Equity increased by $31.739m in 2014-15 due to the Comprehensive Profit of $31.739m. This result was primarily due to a positive before tax adjustment to Forestry's biological assets, $37.845m, and Superannuation actuarial gain, $12.295m, offset by the Underlying Loss.
- Borrowings increased over the four year period by $21.995m to $33.000m. The higher debt in 2015 was due to Forestry not receiving Deficit funding this year.
- Of concern was the high negative operating cash flows of $16.895m almost entirely caused by the removal of Deficit funding.
- The value of standing timber increased by $61.852m.

- Based on the findings and commentary in this Chapter, it was concluded that Hydro Tasmania's financial performance in 2014-15 was reasonable, it was in a sound financial position at 30 June 2015 but cash generated from operations was inadequate to fund its capital investment program and dividends, resulting in borrowings.
- On a turnover of $1.467bn, Hydro Tasmania returned a consolidated Net Profit after Tax of $128.675m, and reported a Total Comprehensive Profit of $161.191m for 2014-15. The Total Comprehensive Profit takes into account Net Profit and all items debited or credited directly to reserves or retained earnings.
- Turnover decreased significantly from 2013-14, with revenue from the Sales of goods and services decreasing by $510.851m or 25.8%.
- Underlying the Net Profit after Tax result, Hydro Tasmania generated a profit before revaluation gains, impairment expenses and fair value movements of $62.352m (2013-14, $242.112m).
- Hydro Tasmania's Underlying Profit before Fair Value Movements, Impairment Expense and Tax expressed as a percentage of turnover, declined from 12.1% to 4.2% this year. The average over the past four years was 10.1%. A 1.0% movement in return is about $15.000m.
- The Total Comprehensive Profit of $161.191m included a net revaluation increment to generation assets of $232.066m.
- Hydro Tasmania generated $25.466m in cash flows from operating activities in 2014-15, much lower than the average of $159.256m over the past four years.
- Cash investments of $100.698m were made in Property, plant and equipment in 2014-15. Hydro Tasmania, on average over the past four years, invested $133.698m per annum in assets.
- Hydro Tasmania was in a strong Net Asset position of $2.063bn at 30 June 2015.
- At 30 June 2015 gross Borrowings totalled $855.015m and averaged $870.405m over the past four years, peaking at $905.795m at 30 June 2013. The reduction in revenues and underlying profits in 2014-15, which is forecast to continue into 2015-16 and beyond, highlights the ability of Hydro Tasmania to continue to service this level of debt as a potential future issue. Hydro Tasmania will also be reliant on the proposed equity injections from the State, with transfers of debt totalling $120 million expected to occur across 2015-16 and 2016-17.
- At 30 June 2015, Hydro Tasmania had total unused debt facilities of $205.300m.
- Hydro Tasmania paid a dividend of $118.576m in 2014-15 based on 2013-14 results. No dividend was proposed in the annual financial report, however on 26 August 2015, a dividend was recommended by the Hydro Tasmania Board of $25.000m relating to the 2014-15 results. This differs from the dividend policy, but, as far as the Board is concerned, strikes a balance between what is acceptable to the State and what it is appropriate for Hydro Tasmania to pay, given its cash flows over 2014-15.
- Over the past four years, Hydro Tasmania paid an average of $83.582m per annum in dividends to Government.
- A number of Hydro Tasmania's key ratios declined significantly in 2014-15 in light of reduced revenues, profits and operating cash flows. Hydro Tasmania's return on assets reduced to 2.6%, compared with 6.3% in 2013-14. Hydro Tasmania's interest coverage over EBIT, EBITDA and operating cash flows also declined significantly.

MOTOR ACCIDENTS INSURANCE BOARD (MAIB) 66

- MAIB recorded a Net Profit before Tax of $137.193m.
- Included was an Underwriting Profit of $24.269m.
- Net investment income remained at a reasonable level of $122.976m, representing an 8.4% return on investments.
- Dividends paid this year totalled $144.570m, consisting of a profit based dividend, $44.570m, and a special dividend, $100.000m. Dividend recommended by the Board for payment in 2015-16 is $47.692m.
- At 30 June 2015, Total Equity was $440.121m.
- MAIB's funding ratio of 127.8% was within the Board's target of 120% to 145%.

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY (THE AUTHORITY) 77

- The Authority recorded a smaller Net Profit for the year of $0.211m (2013-14, $2.364m).
- Conservation and tourism works were funded by State and Commonwealth Governments in 2014-15 which amounted to $4.170m ($5.686m) and $2.210m ($0.263m), respectively.
- Visitor numbers at the Port Arthur Hisoric Site increased by 6.50% (18.0%) in 2014-15 to 306 750 (286 915).
- Net Assets increased by $1.123m to $30.097m.

PUBLIC TRUSTEE (PT) 86

- PT's Underlying Profit before Tax, $0.435m, decreased by $0.601m compared to prior year.
- It reported a Comprehensive Profit of $2.172m which included an after tax gain of $0.413m, being a fair value movement on investment in managed funds, and a fair value gain on superannuation liabilities of $1.371m.
- Net Assets increased by $1.910m to $7.178m. This increase was $0.626m less than the Comprehensive result because PT paid a dividend of this amount in 2014-15.
- PT held funds in trust on behalf of clients totalling $145.309m (2014, $139.576m).
- No dividend was payable as the gap in Community Service Obligation funding exceeded dividends payable in 2015.

TASMANIAN PUBLIC FINANCE CORPORATION (TASCORP) 95

- TASCORP reported a Net Profit before Tax of $19.557m in 2014-15. This was an improvement of $4.596m on last year's profit as margins for client advances improved.
- Client advances increased to $3.274bn at 30 June 2015.
- Borrowings decreased to $5.131bn at 30 June 2015.
- TASCORP paid dividends of $10.512m during the year and income tax of $4.488m.

STATE OWNED COMPANIES 103

Audits of the financial statements of the nine SOCs, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in all cases.

All audits were completed satisfactorily with no major items outstanding.

Financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.

AURORA ENERGY PTY LTD (Aurora) 107

- Aurora transferred its distribution and telecommunications businesses to TasNetworks on 1 July 2014. The value of the businesses transferred (represented by net assets at that date) was $523.378m. The transfer was undertaken by way of distribution at carrying value to shareholders.
- The transfer changed the nature and risk profile of the Aurora business as it now operated as a stand-alone electricity retailer in Tasmania and no longer funded the maintenance and development of a geographically dispersed distribution network.
- Post transfer, Aurora had Net Assets of $39.637m.
- Aurora recorded an Underlying Profit before Tax of $43.847m, which exceeded the Board's budget expectations primarily as a result of higher than expected retention of commercial and residential customers and lower than expected operating costs.
- Total Equity post transfer increased by $43.688m largely as a result of the Net Profit after Tax of $31.487m and favourable movements in the cash flow hedge reserve of $11.903m (net of tax).
- After the transfer of all debt to TasNetworks on 1 July 2014, Aurora was debt free.
- Aurora made a Return on Equity of 51.2% (after net assets transferred to TasNetworks) and contributed $32.932m to the State through payment of income taxes.
- A $27.600m dividend was declared after 30 June 2015.

METRO TASMANIA PTY LTD (Metro) 118

- Metro reported a Net Profit before Tax of $0.050m (2013-14, loss $0.375m) in 2014-15.
- The improved result was predominantly due to an increase in Government funding, fare revenue and advertising income and lower fuel costs.
- On average over the past four years, Metro relied on Government for 75% of its Total Revenue. This included annual funding of $3.250m provided outside of the contract for service delivery, without which Metro would be unsustainable under its current financial model.
- Equity totalled $30.401m at 30 June 2015.
- Delays in the delivery of buses meant that no new buses were commissioned during 2014 15. This resulted in a high Cash balance, $9.243m, at 30 June 2015. Capital commitments totalled $3.251m at that date.

TASMANIAN IRRIGATION PTY LTD (TI) 125

- TI recorded an Underlying Profit of $1.358m in 2014-15.
- However, included in the Underlying Profit was $0.970m revenue from the sale of electricity generated by TI's mini hydro systems, Renewable Energy Certificates (RECs) created during the year and valued at $1.374m and $5.272m of government grants received for operational funding.
- Three new schemes were commissioned during the year, which resulted in an Impairment expense of $135.311m. Impairment losses reflect that schemes are operated on a cost recovery basis rather than to generate a profit.
- Net Assets totalled $31.198m at 30 June 2015.

TASMANIAN NETWORKS PTY LTD (TasNetworks) 135

- Profit after Income Tax was $169.048m in 2014-15.
- Net assets totalled $1.016bn and borrowings were $1.644bn. TasNetwork's debt to equity ratio at 30 June was 161.8%.
- TasNetworks paid dividends of $61.000m consisting of dividends of $40.000m and $21.000m respectively declared by Aurora and Transend, in relation to the 2013-14 year, income tax equivalents of $79.089m and loan guarantee fees of $11.954m.
- Declared a final dividend for 2014-15 of $63.200m.
- Returned capital to the State of $20.000m.
- Took on $205.000m in additional borrowings as a result of a transfer of debt from the Hydro-Electric Corporation.
- Made an equity transfer of $30.000m to Forestry Tasmania on 1 July 2015.

TASMANIAN PORTS CORPORATION PTY LTD (Tasports) 150

- Tasports recorded an Underlying Loss of $12.581m. This was $11.247m worse than the Underlying Loss in the prior year despite higher Net Revenue.
- After bringing to account maintenance on non-commercial assets of $8.353m, there was an Underlying Deficit of $4.228m. This Deficit was primarily due to a dredging program that led to an $8.703m increase in commercial asset maintenance.
- High maintenance costs were the main reason for the Net Loss after Tax of $8.548m and the Comprehensive Loss of $8.640m.
- At 30 June 2015, Total Equity was $188.644m, a decrease of $5.141m from the prior period mainly due to the Comprehensive Loss offset by equity injections of $3.500m.
- The equity injections represented Government's, and private sector, contribution towards Tasports' Burnie Port Optimisation Project.
- No dividends were paid.

TASMANIAN RAILWAY PTY LTD (TasRail) 159

- TasRail continued to record Underlying Losses and to be reliant on State and Commonwealth Government funding.
- It incurred an Underlying Loss of $12.925m before asset impairment and revaluation decrement expenses in 2014-15.
- After accounting for asset impairment, $15.427m, and revaluation decrements, $8.277m, TasRail recorded a Net loss before Tax of $36.629m.
- It created an Asset revaluation reserve to record revaluation increments, $9.835m.
- It operated two reportable segments; above and below rail, which recorded segment losses before tax of $18.010m and $18.619m, respectively.
- Based on current levels of profitability, it is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

TASRACING PTY LTD (Tasracing) 171

- Tasracing recorded a slightly lower Underlying Loss of $0.512m this year. Net Loss before Tax amounted to $1.215m and Comprehensive Loss, $1.224m.
- The Asset impairment recorded in prior years was fully reversed in 2014-15. The Impairment reversal was$2.232m.
- Tasracing remained heavily dependent on government funding in 2014-15, with $30.23m in grants provided and further financial support by way of an equity injection of $0.582m.
- Net Assets totalled $39.994m at 30 June 2015.
- Tasracing paid no dividends or income tax equivalents.

TT-LINE COMPANY PTY LTD (TT-Line) 180

- TT-Line recorded an Underlying Profit of $17.492m for 2014-15 (average Underlying Profit for five years to 30 June 2015 was $16.419m).
- Its Net Profit after Tax was $1.155m (2014, $10.383m). Net Profit is somewhat variable because of ship valuation adjustments.
- Cash and deposits totalled $90.200m, an increase of $8.872m, and at 30 June 2015 it was debt free. The increase in cash was lower than prior years due to the funds spent on the refurbishment of passenger areas on Spirit of Tasmania I and II.
- At 30 June 2015, Total Equity was $276.577m.
- The commencement in February 2015, of a comprehensive refurbishment of all passenger areas on both Spirit of Tasmania I and II at a budgeted capital cost of $31.100m, of which $20.100m was expensed in 2014-15. The refurbishment was funded from current cash reserves.

OTHER PUBLIC NON-FINANCIAL CORPORATIONS (PNFC) 189

- Audits of the financial statements of the two PNFCs were completed with unqualified audit opinions issued in each case.
- Both audits were completed satisfactorily with no major items outstanding.
- Financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.

MACQUARIE POINT DEVELOPMENT CORPORATION (The Corporation) 190

- The Corporation recorded a Net Deficit, $0.570m. Interest income was its only significant source of revenue.
- Net Assets at 30 June totalled $45.426m, mainly represented by cash and deposits.
- The Corporation's cash position of $41.825m will reduce as it undertakes remediation works at the Macquarie Point site.

PRIVATE FORESTS TASMANIA (PFT) 196

- PFT is funded primarily by Tasmanian government appropriations and aims to operate on a break even basis.
- There are currently only three Directors and the quorum for meetings is four. Advice from PFT indicated this matter has been referred to the Minister for resolution.
- It recorded a Net Surplus of $0.142m (2013-14, $0.250m).
- The surplus was as a result of higher cash flows from private forest levies and cost saving measures implemented over the past three years.
- Net Assets totalled $0.840m at 30 June 2015.

The Summary below notes the recommendations identified in the Report.

RECOMMENDATIONS

HYDRO-ELECTRIC CORPORATION (HYDRO TASMANIA) 47

We recommended to Hydro that if it is to meet Government's dividend expectations and continue its capital expenditure programs, it will need to manage down its costs, dispose of assets or borrow more, or combination of these factors. Management provided the following response:

"Management notes the Auditor-General's recommendation. Hydro Tasmania's Corporate Plan forecasts improvements in cash generation which, combined with planned equity injections, will see debt reduce."

TASMANIAN NETWORKS PTY LTD (TASNETWORKS) 135

We noted that TasNetworks had a high level of negative Net Working Capital of $142.238m at 30 June 2015, primarily due to current borrowings of $187.427m and total borrowings of $1.644bn giving rise to a debt/equity ratio of 161.8%. Management comment made in response to comments about borrowings:

"In response to the reservations noted regarding TasNetworks' negative working capital balance at 30 June 2015; we can confirm that appropriate action has since been taken to address this issue. In July 2015 the Board approved the execution of debt market hedging to lock in longer term interest rates into the next Distribution Regulatory period and beyond. This strategy aligns TasNetworks' interest rate exposure with the Australian Energy Regulators benchmark of 10 year trailing average and will result in TasNetworks dealing debt for the longer duration. In August 2015 management executed the refinance of $518.3m of debt that was set to mature in February 2017. Management will continue to closely monitor debt levels and borrowing maturities to ensure alignment with policy. We also wish to advise that at the end of September 2015 our net working capital balance was positive with current borrowings of $87m."

REMUNERATION DISCLOSURE GUIDELINES

KEY POINTS

Remuneration disclosures by GBEs and SOCs this year were an improvement compared to prior years resulting in greater accountability, transparency and comparability. We commend the Treasurers and Department of Treasury and Finance (Treasury) for preparing and re-issuing the Guidelines and for ensuring disclosure requirements are comparable with those established by Australian Accounting Standard AASB 124 *Related Party Disclosures* when read together with the *Corporations Act 2001.*

INTRODUCTION

Guidelines issued impacting on the 2012-13 and 2013-14 financial years

In Auditor-General's Report No. 4 of 2014-15, Volume 3, we commented on release by the then Treasurer in August 2012 of Guidelines for Tasmanian Government Businesses - *Director and Executive Remuneration* (the Guidelines), commencing with the 2012-13 reporting period. In August 2013, the Treasurer determined that the remuneration disclosures should be implemented through a two-staged approach, with reduced disclosure relating to executive remuneration in the first phase. We acknowledged this approach and ensured compliance as part of our 2012-13 audits.

More comprehensive Guidelines were issued in October 2013. An objective was to ensure executive remuneration was not excessive, and broadly in line with public sector levels and wage movements. The Guidelines were principles based and major requirements included:

- establishment of an independent Government Business Remuneration Advisory Panel (the Panel)
- requirement for the Panel to establish remuneration bands for Chief Executive Officers of Government Businesses that reflect the principles in the guidelines and contain maximum remuneration levels
- expanded criteria and guidance for key contractual terms and conditions and performance payments including linked limits for other senior executives
- a return to detailed banded disclosure requirements for 2013-14.

In completing our 2013-14 audits we reviewed compliance in light of the principles underpinning the Guidelines and ensured that items not specifically addressed were appropriately disclosed. In some cases interpretation differences resulted in changes being made prior to audit completion. Ultimately, in our opinion, disclosures complied with the Guidelines.

Guidelines issued impacting on the 2014-15 financial year

Revised Guidelines were issued in December 2014. The amended guidelines included the following changes:

- the Panel – moved from four members to three
- where a Board decides to extend a Chief Executive Officer's term or re-appoint the incumbent Chief Executive Officer, Ministerial approvals or consultations required for appointments and setting conditions of employment for a new appointment also applied for re-appointments

- Government businesses were required to disclose:
  - Director and Executive Remuneration in the notes to financial statements, consistent with the template approved by Treasury and available from the Auditor-General's website
  - a statement of compliance with the Guidelines including with situations where Cabinet granted an exception to the requirements in these Guidelines.

The above disclosure arrangements were designed to be consistent with the framework applied to disclosing entities under Section 300A of the *Corporations Act 2001,* which requires information relating to remuneration of each member of key management personnel. This approach is consistent with ensuring a high level of accountability and transparency.

REPORTING IN 2014-15 FINANCIAL REPORTS

In our audits of financial reports prepared by GBEs and SOCs in 2014-15 we noted GBEs and SOCs complied with the requirements of the Guidelines. Aurora Energy Pty Ltd received dispensation from the Treasurer to retain their 2013-14 comparative disclosure on a banding basis, with the 2014-15 information prepared in compliance with the Guidelines.

CONCLUSION

Remuneration disclosures by GBEs and SOCs this year were an improvement compared to prior years resulting in greater openness, accountability, transparency and comparability. We commend the Treasurers and Treasury for preparing and re-issuing the Guidelines and for ensuring disclosure requirements are comparable with those established by Australian Accounting Standard AASB 124 *Related Party Disclosures* when read together with the *Corporations Act 2001.*

CHANGES IN THE CALCULATION OF DEFINED BENEFIT SUPERANNUATION LIABILITIES FOR GOVERNMENT BUSINESSES

SNAPSHOT

- A recent study by the group of 100 concluded that Australia had a sufficiently deep market in high quality corporate bonds such that corporate bond rates can be used to discount long-term employee obligations for entities in the for-profit sector.
- Government businesses used corporate bond rates to discount their defined benefit plan obligations and long service leave provisions for the first time in 2014-15.
- Corporate bond rates were higher than government bond rates at 30 June 2015.
- Application of corporate bond rates resulted in defined benefit superannuation liabilities being $130.104m lower compared to a value using government bond rates.
- Government businesses recognised the decrease in their superannuation liability as an actuarial gain in other comprehensive income and the movement did not impact on their net profit after tax.

INTRODUCTION

Accounting for superannuation is outlined in Australian Accounting Standard AASB 119 *Employee Benefits*. This standard describes the accounting treatment for superannuation based upon two classifications: defined benefit and defined contribution plans. Accounting for defined benefit plans involves a number of steps, namely determining the amount of the net defined benefit liability (or asset) as the difference between the value of employee benefits and the fair value of plan assets.

The value of employee benefits is determined using actuarial valuation techniques and assumptions, including application of an appropriate discount rate. AASB 119 prescribes that the rate to be used in discounting employee benefits be determined by reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yield on government bonds is used.

WHAT CHANGED

A recent study commissioned by the Group of 100 and the Actuaries Institute of Australia, performed by a firm of actuaries (the Actuary), concluded that Australia had a sufficiently deep market in high quality corporate bonds such that corporate bond rates can be used to discount long-term employee obligations under AASB 119. The Actuary also developed, and regularly makes publicly available, a standardised set of discount rates based on corporate bonds.

As a result, Government businesses used these corporate bond rates to discount their defined benefit plan obligations and long service leave provisions for the first time in 2014-15.

Not-for-profit public sector entities must continue to use market yields on government bonds in accordance with the requirement of AASB 119 as must the Treasurer when preparing the Treasurer's Annual Financial Report (TAFR). This means that $130.104m referred to below was adjusted when preparing the TAFR.

IMPACT OF THE CHANGE

The corporate bond rates were higher than the government bond rates at 30 June 2015. The average discount rate based on corporate bonds was 4.80%, compared to the average discount rate based on government bonds of 3.70% (2013-14, 4.10%).

Because of an inverse relationship between the discount rate and the valuation of the liability, the application of the higher corporate bond rates resulted in lower defined benefit superannuation liabilities compared to the previous year.

The combined Net defined benefit liability recognised by Government businesses totalled $643.692m at 30 June 2015. If that liability was calculated using the government bond rates, it would be $773.796m, a difference of $130.104m. The table below shows the impact of the change in the discount rates by comparing Net defined benefit liabilities recognised at 30 June 2015 to liabilities recalculated using the government bond rates for each Government business.

	Net defined benefit liability at 30 June 2014	Net defined benefit liability at 30 June 2015	Net defined benefit liability at 30 June 2015 recalculated using the Government Bond Rate	Impact of the different discount rate used
	$'000s	**$'000s**	**$'000s**	**$'000s**
Aurora *	102 617	2 376	2 862	**486**
Forestry Tasmania	148 808	132 587	159 416	**26 829**
Hydro	354 708	311 237	366 524	**55 287**
Metro Tasmania	24 350	21 948	25 886	**3 938**
MAIB	4 967	4 612	5 997	**1 385**
Port Arthur Historic Site Management Authority	7 059	6 546	7 548	**1 002**
Public Trustee	13 022	11 389	13 512	**2 123**
Tasracing	2 146	2 205	2 580	**375**
Transend *	69 365	-	-	**-**
TasNetworks	-	144 508	181 576	**37 068**
TT Line	7 045	6 284	7 895	**1 611**
Total	**734 088**	**643 692**	**773 796**	**130 104**

* *Transferred superannuation liabilities to TasNetworks on 1 July 2014*

Source: Tasmanian Audit Office

This decrease was recognised as an actuarial gain in other comprehensive income of each Government business and did not impact on their net profits after tax.

VALUATION OF PRIMARY ASSETS

CONCLUSION

The majority of Government businesses adopted a fair value basis for valuing their primary assets. In all cases, we were satisfied with the work done and conclusions reached by management and that valuations were within acceptable ranges.

Regardless of the asset valuation approaches used, the assets of all Government businesses were subject to annual impairment testing.

SNAPSHOT

- Government Business Enterprises (GBEs) and State Owned Companies (SOCs), were responsible for assets totalling $19.674bn[1].
- Twelve Government businesses recognised their primary assets at fair value; six adopted a market valuation approach, four an income approach and two a combination of market, cost and income approaches.
- Regardless of the valuation approach applied, valuing long-lived infrastructure assets is not an exact science and outcomes can vary significantly from one year to the next.
- It is not uncommon for valuations to be expressed in a range. That is, for example, the value of generation assets may be expressed as being between two amounts.
- We were satisfied with the work done and conclusions reached by management and that valuations were within acceptable ranges.
- Regardless of the asset valuation approaches used, the assets of all Government businesses were subject to annual impairment testing.

INTRODUCTION

At 30 June 2015 Government businesses, being GBEs and SOCs, were responsible for assets totalling $16.622bn. The businesses' primary assets included a diverse range from energy generation and electricity network assets to forests, rollingstock, port facilities, racing infrastructure, irrigation, historical (tourist) infrastructure and ships.

This Chapter has relevance to TasWater even though it is not a Government business but is owned by local government councils[1].

Although the types of assets varied, the majority of businesses adopted a fair value basis for valuing their primary assets. Tasracing and Tasmanian Irrigation (TI) both recognised their primary assets on a cost basis. Aurora's primary asset was trade and other receivables, which included unbilled energy sales. As a receivable, this asset was recorded on an amortised cost basis.

Both Macquarie Point Corporation's and Private Forest Tasmania's primary assets were cash and deposits.

ACCOUNTING FRAMEWORK

AASB 13 *Fair Value Measurement* adopts an exit price approach to determining fair value. In accordance with the standard, the object of a fair value measurement is to estimate the price at which an asset could be sold between market participants at the measurement date under current market conditions. For some assets, observable market transactions and market information might not be available. When a price for an identical asset is not observable, an entity is required to measure fair value using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Three widely used valuation techniques are the:

- market approach; uses prices and other relevant information generated by market transactions involving identical or comparable assets

1 *For purposes of this Chapter TasWater is regarded as a Government business.*

- cost approach; reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)
- income approach; which converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. Income approach techniques include present value methodology such as expected cash flows.

VALUATION PRACTICES ADOPTED

Of the 12 Government businesses that recognised their primary assets at fair value, six adopted a market valuation approach, four adopted an income approach and two adopted a combination of market, cost and income approaches. Details of each business's valuation methodologies are provided in Table 1 and 2 in the appendix at the end of this Chapter.

For the majority of businesses, a change in the fair value of their primary assets was treated as an asset revaluation, whereby an increase in value was recognised in Other Comprehensive Income. A decrease in value was recognised in Profit and Loss (except to the extent that the movement reversed a prior increment).

The primary assets for MAIB, TASCORP and Public Trustee were financial investments. For these businesses, any movement in the value of the investments was recognised in Profit and Loss. Therefore, for these entities, market fluctuations significantly impacted on profit or loss.

Regardless of the asset valuation approaches adopted, the assets of all Government businesses were subject to annual impairment testing. Therefore, at each balance date, a business must assess whether there are any indications of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised when the carrying amount of the asset (or cash generating unit (CGU)) exceeds its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. For the two Government businesses using the cost basis, Tasracing and TI, recoverable amount was based on value in use calculations using discounted cash flows. Any impairment loss was recognised in Profit and Loss.

INCOME APPROACH

A number of Government businesses adopted a 'value in use' (income valuation) approach. The income valuation methodology is based on projected cash flows generated by the assets over a period of time. The projected cash flows are discounted to present value using a discount rate based on a real pre-tax weighted average cost of capital (WACC).

The calculation of value in use is highly dependent on a range of assumptions and estimates, such as the growth rate, inflation rate, operating expenditure growth rate, planned capital expenditure and WACC.

Carrying value of infrastructure assets on a 'value in use' approach are, in general, lower than written down replacement cost resulting in lower depreciation charges. Directors need to bear this in mind having regard to their stewardship responsibilities and the need to properly maintain these assets.

RANGES OF VALUATIONS AND USE OF EXPERTS

Regardless of the valuation approach applied, because in most cases a number of assumptions and estimations are made, valuing long-lived infrastructure assets is not an exact science and outcomes can vary significantly from one year to the next. As a result, it is not uncommon for valuations to be expressed in a range. That is, for example, the value of generation assets may be expressed as being between two amounts.

We support this in principle with our audits focussing on the validity of the assumptions and estimations applied, consistency between asset types and financial years and accuracy of valuation models[2]. We also support use of independent experts by those charged with governance and we may, similarly, engage experts when considered necessary. In all cases, regardless of who or how valuations are carried out, the Directors of these Government businesses must be satisfied with approaches adopted.

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2 *Further details of audit approaches we apply are provided below.*

AUDIT WORK CONDUCTED

Our audit program is designed to assess and review an entity's asset valuation methodology. Our program encompasses:

- identification of the basis on which asset classes are recorded
- for asset classes measured at fair value, ensure that management has developed an appropriate methodology for determining fair value for each of these classes, based on the nature of the assets and in accordance with accounting standards and any other prescribed accounting requirements
- determine the basis on which fair value has been measured during the present year (e.g. independent valuation, application of indices or other management assessment) and assess whether this basis is in accordance with the approved valuation methodology
- for assets recorded at fair value, test a selection of assets across asset classes by agreeing to supporting valuations, ensuring that critical assumptions within the valuation methodology can be supported with sufficient and appropriate evidence
- review the valuation process (including the qualifications, experience and independence of the valuers) and sight appropriate evidence to gain assurance that all assets have been included in the valuation
- test models used to determine valuations and ranges of valuations
- review entries posted to account for revaluation increments and decrements and ensure that the treatment is in accordance with requirements for for profit and not for profit entities
- ensure relevant disclosures as required by Australian Accounting Standards, other relevant standards or prescribed requirements are included in the financial report
- ensure that management has assessed, by reference to appropriate external and internal factors, whether indicators exist that assets may be impaired
- ensure that the Directors concur with the approach adopted and approve the resulting valuation(s).

CONCLUSION

The majority of Government businesses adopted a fair value basis for valuing their primary assets. In all cases, we were satisfied with the work done and conclusions reached by management and that valuations were within acceptable ranges.

Regardless of the asset valuation approaches adopted, the assets of all Government businesses were subject to annual impairment testing.

APPENDICES

Table 1 - Government Business Enterprises

Entity	Primary assets	Valuation basis	Impact	Summary of Valuation Methodology
Forestry	Biological assets (which includes forest, roads and land)	Fair value	Any change in value is recognised in Other Comprehensive Income, except to the extent it reverses a previous adjustment to Profit and Loss	An independent valuation is undertaken for the entire forestry estate. An income capitalisation approach is adopted which involves a discounted cash flow analysis. Net annual income for each year of the projected holding period is estimated, which is then discounted using a market-based discount rate to arrive at a present value
Hydro	Generation assets	Fair value	Any change in value is recognised in Other Comprehensive Income, except to the extent it reverses a previous adjustment to Profit and Loss	A 100 year discounted cash flow model is used to calculate the fair value of Hydro Tasmania's generation assets. The model is based on an internally generated Tasmanian energy price curve, forecast generation and total energy demand
MAIB	Investments	Fair value	Any change in value is recognised in Profit and Loss	The pricing for the majority of financial instruments is generally obtained from independent pricing sources, the relevant investment managers or reliable brokers' quotes
Port Arthur Historic Management Authority	Land and Buildings and Infrastructure	Fair value	Any change in value is recognised in Other Comprehensive Income, except to the extent it reverses a previous adjustment to Profit and Loss	Independent valuers are engaged. Land and buildings are based on market valuation, apart from heritage buildings which are based on replication cost. Infrastructure assets are based on replacement cost
Public Trustee	Investments	Fair value	Any change in value is recognised in Profit and Loss	Investments in managed funds are valued based on closing quoted unit prices

Entity	Primary assets	Valuation basis	Impact	Summary of Valuation Methodology
TASCORP	Investments and Client Advances	Fair value	Any change in value is recognised in Profit and Loss	All investments are designated at fair value through profit and loss. The majority of client advances are designated at fair value through profit and loss. Investments are valued using market-to-market valuations, which relies on judgement in the absence of quoted market prices

Table 2 - State Owned Companies

Entity	Primary assets	Valuation basis	Impact	Summary of Valuation Methodology
Aurora	Trade and other receivables (including unbilled energy sales)	Amortised cost	Any impairment loss is recognised in Profit and Loss	Receivables are recorded at amounts due less any allowance for impairment
Metro	Land and Buildings and Buses	Fair value	Any change in value is recognised in Other Comprehensive Income, except to the extent it reverses a previous adjustment to Profit and Loss	Assets are recognised at fair value less any accumulated depreciation and impairment losses. An independent valuation of buses is obtained based on market value for existing use
TI	Dams and water infrastructure	Cost less impairment	Any impairment loss is recognised in Profit and Loss	The recoverable amount of each scheme is assessed, with each scheme representing a CGU. The recoverable amount of each CGU is based on its value in use using discounted projected cash flows
Tasports	Infrastructure (which includes land, buildings, harbour improvements and wharves) and Plant and Equipment	Fair value (Infrastructure) and Cost (Plant and equipment)	Any change in value is recognised in Other Comprehensive Income, except to the extent it reverses a previous adjustment to Profit and Loss	The valuation of infrastructure assets is based on an independent assessment of the market valuation or depreciated replacement cost of the assets. Where the asset's net cash flows do not support the independent valuation, then the asset is valued using the discounted cash flow method (value in use)
Tasracing	Racecourse leasehold improvements	Cost less impairment	Any impairment loss is recognised in Profit and Loss	The company has one CGU being the racing and gaming venues. The recoverable amount of each CGU is based on its value in use using discounted projected cash flows
TasRail	Property, plant and equipment (mainly rollingstock) (note – below rail assets are fully impaired)	Fair value (rollingstock, remainder at cost)	Any change in value is recognised in Other Comprehensive Income, except to the extent it reverses a previous adjustment to Profit and Loss	Independent valuation of rollingstock based on market value

Entity	Primary assets	Valuation basis	Impact	Summary of Valuation Methodology
TasNetworks	Transmission and distribution network assets	Fair value	Any change in value is recognised in Other Comprehensive Income, except to the extent it reverses a previous adjustment to Profit and Loss	The network assets are revalued to their value in use, based on the regulated revenue that the assets are allowed to earn under the National Electricity Rules
TasWater	Water and sewerage infrastructure assets	Fair value	Normal revaluation	Fair value was determined by applying a CGU test to determine recoverable amount, which represents value in use. The CGU test calculates the discounted present value of the expected net cash inflows. Two CGUs were identified, being water and sewerage
TT-Line	Ships	Fair value	Any change in value is recognised in Other Comprehensive Income, except to the extent it reverses a previous adjustment to Profit and Loss	Independent assessment based on market valuation

AUDIT SUMMARY - GOVERNMENT BUSINESS ENTERPRISES

BACKGROUND

Statutory authorities that are subject to the provisions of their enabling legislation, and also to the provisions of the *Government Business Enterprises Act 1995* (GBE Act), are referred to as Government Business Enterprises (GBEs).

The GBE Act, which commenced on 1 July 1995, made provision for a consistent framework for more accountable, responsive and commercially focussed GBEs.

The GBE Act is consistent with the national competition reform agenda and formed part of a legislative reform package that also included reform of the electricity supply industry and the establishment of the former Government Prices Oversight Commission. The reforms introduced by the GBE Act included:

- a clearer commercial focus for GBEs
- greater accountability for financial performance
- increased return on investment from each GBE
- payment of financial returns to the State
- improved services to clients and consumers.

The GBE Act provides for the payment of guarantee fees, taxation equivalents and dividends by the majority of GBEs.

This summary provides financial information on all GBEs, being:

- Forestry Tasmania (Forestry)
- Hydro-Electric Corporation (Hydro)
- Motor Accidents Insurance Board (MAIB)
- Port Arthur Historic Site Management Authority (the Authority)
- Public Trustee (PT)
- Tasmanian Public Finance Corporation (TASCORP).

KEY OUTCOMES FROM AUDITS

All six GBEs submitted financial statements within the statutory deadline being 45 days following the end of the financial year.

Audits of the financial statements, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in each case. The audit opinion of Forestry contained an emphasis of matter paragraph related to the assessment by its Directors and their conclusion that it was appropriate for Forestry to continue to adopt the going concern basis in preparing its financial report.

All audits were completed satisfactorily with moderate audit risk findings identified at the Authority. These included the need for it to prepare bank reconciliations on a timely basis, check the trial balance to ensure that it balanced and review segregation of duties in the processing of journals.

FINANCIAL ANALYSIS

Tasmania's GBEs collectively had Net Assets of $2.656bn (2013-14, $2.415bn), employed 1 553 FTEs (1 615), and generated $274.266m in after tax profits ($240.464m after tax losses).

Details of GBE's profits and net assets are set out in Table 1.

Table 1: Summarised Financial Results

	Underlying Profit (Loss)	Net Profit (Loss) Before Tax	Net Profit (Loss) After Tax	Total Comprehensive Profit (Loss)	Net Assets 2015	Net Assets 2014
	$'000s	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Forestry	(25 626)	13 744	31 437	31 739	62 998	31 259
Hydro	62 352	183 491	128 675	161 191	2 063 321	1 815 640
MAIB*	24 269	137 193	99 865	100 311	440 121	484 380
The Authority	211	211	211	1 123	30 097	28 974
PT	435	435	388	2 172	7 178	5 268
TASCORP	19 557	19 557	13 690	13 690	52 763	49 585
Total	**81 198**	**354 631**	**274 266**	**310 226**	**2 656 478**	**2 415 106**

** Underlying profit refers to Underwriting results.*

Financial results were dominated by Hydro and MAIB. GBEs recorded Underlying Profits of $81.198m, with Net Profits after Tax of $274.266m. Forestry was the only GBE that did not record an Underlying Profit.

GBEs' Net Assets totalled $2.656bn, with 78% of this amount attributed to Hydro.

At 30 June 2015, Hydro and Forestry were the only GBEs (other than TASCORP) with any significant debt. Details of Hydro's debt, working capital and relevant ratios and employee data are set out in Table 2. Forestry was able to repay the majority of its debt with an equity contribution from Government, funded by TasNetworks, of $30.000m received 1 July 2015.

Table 2: Debt, Working Capital, Relevant Ratios and Employee Data

	Borrowings	Debt to Equity	Net Working Capital	Current Ratio	Return on Assets	Return on Equity	Average Staff Costs	Number of FTEs
	$'000s		**$'000s**				**$'000s**	
Forestry	33 000	52.7%	(20 927)	0.7	8.1%	29.2%	99	264
Hydro	855015	41.4%	(36 209)	0.9	2.6%	6.6%	117	1 078
MAIB*	-	0.0%	*	*	8.9%	21.6%	94	35
The Authority	-	0.0%	4 472	2.7	0.5%	0.7%	76	106
PT	-	0.0%	1 231	1.4	4.7%	6.2%	92	54
TASCORP**	5 130 571	0.0%	*	*	0.3%	37.1%	171	16
Total	**6 013 271**		**(51 433)**					**1 553**

** Statement of Financial Position prepared on liquidity basis.*

*** Borrowings are a component of operation.*

Both Forestry and Hydro had Net Working Capital deficits at 30 June 2015, which resulted in current ratios well below our benchmark of one.

Return on assets and equity results varied across the GBEs. Average staff costs varied between the GBEs.

Details of GBE Returns to Government paid in 2014-15 are set out in Table 3.

Table 3 Returns to Government

	Dividends	Taxation	Guarantee Fees	Total Returns	Dividend Payable
	$'000s	$'000s	$'000s	$'000s	$'000s
Forestry	0	0	0	0	0
Hydro	118 576	80 069	8 719	207 364	25 000
MAIB	144 570	61 281	0	205 851	47 691
The Authority	0	0	0	0	0
PT	262	237	0	499	0
TASCORP	10 512	5 867	0	16 379	0
Total	**273 920**	**147 454**	**8 719**	**430 093**	**72 691**

* *Not required to pay dividends and taxation.*

GBEs returned $430.093m to the State during 2014-15 (2014, $271.415m) the majority of which, 96%, was paid by Hydro and MAIB. MAIB's returns included a special dividend of $100.000m. The Boards of Hydro and MAIB have recommended dividends payable in 2015-16, of $25.000m and $47.691m, respectively.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2015 for GBEs were:

Entity	Responsible Minister
Forestry Tasmania	Minister for Resources
Hydro-Electric Corporation	Minister for Energy
Motor Accidents Insurance Board	Minister for Infrastructure
Port Arthur Historic Site Management Authority	Minister for Environment, Parks and Heritage
Public Trustee	Attorney-General
Tasmanian Public Finance Corporation	Treasurer

FORESTRY TASMANIA (FORESTRY)

OVERALL CONCLUSION

The audit was completed satisfactorily with no major findings and with an unqualified audit opinion containing an "emphasis of matter" paragraph issued on 20 August 2015. The emphasis of matter paragraph draws attention to the Board's determination as to the appropriateness of a going concern basis for the preparation of Forestry's financial statements.

Subsequent to the issue of our opinion, Forestry determined additional disclosure was required for contingent liabilities relating to action being taken by the Liquidator of Gunns Plantation Limited. As a result of the amendments to the financial statements, the Board elected to re-sign the statements on 30 September 2015 and we reissued our audit report on 9 October 2015.

Forestry is in a transitional period in which the Board has been directed to review Forestry's operations and current market risk with a view to moving the business to a sustainable position in two years.

Reduction in workforce, improvements in sales and the decline of the Australian dollar have been positives. However, the Board still faces a significant challenge.

SNAPSHOT

- Forestry continued to record Underlying Losses, with a loss of $25.626m in 2014-15 $18.349m higher than 2013-14.
- Government support in the form of Deficit funding was not received in 2014-15, ($23.000m received in 2013-14 and $15,000m in 2012-13) which contributed strongly to the higher Underlying Loss.
- The Underlying Losses included redundancy expenses of $3.335m.
- On 1 July 2015, Forestry received an equity contribution from Government, funded via TasNetworks, of $30.000m which was used to reduce debt and will have the effect of eliminating Forestry's negative net working capital which totalled $20.927m at 30 June.
- Equity increased by $31.739m in 2014-15 due to the Comprehensive Profit of $31.739m. This result was primarily due to a positive before tax adjustment to Forestry's biological assets, $37.845m and Superannuation actuarial gain, $12.295m (net of taxation), offset by the Underlying Loss.
- Borrowings increased over the four year period by $21.995m to $33.000m. The higher debt in 2015 was due to Forestry not receiving Deficit funding this year.
- Of concern was the high negative operating cash flows of $16.895m almost entirely caused by the removal of deficit funding.
- The value of standing timber increased by $61.852m, offset by a decrease in road infrastructure of $19.895m. The value of the net biological and forest estate asset at 30 June 2015 was $213.825m.

The audit opinion was issued with an "emphasis of matter" paragraph drawing attention to the Board's determination that the Forestry's financial statements were prepared on the basis that it is a going concern. The Board's conclusion was dependent upon equity injection in July 2015 and the ability to access further borrowings.

Key developments this year included:

- The Board has been given a target to get the business back to a sustainable position. As part of Forestry's change in operations:
  - No Deficit funding was received in 2014-15
  - An equity contribution by the State of $30.000m was transferred to Forestry on 1 July 2015

    - Forestry initiated a redundancy program on 29 April 2015. A total of 59 positions were made redundant during 2014-15, with 23 positions terminated before 30 June 2015 at a cost of $1.188m. The remaining 36 positions were paid out in July 2015 at a cost of $2.147m, which was accrued at 30 June 2015
- The carrying value of Newood's assets and Forestry's investment in the subsidiary were impaired by $3.752m
- Forestry entered into an agreement to acquire the balance of the Plantation Platform Tasmania joint venture at a cost of $6.997m over a two and a half year period
- A reclassification between roads and forest estate assets of $18.535m occurred in 2014-15.

Major variations between the 2014-15 and 2013-14 financial years included:

- Sales revenue increased by $7.349m due to higher woodchip sales
- No Deficit funding received in 2014-15, in comparison to $23.000m in 2013-14
- Tasmanian Forest Agreement (TFA) funding decreased by $8.446m
- State government funding of $6.878m was received this year
- Other funding reduced by $6.901m primarily due to the 2013-14 revenue including proceeds from the sale of softwood plantation forest rights.
- Expenses decreased with other sales costs, $3.447m, contractor expenses, $2.075m, and office expenses, operating lease rentals $1.451m and salaries and wages $5.346m. The saving was partially offset by an impairment expense of $3.752m related to Newood and redundancy costs of $3.335m
- Net biological and forest estate assets increased by $45.357m. The positive valuation movement resulted in an increase of $60.241m in the statement of comprehensive income between the two years. A review of the discounted cash flow analysis noted a:
    - modest increase in timber revenues of $6.814m
    - significant decrease in forest management costs of $40.638m
- Income tax expense (benefit) moved by $18.674m. The balance recorded is affected by the balancing adjustments to record a consolidated net deferred tax asset of nil
- Cash, at 30 June was higher by $7.506m. FT's treasury management practice was focussed on managing net cash and borrowings. At 30 June, the working capital cycle resulted in cash being received on the day from, inter alia, customers which could not be transferred to reduce borrowings. This resulted in higher cash and borrowing balances at year end
- Borrowings increased by $33.000m as Forestry utilised borrowings to fund operations following the withdrawal of Deficit funding
- Superannuation provision decreased by $16.221m, with a $12.295m (net of taxation) positive impact on comprehensive income because Forestry was able to use market yields on high quality corporate bonds to discount its defined benefit plan obligations for the first time
- Current and non-current Payables each increased by $2,790m to recognise a liability for the purchase of the Plantation Platform Tasmania joint venture

The audit was completed satisfactorily with no major findings.

INTRODUCTION

Forestry was established under the *Forestry Amendment (Forestry Corporation) Act 1994*, (the TFA Act) which amended the *Forestry Act 1920*.

On 3 June 2013, the *Tasmanian Forests Agreement Act 2013* was enacted which created future reserve land of approximately 515 000 hectares and also amended the production policy under the F*orestry Act 1920* by reducing the annual minimum aggregate quantity of high quality sawlogs to at least 137 000 cubic metres. As a consequence, the annual production of native forest eucalypt peeler billets reduced to 157 000 cubic metres and an estimated annual average volume of about 870 000 tonnes of native forest pulpwood.

On 6 November 2013 the *Forest Management Act 2013* (the Act) was enacted. This Act replaced the *Forestry Act 1920* and made Forestry the forest manager for permanent timber production zone land, while transferring the responsibility for formal forest reserves from Forestry to the Department of Primary Industry, Parks, Water and Environment (DPIPWE).

Forestry's main undertaking is the sustainable management of Tasmania's State Forest Permanent Production Timber Zone including the sustainable production and delivery of forest products and services, the facilitation of new forest-based industries, the conservation of natural and cultural heritage values and the provision of education, recreation and tourism services.

Forestry has eco-tourism adventure attractions in regional Tasmania including:

- Forest and Heritage Centre
- Tahune Airwalk
- Hollybank Treetops Adventure (as a 50% equity partner with a private investor).

These operated under the Adventure Forests brand. Forestry's equity interest in Hollybank Treetops Adventure has been placed on the market for sale as at June 2015.

Forestry holds a 100% interest in Newood Holdings Pty Ltd (Newood).

All results in the following tables and analysis are based upon consolidated figures.

KEY AREAS OF AUDIT ATTENTION

Description of audit area	Audit approach
Going Concern In prior periods, we issued an unqualified audit report with an emphasis of matter, drawing attention to circumstances giving rise to uncertainties as to the operations of Forestry, the assessment by the Directors and their conclusion that it was appropriate for Forestry to continue to adopt the going concern basis in the preparation of its financial statements. The ability of the Directors to conclude the going concern basis was appropriate at 30 June 2015 was dependent upon an equity injection in July 2015 and the ability to access borrowings.	We performed audit procedures to obtain a sufficient level of assurance that the use of the going concern assumption in the preparation and presentation of the financial statements was still appropriate. Under AUASB *570 Going Concern*, we considered Forestry's ability to continue as a going concern for a period of approximately twelve months from the date of our report on the financial statements. Based on this work, we concluded it was appropriate for the Board to prepare Forestry's financial statements on the basis that it was a going concern and our audit report again drew attention to this as an emphasis of matter.

Description of audit area	Audit approach
Valuation of Biological Assets The value of biological assets is determined as a residual amount of the present value of the combined asset less the fair value of land and improvements. This complex calculation was performed by a third party engaged by Forestry and was subject to numerous assumptions. Changes in market conditions, discount rate and key assumptions impact on the value of biological assets. The valuer performed a desk top valuation during 2014-15 to review aspects of the valuations.	We reviewed the: • valuation methodology and its compliance with the accounting framework, specifically AASB 141 *Agriculture* • the valuer's work, their expertise, in accordance with Auditing Standards and assessed key assumptions • accounting treatment of changes in the value of biological and other assets and obligations. This resulted in the Board determining a change in accounting treatment, with road assets being valued at fair value and incorporated into the biological asset class. We agreed with the amended accounting treatment.
Tax effect accounting Forestry is subject to the National Tax Equivalent Regime. Tax effect accounting calculations are subject to complex tax legislation and rulings and generally are performed within a short timeframe.	We reviewed and tested the tax effect accounting calculations and corresponding disclosure in the financial statements to ensure that tax items were not materially mis-stated. We obtained a representation from Forestry's tax accountant.
Newood Holdings Pty Ltd (Newood) We dispensed with the audit of Newood at the request of the Directors on the basis that we are able to examine its assets, liabilities, income and expenditure as part of the audit of Forestry's consolidated financial statements.	We audited assets, liabilities, income and expenditure as part of consolidation procedures to ensure that the consolidated financial statements were not materially mis-stated. We reviewed management's assessment of the carrying amounts of Newood's assets and Forestry's investment in the subsidiary and concurred with the impairment adjustment.
Defined Benefit Superannuation Forestry has employees who are members of the RBF defined benefit superannuation scheme, and its obligation under the scheme (less fair value of plan assets) is recognised in the Statement of Financial Position. The value of the unfunded superannuation liability and movements recognised in the financial report are based on an annual valuation. This valuation is based on a number of assumptions and economic factors, all of which are volatile.	We engaged a specialist to undertake a peer review of the State Actuary wgich was engaged by the Department of Treasury and Finance to value the RBF Contributory Scheme. Our expert concluded that assumptions and methodology used by the State Actuary complied with accounting standards, legislation and relevant valuation framework.

Description of audit area	Audit approach
Director and Executive Remuneration Disclosure The Department of Treasury and Finance issued revised Guidelines for Director and Executive Remuneration in December 2014. Treasury provided a template which must be adhered to when disclosing Forestry's director and executive remuneration in the financial statements.	We audited the remuneration disclosure included in the financial statements ensuring this was in accordance with the guidelines.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Financial statements were approved by the Board and certified on 12 August 2015. The signed financial statements were received on 13 August 2015 and an unqualified audit report was issued on 20 August 2015.

Subsequent to the issue of our opinion, Forestry determined that additional disclosure was required for contingent liabilities relating to action being taken by the Liquidator of Gunns Plantation Limited. This matter is further discussed in the 'Key Developments' section. As a result of the amendments to the financial statements, the Board elected to re-sign the statements on 30 September 2015 and we reissued our audit report on 9 October 2015.

The audit report contained the following "emphasis of matter" paragraph:

> *'I draw attention to Note 2(b) to the financial report in which the Directors resolved that it was appropriate to adopt the going concern basis in preparing the financial report, based upon:*
>
> - *an equity contribution by the State of $30.000m transferred to Forestry Tasmania on 1 July 2015*
> - *available borrowings*
> - *Forestry Tasmania expecting to have decreasing operating deficits and incur transition costs over the next two years*
> - *Cabinet making an in-principle decision for Forestry Tasmania to sell an appropriate proportion of its hardwood plantation estate to fund operating deficits and transition costs*
> - *Directors being satisfied that the hardwood plantation resource can provide sufficient funds to meet costs over the transition period.*
>
> *My audit opinion is not modified in respect of these matters.'*

KEY DEVELOPMENTS

Reform of Operations

A major development during 2014-15 was completion of the initial phase of the Government's review of Forestry's activities. This review set out clear directions for the future including:

- a requirement that Forestry's commercial operations become financially self-sustaining
- activities should be focused on growing trees, managing land and selling wood to domestic customers
- responsibility for export sales and value added products should transition to the private sector.

As part of Forestry's change in operations:

- Deficit funding ceased from 30 June 2014
- Forestry was provided with additional borrowings facilities. Its borrowing limit increased from $31.000m to $41.000m
- on 1 July 2015, Forestry received an equity contribution from TasNetworks of $30.000m. The contribution was used to, partially, extinguish borrowings, which totalled $33.200m at 30 June 2015
- Forestry initiated a redundancy program on 29 April 2015, with 59 positions made redundant. During 2014-15, 23 positions were terminated at a cost of $1.188m. The remaining 36 positions were paid out in July 2015 at a cost of $2.147m, which was accrued at 30 June 2015.

Other significant areas of activity related to the Review included:

- preparing for the sale of some hardwood plantations and other assets, including considering the most appropriate sale process and parcels, and understanding the potential impacts on future sustainable sawlog yield
- review of commercial opportunities including asset sales and options for transition out of exports
- an on-going focus on achieving internal operating efficiencies
- considering options for a new operating model for Forestry.

Impairment of Newood Assets

In 2014-15, Forestry revised the calculation of the carrying amount of Newood's assets, which was based on a discounted cash flow methodology. The calculation inputs moved from a 10-year discounted cash flow model to a 5-year model and reassessed the discount rate. The applicable discount rate in 2014-15 was 8.5%, in comparison to 5.67% used in the previous financial year. The discount rate increased to reflect the higher rate applied to value Forestry's biological assets.

The amended inputs resulted in the calculated asset value being below the carrying value. Forestry assessed the assets as being impaired and reduced the carrying value of the assets by $3.990m.

In addition, a review of projected cash flows indicated Forestry would not be able to recover its inter-company receivable from Newood. The receivable was written down by $5.578m to $3.846m. This did not impact on the group financial statements.

Plantation Platform Tasmania

Forestry entered into an agreement to acquire the balance of Plantation Platform Tasmania joint venture for $6.997m over a two and a half year period. The acquisition will result in Forestry's ownership in the joint venture increasing from 65% to 100% by 30 June 2017.

At 30 June 2015, Forestry recorded 100% of the joint venture's assets in its biological asset balance, and a liability to Plantation Platform Tasmania of $5.598m.

Biological Assets and Roads

During 2014-15, Forestry reviewed the allocation of assets within its biological asset class. In particular, road assets, previously recorded on a written down cost basis, were revalued. This resulted in a reallocation between roads and forest estate assets of $18.535m at 30 June 2015. The adjustment did not affect the overall valuation of biological assets of $213.825m, as determined by the valuer.

Change in Discount Rate used to Measure Employee Benefits

The defined benefit superannuation liability was valued in accordance with AASB 119 *Employee Benefits*. Paragraph 83 of AASB 119 requires use of market yields on high quality corporate bonds to discount post-employment benefit obligations. In countries where there is no deep market in such bonds, AASB 119 requires entities to use the market yields on government bonds instead.

In 2014-15, Forestry was able to use market yields on high quality corporate bonds to discount its defined benefit plan obligations and long service leave provision as required by AASB 119 for the first time.

The change contributed to a Superannuation actuarial gain of $12.295m.

Contingent Liability

The liquidator of Gunns Plantations Limited is exercising its rights to make enquiries on remittances to Forestry with a view to determining whether any remittances were preferential payments. The remittances in the twelve month period to 25 September 2012 totalled $3.527m. No action has been taken by the liquidator as yet.

Separate correspondence has been received from the Gunns' liquidator alleging "unjust enrichment" of Forestry. Forestry has been requested to pay $39.950m to the liquidator for the time, effort and cost expended by Gunns in cultivating trees planted on land subject to the right. No court action has been taken by the liquidator at this point.

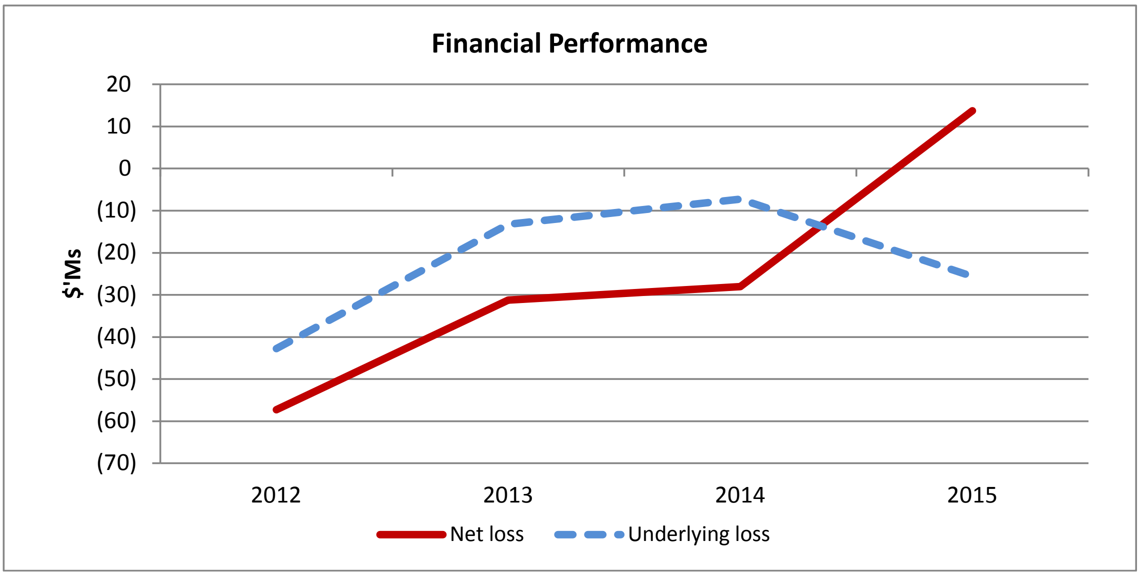
KEY FINDINGS

No high risk audit findings were identified during the course of the audit.

There were four low risk findings identified, including:

- calculation and disclosure of leave provisions
- settings for passwords
- authorisation of redundancy calculations
- inventory variances at the Perth nursery.

FINANCIAL ANALYSIS



Forestry continued to operate at a loss. The Underlying Loss of $25.626m in 2014-15 was worse than the loss of $7.277m reported the year before. The deterioration in 2014-15 was mainly due to no Deficit funding being received. Deficit funding was received in 2013-14, $23.000m (2012-13, $15.000m). In addition, Forestry was reimbursed for the cost of non-commercial activities, $20.000m in 2012-13. Without this support from Government, the Underlying position in 2012-13 and 2013-14 would have been far worse.

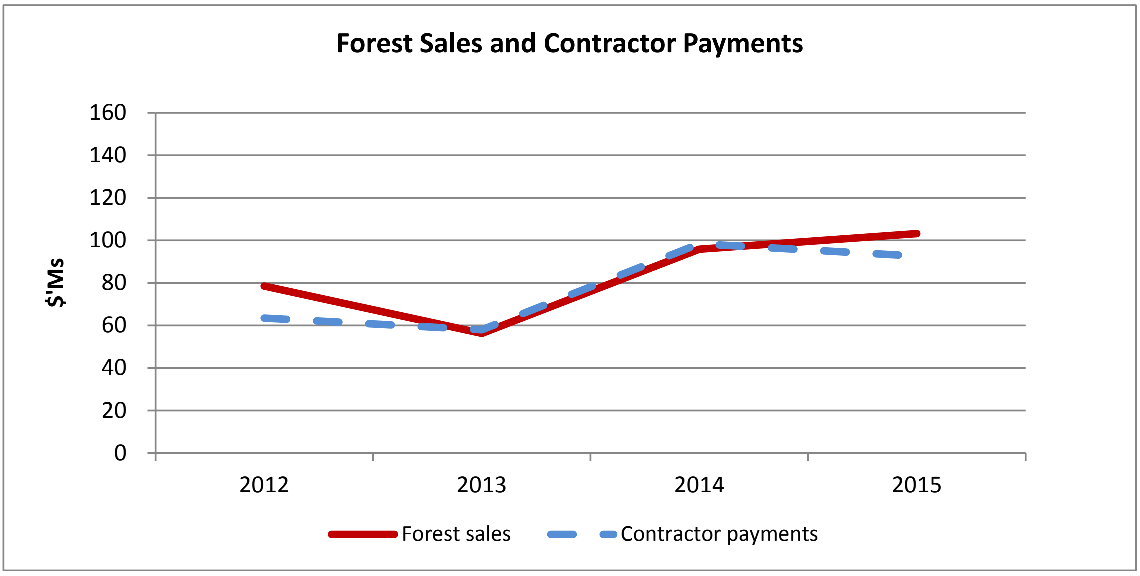
Forestry received Tasmanian Forests Agreement (TFA) funding of $6.005m in 2014-15, $8.446m less than the $14.451m in 2013-14. In addition, Forestry received a one-off receipt of $6.510m from the sale of softwood plantation forest right, recognised as other revenue in 2013-14. This reduction in funding was partially offset by State Government funding of $6.878m, which included:

- fuel reduction services, $2.000m
- fire fighting, $2.000m
- CSO funding, $2.878m.

Forestry was able to reduce expenditure during 2014-15, with savings made in:

- other sales costs, $3.447m
- contractor expenses including roading and plantation pruning, $2.075m
- office expenses and operating lease rentals, $1.451m
- vehicle costs, $0.823m.

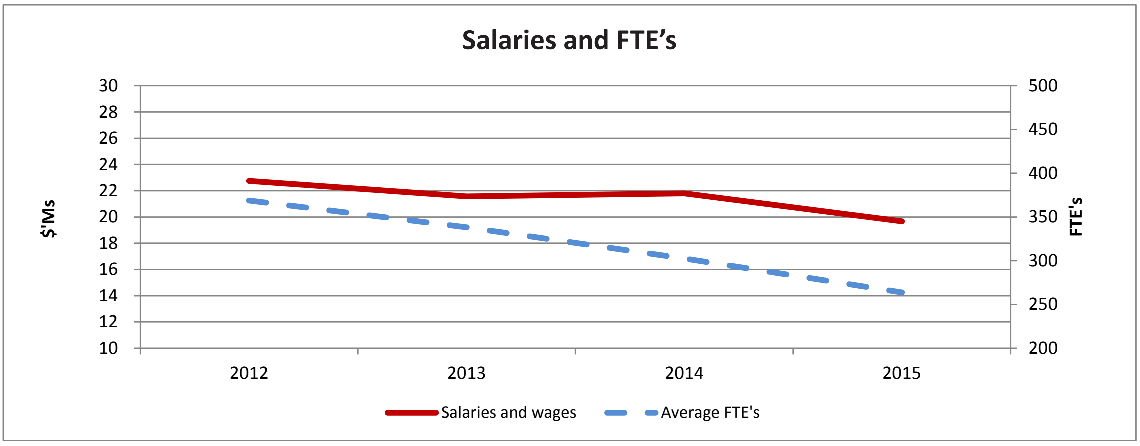
The cost saving were partially offset by an impairment expense of $3.752m related to Newood.



Revenue from Forest sales was up $7.349m or 8% compared to last year. The deterioration in 2012-13 was largely due to a significant reduction in the volume of pulpwood sales as major customers halted or reduced their production in response to lower demand and the closure of essential infrastructure. The relative strength of the Australian dollar impacted on export sales. The increase in Forest sales in 2014-15 was primarily due to higher wood chip sales of $10.798m.

The improvement in sales in 2014-15 was encouraging and Contractor payments reduced by $5.734m to $92.681m in the year. Contractor payments were high in both 2012-13 and 2013-14 and exceeded Forest sales by $1.576m and $2.611m, respectively. This was caused by higher regeneration and road maintenance activity during the year. In 2013-14, increased plantation wood volumes required a number of roads, which had not been maintained for an extended period of time, to be brought back into operation.

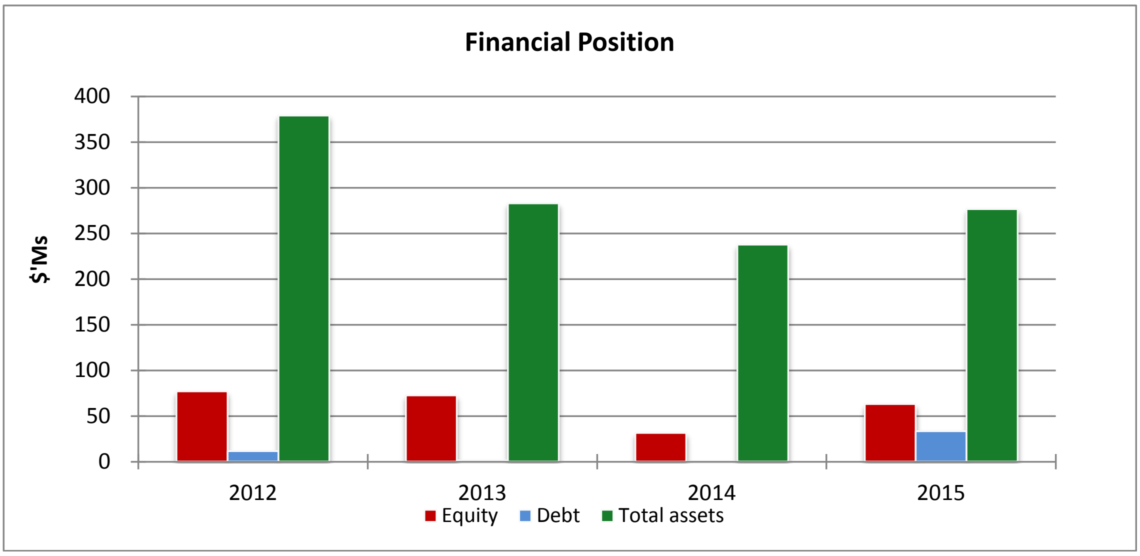
The Net Loss varied over the period primarily due to fluctuations in the valuation of biological assets, movements in obligations for non-commercial zones and roads within new reserves and superannuation actuarial adjustments. Forest valuation is discussed later in this Chapter.



Salaries and wages did not include redundancy costs.

Since 2011-12, Forestry made changes to its cost structure to align it with a smaller revenue base. This included reducing its workforce. Over the four year period, average FTEs reduced by 105. FTEs reduced by 31 in 2014-15 (36 in 2013-14 and 38 in 2012-13). Staff that left Forestry were primarily at a lower level and this impacted on the average employee costs which increased from $0.071m to $0.099m over the period of review.

Salaries and wages reduced by $5.346m in 2014-15, primarily due to the transfer of 42 employees to the Department of Primary Industries, Water and Environment in January 2014 and reduction of 31 FTE's in that year.



Equity decreased over the period under review by $13.720m or 18%.

Equity remained consistent in 2013, reduced by the Comprehensive Loss, $14.190m, offset by the equity injection from government, $10.000m. It declined again in 2014 primarily due to the Comprehensive Loss of $43.118m. Equity increased by $31.739m in 2014-15 mainly due to the Comprehensive Profit of $31.739m. The Return on equity was 29.2% in 2014-15 (2014, negative 54.1%) mainly due to the Biological asset valuation adjustment, $37.845m, and Superannuation actuarial gain, $12.295m, resulting in a Net Profit before Tax of $13.744m (Net Loss before Tax, $28.072m).

Debt increased over the four year period by $21.995m to $33.223m. The higher debt in 2015 was due to Forestry not having received any Deficit funding in that year.

The Debt to equity and Debt to total asset ratios increased to 52.7% and 12.0% respectively, primarily due to the higher borrowings in 2015.

In 2012, Forestry repaid $29.800m of its borrowings using funds received from the sale of its share of the GMO joint venture. The equity injection from government in 2012-13 enabled Forestry to almost extinguish its Debt and the balance remained low at 30 June 2014.

Total assets declined over the period 2012 to 2014 due to the combined effects of losses, the Tasmanian Forest Agreement, the downturn in the forest industry and uncertainty about the industry's future which led to significant write-downs in the value of biological and forest estate assets including roads. However, Total assets were $39.009m higher in 2015 primarily due to the write-up of biological and forest estate assets of $50.382m which is explained further here:

COMPONENTS OF INTEGRATED FOREST VALUATION

Components of integrated forest valuation	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Standing timber	152 960	86 083	104 958	147 860
Roads and structures	65 365	85 260	86 242	116 140
Total biological and forest estate assets	**218 325**	**171 343**	**191 200**	**264 000**
Obligations for non-commercial forest zones	(4 500)	(7 900)	(7 300)	(55 300)
Net biological and forest estate assets	**213 825**	**163 443**	**183 900**	**208 700**

The value of biological assets is determined as the residual amount of the present value of the combined asset, less the fair value of land and improvements. This is a complex calculation, is performed by a specialised valuer engaged by Forestry and is subject to numerous assumptions. Changes in market conditions, discount rates and key assumptions impact on the value of biological assets.

The approach adopted for valuing biological assets at 30 June 2015 remained fundamentally unchanged. The underlying assumptions were updated to reflect the quantities available for harvest under the TFA Act, a progressive reduction in administration, forest management, overheads and research and development costs and the introduction of government support.

The valuation at 30 June 2013 included government funding of $75.000m over three years. The valuation at 30 June 2014 factored in $33.900m over the next four years. Government funding included in the 30 June 2015 valuation was $16.278m over three years. This had a negative impact on revenue, which was offset by higher sales estimates and revenue from tourism and other sources of $6.814m.

The primary impact on the valuation at 30 June 2015 was a significant decrease in forest management costs of $40.638m. Estimated cash flows for general forest and special timbers decreased from $237.838m in 2014 to $188.505m in 2015. Forest costs include expenditures for operations to manage stands until they reach the age for harvest. The costs include pruning, waste thinning, fertilisation, weed control and pest control. Costs for these activities were provided by Forestry.

NEWOOD HOLDINGS PTY LTD (NEWOOD)

Newood is a wholly owned subsidiary of Forestry and is the holding company of three other 100% owned entities. The Newood group comprised:

- Newood Huon Pty Ltd – manages the Huon Wood Centre
- Newood Smithton Pty Ltd – manages the Circular Head Wood Centre
- Newood Energy Pty Ltd – manages the supply of electricity to the lessees at the Huon Wood Centre and to Forestry's main offices.

Significant revenue items for the Newood group were the sale of power and site rental. Expenditure items were electricity charges and finance lease repayments.

The carrying amount of Newood's assets and Forestry's investment in Newood was impaired by $3.752m, related to the carrying value of transmission lines.

The impairment of the assets, based on future cash flow projections, identified concerns over Forestry's ability to fully recover its intercompany receivable. Consequently, the receivable was also impaired by $5.578m to $3.990m at 30 June 2015. This impairment was offset by a corresponding decrease in Newood's intercompany payable and had no impact on the consolidated financial statements.

Consolidated Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s	$'000s
Revenue from forest sales	103 153	95 804	56 338	78 564
Share of GMO Joint Venture revenues	0	0	0	10 851
Forest management services revenue	861	1 240	2 973	3 222
Tasmanian Community Forest Agreement	0	606	885	1 010
Movement in obligations for non commercial zones	3 400	0	20 000	0
Deficit funding	0	23 000	15 000	0
Tasmanian Forest Agreement/World Hertitage Area Implementation	6 005	14 451	1 742	0
State Government Funding	6 878	0	0	0
Fire fighting reimbursements	0	2 080	4 338	0
Other revenue	9 064	15 965	9 029	9 827
Total Revenue	**129 361**	**153 146**	**110 305**	**103 474**
Employee benefits	26 119	28 260	28 202	26 232
Contractors expenses	92 681	98 415	57 914	63 425
Share of GMO Joint Venture expenses	0	0	0	9 559
Depreciation and amortisation	8 303	8 654	9 669	10 362
Costs attributable to non commercial forest zones	0	0	6 285	5 269
Loss on sale of assets	98	563	440	3 198
Other expenses	21 093	18 762	14 785	19 104
Total Expenses	**148 294**	**154 654**	**117 295**	**137 149**
Net Profit (loss) before net finance cost and Tax	**(18 933)**	**(1 508)**	**(6 990)**	**(33 675)**
Finance revenue	271	826	1 404	2 050
Finance costs	(707)	(180)	(1 091)	(1 852)
Finance lease costs	(282)	(439)	(959)	(976)
Interest cost on defined benefit superannuation plan	(5 975)	(5 976)	(5 627)	(8 326)
Underlying Profit (loss) before Tax	**(25 626)**	**(7 277)**	**(13 263)**	**(42 779)**
Biological asset valuation adjustment	37 845	(23 396)	(47 387)	(4 175)
Movement in obligations for non commercial zones	0	(600)	48 000	1 800
TCFA capital grant income earned	1 525	3 201	9 127	5 345
Accumulated increments realised on sale of softwood joint venture	0	0	0	(17 316)

	2014-15	2013-14	2012-13	2011-12
Investment market value adjustment	0	0	0	(139)
Impairment of roads within new reserves	0	0	(27 748)	0
Net Profit (Loss) before Tax	**13 744**	**(28 072)**	**(31 271)**	**(57 264)**
Income tax benefit (expense)	5 398	(13 276)	529	30 554
Net Profit (Loss) after Tax	**19 142**	**(41 348)**	**(30 742)**	**(26 710)**
Superannuation actuarial gains (losses) *	**12 295**	**(2 385)**	**17 340**	**(44 219)**
Increase (decrease) in the revaluation of land and buildings	431	879	(1 126)	1 444
Income tax on revaluation of land and buildings	(129)	(264)	338	(364)
Total Comprehensive Profit (Loss)	**31 739**	**(43 118)**	**(14 190)**	**(69 849)**

** Superannuation actuarial gains / (losses) went through other comprehensive income for the first time in 2013-14. The figures in 2012-13 and 2011-12 have been adjusted in this table for consistency.*

Consolidated Statement of Financial Position

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Cash	7 820	314	1 485	12 283
Receivables and prepayments	15 577	15 162	24 005	25 566
Inventories	7 055	10 871	11 414	13 349
Biological assets	8 999	24 716	17 424	10 923
Asset held for sale	435	0	0	0
Total Current Assets	**39 886**	**51 063**	**54 328**	**62 121**
Payables	14 739	14 821	13 095	12 431
Unearned revenue – TCFA	2 725	6 029	11 925	9 518
Borrowings	33 223	221	1 102	11 228
Employee benefits	4 131	4 310	5 028	5 296
Superannuation	5 805	5 858	5 060	5 348
Obligations for non commercial forest zones	190	1 153	665	2 288
Total Current Liabilities	**60 813**	**32 392**	**36 875**	**46 109**
Net Working Capital	**(20 927)**	**18 671**	**17 453**	**16 012**
Biological assets	143 961	61 367	87 534	136 937
Forest estate	65 365	85 260	86 242	116 140
Property, plant and equipment	27 231	38 674	40 419	42 998
Deferred tax assets	0	0	13 313	19 877

	2015	2014	2013	2012
Other	89	1 159	1 181	1 155
Total Non-Current Assets	**236 646**	**186 460**	**228 689**	**317 107**
Finance lease and other payables	6 135	3 357	5 773	11 311
Unearned revenue - TCFA	15 306	20 621	22 666	31 193
Employee benefits	188	197	265	0
Superannuation	126 782	142 950	138 275	160 885
Obligations for non commercial forest zones	4 310	6 747	6 635	53 012
Total Non-Current Liabilities	152 721	173 872	173 614	256 401
Net Assets	**62 998**	**31 259**	**72 528**	**76 718**
Contributed equity	246 306	246 306	244 457	234 457
(Accumulated losses)	(190 873)	(223 293)	(179 866)	(166 464)
Reserves	7 565	8 246	7 937	8 725
Total Equity	**62 998**	**31 259**	**72 528**	**76 718**

Consolidated Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	124 689	129 308	72 598	105 345
Distributions from GMO	0	0	0	4 641
Softwood Plantation Forest right sale	0	6 510	0	0
TFA/WHA implementation subsidy	12 826	12 751	6 498	0
Reimbursemment for non commercial activity costs	0	0	20 000	0
Deficit Funding	0	23 000	15 000	0
Interest received	96	553	1 263	1 995
Payments to suppliers and employees	(153 799)	(158 115)	(115 458)	(136 908)
Finance Costs	(707)	(180)	(1 657)	(1 852)
Cash from (used in) operations	**(16 895)**	**13 827**	**(1 756)**	**(26 779)**
Government Funding(excluding deficit funding)	1 152	3 749	0	0
Proceeds from investments	80	50	0	7 008
Payments for plantation activities	(9 452)	(4 521)	(4 485)	(6 107)
Payments for property, plant and equipment	(353)	(10 568)	(6 713)	(11 286)
Proceeds from sale of assets	275	29	7 820	71 020
Cash from (used in) investing activities	**(8 298)**	**(11 261)**	**(3 378)**	**60 635**

	2014-15	2013-14	2012-13	2011-12
Equity Contribution	0	0	10 000	0
Proceeds from borrowings	33 000	0	0	0
Repayment of borrowings	0	(800)	(10 000)	(29 800)
Finance lease payments	(301)	(2 937)	(5 664)	(1 138)
Cash from (used in) financing activities	**32 699**	**(3 737)**	**(5 664)**	**(30 938)**
Net increase (decrease) in cash	**7 506**	**(1 171)**	**(10 798)**	**2 918**
Cash at the beginning of the year	314	1 485	12 283	9 365
Cash at end of the year	**7 820**	**314**	**1 485**	**12 283**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Net Profit (Loss) ($'000s)		13 744	(28 072)	(31 271)	(57 264)
EBIT ($'000s)		(20 708)	(21 477)	(23 594)	(46 110)
Operating margin	>1.0	0.87	0.99	0.94	0.75
Return on assets		8.1%	(8.3%)	(7.1%)	(11.0%)
Return on equity		29.2%	(54.1%)	(41.9%)	(51.3%)
Financial Management					
Debt to equity		52.7%	0.7%	1.5%	14.6%
Debt to total assets		12.0%	0.1%	0.4%	3.0%
Interest cover - EBIT	>2	(2.8)	(0.2)	(1.0)	(3.3)
Interest cover - operating cash flows	>2	(2.5)	2.2	(0.3)	(2.6)
Current ratio	>1	0.7	1.6	1.5	1.3
Cost of debt *		2.8%	3.4%	3.7%	7.1%
Debt collection	30 days	53	63	154	130
Creditor turnover	30 days	52	48	64	41
Other Information					
Average staff numbers (FTEs)		264	302	338	369
Average staff costs ($'000s)		99	94	83	71
Average leave balance per employee per FTE ($'000s)		15	14	14	13

* *Cost of debt for 2012-13, 2013-14 and 2014-15 sourced from Forestry Tasmania's financial statements*

NEWOOD ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS

Statement of Comprehensive Income

	Consolidated			
	2014-15	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s	$'000s
Total Revenue	1 920	1 996	2 804	2 921
Total Expenditure	2 090	2 148	2 400	3 200
Profit (Loss)	**(170)**	**(152)**	**404**	**(280)**

Statement of Financial Position

	Consolidated			
	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Current Assets	850	7 060	3 980	2 400
Non-Current Assets	18 814	20 821	20 208	21 227
Total Assets	**19 664**	**27 881**	**24 188**	**23 627**
Current Liabilities	553	16 727	850	664
Non-Current Liabilities	21 513	12 768	23 052	23 157
Total Liabilities	**22 066**	**29 495**	**23 902**	**23 821**
Net Assets	**(2 402)**	**(1 614)**	**286**	**(194)**
Equity	**(2 402)**	**(1 614)**	**286**	**(194)**

HYDRO-ELECTRIC CORPORATION (HYDRO TASMANIA)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion issued on 13 August 2015.

Based on the findings and commentary in this Chapter, it was concluded that Hydro Tasmania's financial performance in 2014-15 was reasonable, it was in a sound financial position at 30 June 2015 but cash generated from operations was inadequate to fund its capital investment program and dividends, resulting in borrowings.

During the two-year period 1 July 2012 to 30 June 2014 Hydro Tasmania took advantage of the introduction of a price on carbon to significantly increase generation such that it generated net cash from operations over that period totalling $504m. During that period it also divested itself of investments in wind farms which generated a further $90m.

However, its cash balances remained relatively low as, in round terms, the $596m cash generated, along with available cash reserves of $27m, was used to fund capital expenditure of $267m, repay borrowings of $197m and pay dividends of $167m.

We were aware that removal of the price on carbon would negatively impact upon Hydro Tasmania's financial results post 2014 and that the announcement of a dividend of $119m based on the 2014 profits would stretch its cash flows. This was built into audit risks identified when planning the 2015 audit at the commencement of which we noted a concern that, based on these factors, Hydro Tasmania might experience difficulty servicing debt and continuing its capital expenditure program. These concerns were allayed to an extent following an equity injection of $205m into Hydro Tasmania during 2014-15.

On being provided with the final financial statements for audit, we noted:

- As expected, Total Revenues had declined and costs were lower. However, when compared with 2012, the last financial year pre-carbon, revenues were higher than in 2012 but expenses increased to a greater extent reducing Net Profit before Tax and Interest by 29% or $56m. A significant contributor to higher costs was the acquisition of loss making Aurora Energy Tamar Valley (AETV) on 1 June 2013.
- Cash generated from operations had declined to $25.466m. This compares with $107.336m generated in 2012 and an average of $159.256m over the four-year period but which included the impact of carbon and resulting higher power generation in 2013 and 2014.
- AETV was draining cash from Hydro Tasmania's operations, albeit at reduced levels, with a loss after tax of $36.905m in 2014-15 compared with $45.736m in 2013-14.
- Despite the equity injection, Hydro Tasmania's debt had decreased by only $8.987m.

Clear from our analysis was that:

- steps were taken by Hydro Tasmania to reduce costs but not all costs move directly in line with movements in revenue and declines in costs were lower than decreases in revenue
- inconsistent with each of the three immediately preceding financial years, cash generated from operations was insufficient to fund capital expenditure
- in 2015, dividends could only have been funded by borrowings
- Hydro Tasmania's future capital expenditure program, which averaged $133.468m per annum over the past four years, will have to be funded from the current portfolio of borrowings.

Recommendation

If Hydro Tasmania is to meet Government's dividend expectations and continue its capital expenditure programs, it will need to manage down its costs, dispose of assets or borrow more, or combination of these factors.

Management comment

Management notes the Auditor-General's recommendation.

Hydro Tasmania's Corporate Plan forecasts improvements in cash generation which, combined with planned equity injections, will see debt reduce.

SNAPSHOT

- On a turnover of $1.467bn, Hydro Tasmania returned a consolidated Net Profit of $128.675m, and reported a Total Comprehensive Profit of $161.191m for 2014-15. The Total Comprehensive Profit takes into account Net Profit and all items debited or credited directly to reserves or retained earnings.
- Turnover decreased significantly from 2013-14, with revenue from the Sales of goods and services decreasing by $510.851m or 25.8%.
- Underlying the Net Profit after Tax result, Hydro Tasmania generated a Profit Before Revaluation gains, impairment expenses and fair value movements of $62.352m ($242.112m).
- Hydro Tasmania's Underlying Profit Before Fair Value Movements, Impairment Expense and Tax expressed as a percentage of turnover, declined from 12.1% to 4.2% this year. The average over the past four years was 10.1%. A 1.0% movement in return is about $15.000m.
- The Total Comprehensive Profit of $161.191m included a net revaluation increment to generation assets of $232.066m.
- Hydro Tasmania generated $25.466m in cash flows from operating activities in 2014-15. Operating cash flows averaged $159.256m over the past four years.
- Cash investments of $100.698m were made in Property, plant and equipment in 2014-15. Hydro Tasmania, on average over the past four years, invested $133.698m per annum in assets.
- Hydro Tasmania was in a strong Net Asset position of $2.063bn at 30 June 2015.
- At 30 June 2015 gross Borrowings totalled $855.015m and averaged $870.405m over the past four years, peaking at $905.795m at 30 June 2013. The reduction in revenues and Underlying Profits in 2014-15, which is forecast to continue into 2015-16 and beyond, highlights the ability of Hydro Tasmania to continue to service this level of debt as a potential future issue. Hydro Tasmania will also be reliant on the proposed equity injections from the State, with transfers of debt totalling $120.000m expected to occur across 2015-16 and 2016-17.
- At 30 June 2015, Hydro Tasmania had total unused debt facilities of $205.300m.
- Hydro Tasmania paid a dividend of $118.576m in 2014-15 based on 2013-14 results. No dividend was proposed in the annual financial report, however on 26 August 2015, a dividend was recommended by the Hydro Tasmania Board of $25.000m relating to the 2014-15 results. This differs from the dividend policy, but, as far as the Board is concerned, strikes a balance between what is acceptable to the State and what it is appropriate for Hydro Tasmania to pay, given its cash flows over 2014-15.
- Over the past four years, Hydro Tasmania paid an average of $83.582m per annum in dividends to Government.
- A number of Hydro Tasmania's key ratios declined significantly in 2014-15 in light of reduced revenues, profits and operating cash flows. Hydro Tasmania's return on assets reduced in 2014-15 to 2.6%, compared with 6.3% in 2013-14. Hydro Tasmania's interest coverage over EBIT, EBITDA and operating cash flows also declined significantly.

Major developments in the year included:

- the Australian Government's repeal of carbon pricing effective 1 July 2014 resulted in significant reductions in turnover, negatively impacting on both revenues received from generation and retail of electricity
- a net revaluation increment to generation assets of $232.066m was recognised in profit, off the back of total revaluation decrements to the hydro generation assets in 2012-13 and 2013-14 of $667.947m
- Hydro Tasmania's contributed equity increased by $205.000m in 2014-15 with the transfer of debt to Tasmanian Networks Pty Ltd treated as an equity injection.

Major variations between the 2014-15 and 2013-14 financial years were:

- reduction in retail and generation revenues generated by the consolidated entity of 25.8% to $1.467bn ($1.978bn). This was the combined result of lower generation volume, reduced electricity prices due to the repeal of carbon pricing, and the reduction in prices paid by small Tasmanian customers and the loss of a number of large retail customers during 2014-15
- although a decrease year on year, AETV continued to contribute losses to the consolidated group. This reduced from $43.684m in 2013-14 to $36.905m in 2014-15. The losses continued to be mainly attributable to onerous contracts relating to gas transportation and tolling arrangements, coupled with impairment expenses recognised in relation to the gas fired power station in 2014-15
- despite the equity injection referred to earlier, there was only a slight reduction in borrowings to $855.015m, down from $864.003m in 2013-14, due to the net repayment of $8.987m during the financial year. There was a significant change in the classification of borrowings, with only $68.556m of borrowings classified as current and due to be settled in the coming financial year
- reduction in provisions due to changes in assumptions underlying the retirement benefits provision, as required by accounting standards. This change to the discount rate used in the valuation resulted in a decrease to the provision of $51.722m. When combined with other updated valuation assumptions, the overall actuarial gain recognised in 2014-15 in connection with the provision was $41.331m.

Signed financial statements were received on 13 August 2015 and an unqualified audit report was issued on the same day. A number of recommendations were made to management regarding the monitoring of controls, governance of and inputs into significant financial models and information technology access and security. None of these was considered to be significant, and did not impact on our ability to issue an unqualified audit opinion.

The audit was completed on time with no major items outstanding.

INTRODUCTION

Hydro Tasmania was established as a Commission under the *Hydro-Electric Commission Act 1944* and corporatised by the *Hydro-Electric Corporation Act 1995*. The Hydro-Electric Corporation trades as Hydro Tasmania.

Hydro Tasmania is a Government Business Enterprise and:

- is a renewable electricity generator in Tasmania
- is a renewable energy developer
- operated a retail business with retail licences in Victoria, South Australia, New South Wales, Queensland and ACT
- owns the electricity distribution assets on the Bass Strait Islands
- owns and operates a gas-fired power station, AETV Pty Ltd
- invested in renewable energy activities in Australia
- had a 25% ownership in the Woolnorth joint venture, which owns wind farms on the North-West and North-East coasts of Tasmania
- operates a number of wind farm development sites
- operates a consulting arm under the name Entura
- provides consulting services internationally, with international offices in India and South Africa and an investment in one mini-hydro power facility in South Africa which was opened in February 2015.

Subsidiary and Associated Companies

- **Bell Bay Power Pty Ltd** (BBP) has the responsibility for demolition of this station which ceased operations in March 2009. BBP has previously raised a provision for demolition and site restoration. This provision remained consistent in 2014-15 with that of 2013-14 and is currently estimated to be $21.237m.
- **Bell Bay Three Pty Ltd**. This company's assets have been disposed of and it did not operate in 2014-15.
- **Lofty Ranges Power Pty Ltd** owns a 50% interest in an electricity generating joint venture in South Australia. It generated a Net Profit after Tax of $0.041m in 2014-15 (2013-14, $0.042m).
- **Hydro Tasmania Consulting (Holding) Pty Ltd** is the holding company for Hydro Tasmania's consulting activities in India, undertaken through its wholly owned Indian company, Hydro Tasmania Consulting India Private Limited. The Indian subsidiary made a net profit after tax of $0.355m during 2014-15 (2013-14, loss of $0.623m).
- **RE Storage Project Holding Pty Ltd** was established for the purpose of participating in renewable energy development projects. The company did not operate in 2014-15 or 2013-14.
- **HT Wind Operations Pty Ltd** (HT Wind Operations) is a subsidiary that was fully incorporated into the group on 30 June 2011 following dissolution of the Roaring 40s joint venture. In February 2012, a 75% interest in the Woolnorth Wind Farms (Bluff Point and Studland Bay) was divested to Shenhua Clean Energy Holdings Pty Ltd to form the Woolnorth Wind Farm joint venture. In February 2013, 75% of Musselroe Wind Farm Pty Ltd was divested to the same joint venture. A number of companies wholly owned by HT Wind Operations are holding companies for potential future developments. Hydro Tasmania's share of the profit of the Woolnorth Wind Farm joint venture in 2014-15 was $1.179m ($2.598m).

- **Momentum Energy Pty Ltd** (Momentum Energy) is an energy retailer with licences in Victoria, South Australia, New South Wales, Queensland and the ACT. The operation is discussed later in this Chapter.
- **AETV Pty Ltd** (AETV) is a wholly owned subsidiary that was transferred to Hydro by Ministerial Direction and was incorporated into the group on 1 June 2013, making 2014-15 the second full year of consolidating the results of AETV's operations. AETV operates five gas-fired power generation units in Tasmania. The operation is discussed later in this Chapter.
- **Hydro Tasmania South Africa Pty Ltd** was established in 2012, and in 2012-13 became a joint venture partner in a joint venture to develop a mini-hydro scheme in Neusberg, South Africa. Hydro Tasmania's investment in the joint venture was $4.192m ($3.599m) at balance date.

The Auditor-General is the auditor of all wholly-owned subsidiary companies incorporated in Australia. Unless otherwise stated, this Chapter reports Hydro Tasmania's results on a consolidated basis.

KEY AREAS OF AUDIT ATTENTION

Description of material areas	Impact on Audit approach
The Asset Revaluation Model (ARM) is a 100 year discounted cash flow model that calculated the fair value of Hydro Tasmania's generation assets.	We examined the key components of the ARM, including the functionality and mechanics of the model, the inputs including forecast revenues and expenses, and the other drivers of the valuation, including inflation and discount factors. The ARM is sensitive to changes in discount rates and projected electricity prices and volumes. Valuation and modelling experts were engaged to assist in our assessment of the ARM.
Sophisticated modelling and significant management estimates were required to accurately value the unbilled energy delivered to Momentum Energy's retail customers.	We examined the key components of the unbilled energy model prepared by management, including the functionality and mechanics of the model, the inputs including customers, customer pricing and kilowatt hours supplied and other drivers of the valuation. In addition, actual results to forecast were examined throughout the year and a look back analysis was performed on actual billings post year end compared with those estimated in the accrual.
In accordance with the requirements of Australian Auditing Standards, and given the quantum and significance to the financial report, revenue and revenue recognition were considered to be areas of key audit risk.	Procedures were performed to verify revenue earned through the sale of electricity into the National Electricity Market (NEM). For Hydro, this included agreeing revenue to the weekly statements received from the Australian Energy Market Operator. Our approach to assessing revenue earned by Momentum included analysis of the relationship between kilowatt hours sold on a monthly basis and revenue generated. Other income included revenues generated through the creation and sale of renewable energy certificates. Our approach included a combination of analytical procedures based on certificate volumes sold and average monthly spot prices, and detail testing of trades made throughout the financial year.

Due to their complex nature and the significance of their values, energy and treasury derivatives were an area of key audit focus.	Financial instrument valuation specialists were involved in the audit of energy and treasury derivatives in existence at Hydro. Particularly, assessment was made as to the appropriateness of the discount curve and electricity price curve used in the valuation, and assumptions made regarding carbon pricing in the Australian market in long term pricing benchmarks. Contracts with major industrial customers are valued as derivative contracts in this area of audit focus. During 2014-15, Hydro Tasmania renegotiated one contract with a major industrial customer which increased the derivative liability position.
The Basslink valuation was considered to be an area of significant risk due to its complexity and the level of assumptions involved in modelling the fair value of the contract. At 30 June 2015, the net value of the Basslink financial service agreement liability was $118.465m ($124.200m at 30 June 2014), with a further liability recognising the net position of the Basslink Facility Fee swap of $342.459m ($296.993m at 30 June 2014).	Financial instrument valuation specialists were involved in the audit of the Basslink valuation. The key area of focus was the assessment of calculated revenues receivable by Hydro Tasmania for the supply of energy across the Basslink to mainland Australia. Given the complexity of the calculation, significant judgement was exercised in the calculation and the sensitivity of the calculation to a range of inputs. Changing interest rates impact on the net position of the facility fee swap, which involves a fixed and floating component with cash flows out until 2030. Financial instrument valuation specialists were also involved in the audit of this valuation.
Hydro Tasmania's gross level of borrowings at 30 June 2015, excluding finance lease liabilities, was at $849.700m, down from $858.600m at 30 June 2014. The ability of Hydro to sustain this level of borrowings, continue its current level of investment in property, plant and equipment and continue to pay dividends to the State was an area of audit consideration.	In January 2015, in accordance with a directive from the Treasurer of the State, Hydro Tasmania transferred $205.000m of borrowings acquired with AETV away from Hydro Tasmania. This was treated as an equity injection from the State. Further transfers totalling $120.000m of debt are expected to occur across 2015-16 and 2016-17. The sustainability of the current levels of debt for Hydro was contemplated as part of the audit, bearing in mind the cash impact of the dividend paid in 2014-15 relating to 2013-14 results, significant payments of income taxes and continuing capital expenditure. This is discussed further later in this Chapter.
The plant and equipment and onerous contracts of AETV were material to the consolidated entity, and were assessed for reasonableness of valuation.	The value of plant and equipment within AETV constitutes the gas fired generators, which are carried at an amount determined by an independent valuation expert on the assumption that the assets are sold and transferred to a location outside of Tasmania. The onerous contracts have been valued based on the surplus costs to be incurred over revenues generated in AETV discharging its obligations under its gas transportation and tolling agreements.

Tax equivalent accounting is a complex area and there were inherent risks associated with the accuracy of tax calculations. In particular deferred tax assets and liabilities represented material balances in the financial statements and were by their nature inherently prone to areas of judgement and interpretation in a changing legislative environment.	Tax experts were utilised in the review of the tax calculations of Hydro. The calculations were reviewed for consistency with the requirements of applicable taxation legislation and the GBE Act.
Hydro Tasmania held a 25% equity accounted investment in the consolidated Woolnorth Wind Farm group. The value of Hydro Tasmania's investment at 30 June 2015 was \$64.348m, with dividends of \$2.156m paid to Hydro Tasmania during the financial year and \$1.179m recognised in profit or loss, being Hydro Tasmania's share of profits for the year.	Instructions were issued to the auditor of the Woolnorth Wind Farm group in connection with their 30 June 2015 procedures, with a particular focus on the carrying value of the group's property, plant and equipment and the appropriate classification of debt. No significant items were highlighted as a result of the procedures performed. The Woolnorth Wind Farm group reported a profit after tax of \$4.417m for 2014-15.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

The Directors signed Hydro Tasmania's financial statements on 13 August 2015 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Reduction in revenues

The Australian Government's repeal of carbon pricing effective 1 July 2014 resulted in significant reductions in the Hydro Tasmania's turnover, impacting on revenues received from generation and retail of electricity. Hydro experienced a significant decline in consolidated revenues, with a decrease of \$510.851m, or 25.8%, across all areas of the business.

It previously increased its generation to capitalise on the increased energy spot price between 2012 and 2014, which had flow on effects to revenues earned through the creation and sale of renewable energy certificates. The increased energy spot price provided upside to Hydro which was not matched with incremental costs. Therefore, the reduced energy spot price in 2014-15 has seen directed expenses incurred, which included transmission and generation charges and Basslink related costs, remain relatively consistent year on year. The impact of carbon on Hydro Tasmania's unconsolidated generation operations is included in the table following.

Parent Only (Not Consolidated)		2014-15	2013-14 includes carbon	2012-13 includes carbon	2011-12
Spot, Industrial and Ancillary revenue	$'000s	278 364	550 570	515 566	321 439
RECs revenue	$'000s	151 871	186 226	168 446	131 155
Other revenue	$'000s	154 962	140 910	48 189	154 786
Total revenue	**$'000s**	**585 197**	**877 706**	**732 201**	**607 380**
GWh generation	GWh	8 176	11 932	10 627	8 334
Average price per MWh (based on spot, industrial and ancillary revenue)	$	34.05	46.14	48.51	38.57
Direct expenses	$'000s	227 535	259 439	206 331	217 954
as a % of revenue		38.9%	29.6%	28.2%	35.9%
Borrowings at year end	$'000s	855 015	864 002	905 795	856 806
Hydro Tasmania Underlying Profit	**$'000s**	**64 366**	**285 172**	**205 795**	**86 120**

Total revenue relating to Hydro Tasmania's generation operations decreased $292.509m, or 33.3%, in 2014-15 compared with 2013-14. Spot, industrial and ancillary revenues, which are the bulk of revenues received from the sale of electricity into the NEM, reduced $272.206m, or 49.4%, in 2014-15 compared with 2013-14. This was due to a reduction in the gigawatt hours generated across the year of 3,756 GWh, or 31.5%. The repeal of carbon pricing impacted on the average price per megawatt hour achieved throughout 2014-15, which reduced by $12.10 per MWh, or 26.2%.

The impact of carbon pricing on the Underlying Profit of Hydro Tasmania's generation operations was significant. An increase in Underlying Profit of $119.675m, or 139.0%, was achieved in the first year of the inclusion of carbon pricing, being 2012-13. This level of profits was increased further in 2013-14 by $79.377m, or an additional 38.6%, as Hydro Tasmania capitalised on the carbon price inclusion with record levels of generation. 2014-15 Underlying Profit returned to pre-carbon price levels, with a fall off of $220.806m or 77.4%. The underlying electricity price (i.e. excluding carbon) is at much lower levels than pre-carbon.

Direct expenses include transmission charges, Basslink facility fees and swap expenses, cost of sales relating to renewable energy certificates and gas charges incurred in servicing specific gas supply contracts. As noted above, these costs are not incurred incrementally with the previously earned price on carbon, and have therefore increased to 38.9% of Total Revenue with the reduction in spot, industrial and ancillary revenues.

Over this time frame, borrowings remained relatively consistent, at a four year average of $870.405m. This included the transfer of $205.000m debt connected with AETV to Hydro in 2012-13 and then to Tasmanian Networks Pty Ltd in 2014-15. The reduction in revenues and underlying profits in 2014-15, which is forecast to continue into 2015-16 and remain well below levels experienced with the inclusion of a price on carbon in the years beyond, highlights the ability of Hydro to continue to service this level of debt as a potential future concern. The Government is working with Hydro Tasmania to address this issue, including planning for a further $120.000m of equity injections over 2015-16 and 2016-17.

Momentum experienced decreased operations, with a reduction in revenue from the sale of energy from $1.033bn in 2013-14 to $900.872m in 2014-15. This reflected reduced sales volumes, with the loss of some large customers early in the 2015 calendar year, and a reduction in carbon revenue from customers. This carbon-related revenue reduction had a corresponding reduction in direct operating costs, which includes the cost of purchases of energy through the NEM and distribution costs.

Revaluation of hydro generation assets

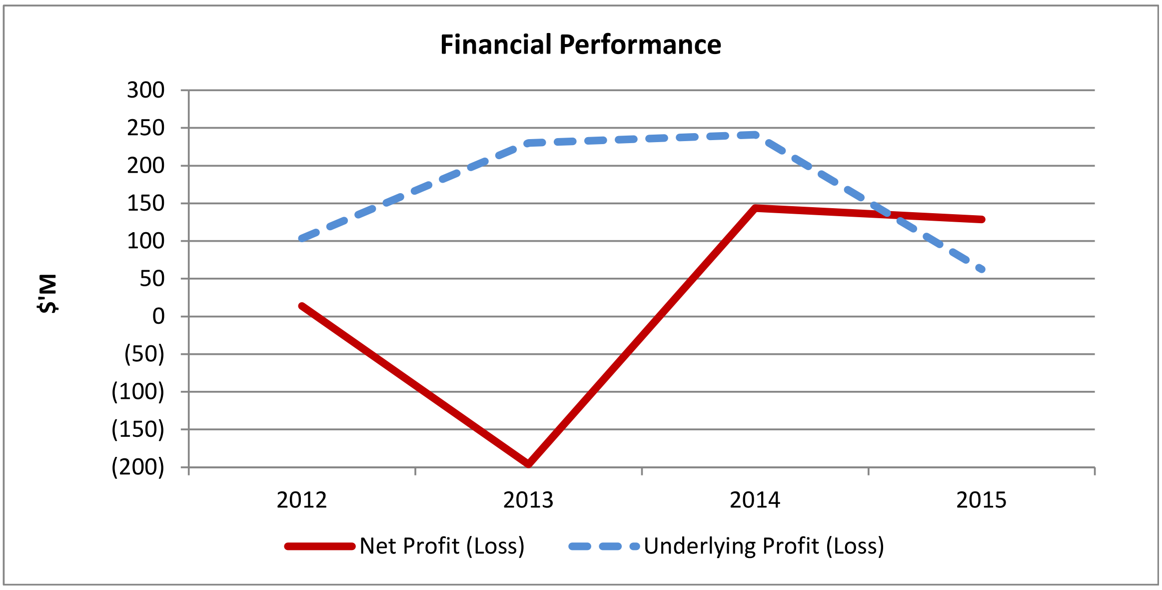
A net revaluation increment to generation assets of $232.066m was recognised in profit, off the back of total revaluation decrements to the hydro generation assets in 2012-13 and 2013-14 of $667.947m.

The revaluation increment was determined based on the fair valuation of the generation assets as determined through the Asset Revaluation Model. The revaluation increment was taken through profit or loss as a reversal of previous impairment, in line with the requirements of accounting standards.

The favourable movement in the valuation of the hydro generation assets in 2014-15 was due to changes in the forecast energy price used to determine revenues to be generated over the five-year Corporate Plan period, changes to the renewable energy certificate pricing forecast, and a reduction in forecast expenses, net of changes in the expected premium on flat energy prices that Hydro expects to achieve.

FINANCIAL ANALYSIS

The graph below reports Hydro Tasmania's Underlying Profit (being profit before asset write down expenses and fair value movements) and its Net Profit or Loss before Taxation over the past four financial years.



Hydro Tasmania's Underlying Profit before Fair Value Movements, Impairment Expense and Tax was $62.352m for 2014-15, a significant reduction on that recorded in 2013-14 of $241.113m. Hydro experienced a significant decline in consolidated revenues, with a decrease of $508.914m, or 25.5%, across all areas of the business. Cost savings were experienced across the business in direct expenses, labour and other operational expenditure.

Asset write downs and revaluation expenses recognised in the prior financial year, offset by fair value gains in relation to financial derivative assets and liabilities, resulted in a Net Profit of $143.549m in 2013-14. With net asset revaluations being favourable in 2014-15, and the fair valuations of electricity derivatives and other financial instruments being unfavourable in 2014-15, the Net Profit recorded was $128.675m. Net Profit excluded items of other comprehensive income and included the fair value gains/losses on certain cash flow hedges which are taken directly to equity reserves and the actuarial gains on the Retirement Benefits Fund provision.

Total returns to the State for 2014-15 decreased by 10.4% from 2013-14, attributable mainly to lower income taxes paid. Returns to the State for 2014-15 included a dividend relating to 2013-14 financial results of $118.576m, income taxes of $80.069m and loan guarantee fees of $8.719m (2013-14, total $231.488m).

Hydro Tasmania's Return on assets reduced significantly in 2014-15 to 2.6%, compared with 6.3% in 2013-14. This ratio, which compares EBIT to average total assets, indicates that for every dollar invested in the assets of the group, 2.6 cents earnings before interest and taxation is generated.

Operating profit before interest and taxation

Hydro Tasmania's Earnings Before Interest and Tax declined by $186.674m, or 58.2%, in 2014-15. Total expenses represented 91.0% of Total Revenue (83.9% in 2013-14). Total Revenue decreased by $508.914m, or 25.5%, primarily due to reduced generation revenue, impacted on by both the generation load and spot prices as discussed above, and a decrease in retail sales generated by Momentum Energy. Direct operating expenses decreased by $285.185m, or 21.6%.

Hydro Tasmania's operating margin declined steadily over the last four financial years, from 1.35 times in 2011-12 to 1.18 times in 2014-15 as a result of:

- generation operations impacted significantly by the repeal of carbon pricing, as Hydro previously increased its generation to capitalise on the increased energy spot price in 2013-14, which had flow on effects to revenues earned through the creation and sale of renewable energy certificates. The increased energy spot price in 2013-14 provided upside to Hydro Tasmania which was not matched with incremental costs. Therefore, the reduced energy spot price in 2014-15 has seen direct expenses incurred, which include transmission and generation charges and Basslink related costs, remain relatively consistent year on year
- the nature of its business, Momentum's operations are very low margin, and therefore the significant quantum of revenue earned by the group's retail arm does not translate into significant profits. Momentum's profit increased $5.600m year on year despite lower reported revenues, which is largely due to a reduction in directly controllable expenses
- AETV, which has operated at a loss since its transfer to Hydro Tasmania on 1 June 2013. Although lower than 2013-14, the loss reported in 2014-15 was $36.905m.

Net cash generated by operations

Cash from Operations of $25.466m for 2014-15 represented a decrease of $217.207m, or 89.5%, from 2013-14. This result is a reflection of the decrease in receipts from customers, including retail customers and the NEM, partially offset by reduced payments to suppliers and employees and lower income taxes paid. As depicted in the graph above, cash flows from operations mirror the Underlying Profit reasonably closely year on year, as the Underlying Profit figure excludes many fair value adjustments. Non-cash items included in Underlying Profit include depreciation and amortisation, changes in the valuation of the portfolio of environmental energy products and the Hydro Tasmania's share of its associates' profits.

The reduced level of net cash generated by operations is expected to continue with the repeal of carbon pricing impacting on revenues earned, as previously discussed. In 2014-15, Hydro necessarily drew upon debt facilities to enable the payment of the $118.576m dividend, along with tax and capital expenditure cashflow requirements. In the event that the 2014-15 level of net cash generated by operations continues, this would be insufficient to meet Hydro Tasmania's maintenance capital expenditure requirements and dividend payment obligations in 2015-16 without the need to draw on unused borrowing facilities. Hydro Tasmania and the Government are working together to improve this situation. The receipt of further equity injections is a key strategy for improving the debt position going forward.

Finance costs

Although $205.000m of debt was transferred out of Hydro Tasmania in January 2015, debt at year end in 2015 of $855.015m remained consistent with 2014 ($864.002m). Slightly lower levels of debt were maintained throughout the year, however, which resulted in a decrease in finance costs year on year to 30 June 2015. A net total of $8.987m of debt was repaid across 2014-15.

Hydro Tasmania's interest coverage over EBIT and EBITDA both declined significantly from 2013-14 to 2014-15, reducing to levels previously experienced in 2009-10 and 2010-11. This was due to the reduction in EBIT as discussed above. Hydro Tasmania's debt to equity ratio improved in 2014-15 with a small reduction in debt and a stronger equity position due to the increased valuation of hydro generation assets.

The cost of debt to Hydro Tasmania decreased to 6.7% from 7.4% in 2014-15 due to lower interest rates charged by lenders in line with prevailing market rates.

Fair value movements

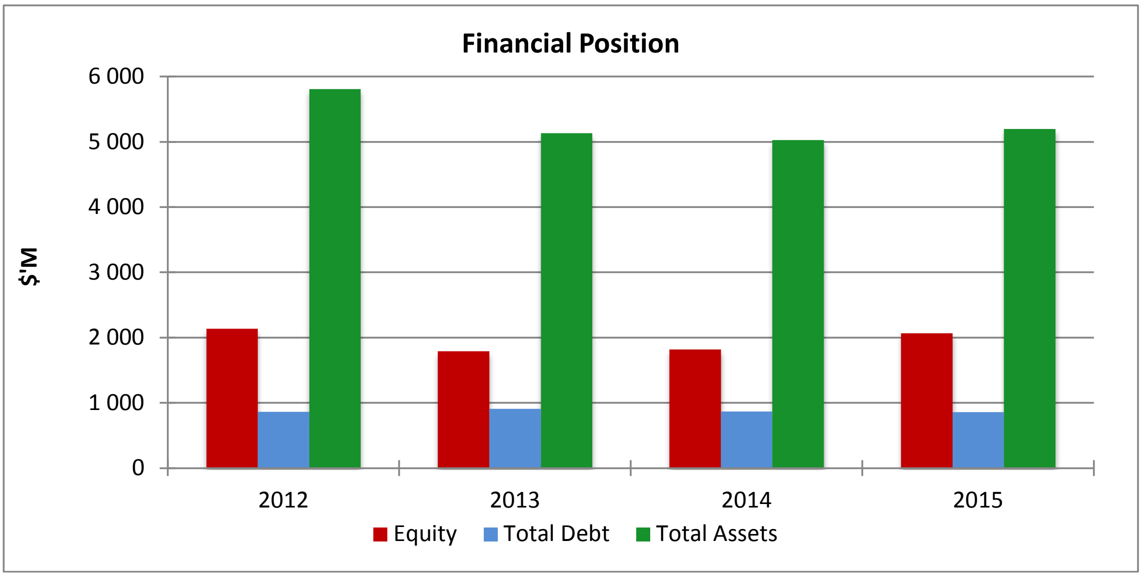
Fair value movements in Hydro Tasmania's Comprehensive Income statement include the following:

- electricity derivatives: Accounted for at fair value in accordance with accounting standards and Hydro policy
- Basslink financial asset and liability: Accounted for as a derivative, and therefore recorded at fair value in accordance with accounting standards and Hydro policy

The net fair value loss of $113.910m recognised on these financial instruments in 2014-15 (gain of $165.631m in 2013-14) is the net result of the following main factors:

- a reduction in the expected export of electricity to Victoria
- narrowing of the Tasmanian and Victorian price spreads over 2014-15
- a reduction in electricity prices between 2013-14 and 2014-15 due mainly to changing carbon assumptions
- rolling off of 2014-15 cash flows and the time value of money.

The graph below reviews Hydro Tasmania's Equity, Debt and Total Assets balances over the past four financial years.



Debt

Total debt remained relatively consistent over the past four financial years. Despite $205.000m of debt being transferred to Tasmanian Networks Pty Ltd in January 2015, further debt was drawn down to fund payments of dividends and income taxes and meet capital expenditure commitments in 2014-15. Further transfers of debt totalling $120.000m are expected to occur across 2015-16 and 2016-17.

The sustainability of the current levels of debt for Hydro was contemplated as part of the audit, bearing in mind the cash impact of the dividend paid in 2014-15 relating to 2013-14 results, significant payments of income taxes and continuing capital expenditure. Additionally, the cash flow impact of some significant liabilities, including the various onerous contracts and site rehabilitation provisions, is expected to be realised in 2015-16. Compounding this, the losses that have historically been incurred by AETV are forecast to continue, albeit at reduced levels to those experienced historically. Cash outflows will continue to exceed cash inflows in relation to this business. Conversely, there are some prepaid assets within the consolidated group, including gas purchase prepayments which are discussed later in this Chapter, for which cash outflows have occurred and the operational benefit is yet to be realised.

At 30 June 2015, Hydro had unused debt facilities of $205.300m. Hydro Tasmania's ability to service significant levels of debt has been discussed earlier in this Chapter.

Equity

Hydro Tasmania's contributed equity increased by $205.000m in 2014-15 with the transfer of debt to Tasmanian Networks Pty Ltd treated as an equity injection.

The value of reserves remained relatively consistent, with a slight reduction in reserves relating to derivative financial instruments.

Hydro Tasmania's retained profits increased due to the impact of the recorded profit after tax and actuarial gain recognised in connection with the defined benefits plan, net of the dividend payment to the State of Tasmania.

Hydro Tasmania's debt to equity ratio has decreased by 6.1% year on year due to a small reduction in debt held at year end, coupled with a stronger equity position due to the increased valuation of hydro generation assets.

Total Assets

Total Assets increased by $170.964m from 2013-14 to 2014-15, attributable to the Property, plant and equipment class of assets, due to the net impact of the net upward revaluation of generation assets of $232.066m, Depreciation expense of $92.918m and capital additions and disposals made throughout the year.

As previously noted, the upward revaluation of generation assets in 2014-15 was due to changes in forecast revenues to be generated and reductions in operating expenditure expected to be incurred over the 5 year Corporate Plan period, changes in the expected premium on flat energy prices that Hydro Tasmania expects to achieve, and increases to the spot and forecast renewable energy certificate prices.

The provision for income tax at 30 June 2014 of $46.780m swung to a current tax asset of $25.876m at 30 June 2015, due to instalments of income tax expense paid throughout the financial year end.

MOMENTUM ENERGY (Momentum)

The table below details Momentum's Statement of Comprehensive Income and Financial Position sheet for the past four years.

Statement of Comprehensive Income	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Total revenue	900 872	1 033 232	800 143	458 997
Energy purchases and operating costs	(862 842)	(1 011 599)	(781 938)	(447 005)
Depreciation and amortisation	(948)	(485)	(619)	(893)
Profit (Loss) before Tax	**37 082**	**21 148**	**17 586**	**11 099**
Income tax benefit (expense)	(14 602)	(4 268)	(5 390)	(3 351)
Net Profit (Loss)	**22 480**	**16 880**	**12 196**	**7 748**

Statement of Financial Position	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Current assets	148 183	156 936	122 022	98 659
Non-current assets	14 630	18 767	7 308	9 437
Total Assets	**162 813**	**175 703**	**129 330**	**108 096**
Current liabilities	(99 636)	(134 981)	(101 160)	(83 602)
Non-current liabilities	(208)	(232)	(4 561)	(13 080)
Total Liabilities	**(99 844)**	**(135 213)**	**(105 721)**	**(96 682)**
Equity	**62 969**	**40 490**	**23 609**	**11 414**

Momentum experienced decreased operations in 2014-15, with a reduction in revenue from the sale of energy from $1.033bn in 2013-14 to $900.872m in 2014-15. This reflected reduced sales volumes achieved, with the loss of some large customers early in the 2015 calendar year, and reduced revenue following the abolition of the carbon price. This had a corresponding reduction in direct operating costs, which included the cost of purchases of energy through the NEM, distribution costs, the cost of environmental energy products and employee related expenses.

The decrease in Momentum's Current assets was attributable to the unbilled revenue accrual, which reduced from $107.535m in 2013-14 to $82.620m in 2014-15. This was driven by the decrease in customer numbers, customer pricing and kilowatt hours sold but not yet invoiced at balance date.

Non-current assets remained relatively consistent year on year, and are made up of Property, plant and equipment, deferred tax asset in respect of temporary differences at year end and deferred customer acquisition costs, which are capitalised to the balance sheet and amortised over the life of customer contract periods. Reductions in the deferred tax asset and customer acquisition costs balances are reflected in lower total Non-current assets balance.

Current liabilities included the accrual for network and distribution costs and energy purchases, the regulatory environmental schemes liability, and a loan from the parent entity, Hydro, and has reduced year on year as a result of decreased supply to a smaller customer base, and the timing of the purchase settlement cycle in relation to balance date. Many of the Company's payments are made by Hydro on behalf of Momentum, and are therefore represented by an intercompany loan. Despite the smaller customer base, Momentum's year on year profitability has improved, consistent with a focus on more profitable customers and strong success in cost control within the business.

Despite the stronger Net Profit after Tax and equity position this year, Momentum's cash balance declined year on year to $0.169m at 30 June 2015 ($0.277m at 30 June 2014). This was due to cash being maintained by the parent entity for the Hydro group of companies, and surplus cash being swept from Momentum to Hydro on a regular basis.

AETV

The table below details AETV's Statement of Comprehensive Income and Financial Position for the past four years.

Statement of Comprehensive Income	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Total revenue	49 767	93 596	131 848	124 799
Energy purchases and operating costs	(75 274)	(141 028)	(115 796)	(87 704)
Depreciation and amortisation	(3 882)	(3 941)	(12 157)	(12 679)
Impairment expenses	(17 344)	1 202	(335 045)	0
Earnings before Interest and Tax (EBIT)	**(46 733)**	**(50 171)**	**(331 150)**	**24 416**
Interest expense	(5 988)	(15 163)	(14 890)	(17 122)
Profit (Loss) before Tax	**(52 721)**	**(65 334)**	**(346 040)**	**7 294**
Income tax benefit (expense)	15 816	19 598	103 811	(2 189)
Net Profit (Loss)	**(36 905)**	**(45 736)**	**(242 229)**	**5 105**

Statement of Financial Position	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Current assets	9 555	5 706	13 482	35 485
Non-current assets	188 776	187 028	192 030	341 740
Total assets	**198 331**	**192 734**	**205 512**	**377 225**
Current liabilities	(330 224)	(280 045)	(37 322)	(10 912)
Non-current liabilities	(97 610)	(106 033)	(317 849)	(270 945)
Total liabilities	**(427 834)**	**(386 078)**	**(355 171)**	**(281 857)**
(Excess Liabilities)/Equity	**(229 503)**	**(193 344)**	**(149 659)**	**95 368**

Revenue generated by AETV has historically reflected the sale of electricity from the gas-fired power generation units under tolling arrangements to Aurora, however from 1 June 2013 when AETV was transferred to Hydro, these tolling arrangements ceased. Expenses increased significantly at that time due to the cessation of these tolling arrangements, which saw the previous owners receive a tolling fee which provided revenues to cover operating expenditure, depreciation, financing charges and return on capital. Revenues also decreased in 2014-15 due to a decrease in electricity volume generated and sold. The gas-fired power generation units are operated as a backup facility for the State's electricity supply. During 2014-15, open cycle units operated for 165 days while the combined cycle gas turbine did not operate.

The net result in 2012-13 was significantly impacted upon by impairment expenses recognised in relation to the plant and equipment, particularly the gas-fired power generation units, and onerous gas transportation and tolling arrangements. These expenses did not occur in 2013-14, however a revaluation of the gas-fired power generation units at 30 June 2015 resulted in further impairment expenses. The onerous contracts provision reduced year on year due to the discharge of one year's obligations under the contracts, and therefore a positive adjustment of $10.296m was recognised in the income statement in connection with this in 2014-15.

The increase in AETV's Current assets was primarily attributable to an increase in the debtors balance due to the timing of settlement of sales into the NEM in relation to balance date.

The value of Property, plant and equipment within Non-current assets reduced year on year due to the compound effect of depreciation and the impairment of the gas-fired power generation units based on a revaluation undertaken at 30 June 2015, as previously discussed. This was offset by increased long-term gas purchase prepayments in relation to gas "take or pay" contracts, under which AETV can bank unused gas with the option to use this gas up until 2018.

The current portion of onerous contracts remained consistent year on year, with a similar quantum of contracts to be realised within the next 12 months. The loan from Hydro to AETV, which is also classified as a current liability, increased by $47.686m year on year as Hydro continues to fund AETV's ongoing operations. The asset side of this loan is impaired to nil in the balance sheet of Hydro, as the ultimate collection of this amount is considered to be unlikely.

Non-current liabilities are made up of the Non-current portion of onerous contracts and a provision for the rehabilitation of the site at which the AETV gas fired power stations are situated. The rehabilitation provision increased due to the updating of inflation and discount rate assumptions. The non-current portion of the onerous contracts liability decreased by $12.240m year on year as the onerous contracts unwind and are realised through fulfilment of the contracts, and with the transfer of one onerous contract from AETV to Hydro. The total liability, both current and non-current, for onerous contracts within AETV was $89.117m at 30 June 2015 (2014, $100.376m).

CONSOLIDATED FINANCIAL STATEMENTS

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Sales of goods and services	1 467 161	1 978 012	1 541 617	1 039 693
Share of profit of joint venture entities	1 773	2 073	1 756	0
Other operating revenue	15 289	13 052	11 860	11 438
Total Revenue	**1 484 223**	**1 993 137**	**1 555 233**	**1 051 131**
Direct operating expenses	1 034 271	1 319 456	960 782	590 001
Labour	126 060	149 941	123 242	104 802
Depreciation	92 918	88 230	91 373	82 273
Share of loss of joint venture	0	0	0	384
Other operating expenses	96 695	114 557	82 074	83 544
Total Expenses	**1 349 944**	**1 672 184**	**1 257 471**	**861 004**
Underlying Profit before Interest	**134 279**	**320 953**	**297 762**	**190 127**
Finance costs	(71 927)	(79 840)	(67 501)	(86 687)
Underlying Profit before Fair Value Movements, Impairment Expense and Tax	**62 352**	**241 113**	**230 261**	**103 440**
Revaluation and impairment expense	232 066	(220 492)	(484 315)	0
Movements in fair value	(110 927)	162 110	(1 923)	(85 571)
Profit (Loss) before Tax	**183 491**	**182 731**	**(255 977)**	**17 869**
Income tax benefit (expense)	(54 816)	(39 182)	59 697	(3 997)
Net Profit (Loss)	**128 675**	**143 549**	**(196 280)**	**13 872**
Other Comprehensive Income				
Cash flow hedge fair value gain taken to equity	5 146	5 904	5 122	(18 581)
Actuarial gains (losses) on RBF provision	41 331	232	53 592	(91 503)
Revaluation of property, plant and equipment	0	0	(321 351)	321 351
Other	(26)	79	96	(287)
Income tax relating to these items	(13 935)	(1 864)	76 574	(63 294)
Other Comprehensive Income (Loss)	**32 516**	**4 351**	**(185 967)**	**147 686**
Total Comprehensive Profit (Loss)	**161 191**	**147 900**	**(382 247)**	**161 558**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Cash	15 683	13 001	15 669	7 029
Receivables	250 476	241 086	220 828	142 062
Investments	11	11	24 137	32
Inventories	2 539	2 331	38 928	54 706
Financial assets	134 129	200 401	84 353	202 368
Current tax asset	25 876	0	0	0
Other current assets	15 314	11 213	0	0
Assets held for sale	0	0	0	116 731
Total Current Assets	**444 028**	**468 043**	**383 915**	**522 928**
Payables	164 283	176 073	142 732	124 700
Borrowings	65 403	369 285	135 669	211 252
Other financial liabilities	142 210	157 615	184 849	464 891
Tax liabilities	0	46 755	59 528	28 938
Provisions	100 003	100 399	58 570	54 114
Other current liabilities	8 338	6 425	0	0
Total Current Liabilities	**480 237**	**856 552**	**581 348**	**883 895**
Net Working Capital	**(36 209)**	**(388 509)**	**(197 433)**	**(360 967)**
Property, plant and equipment	4 208 087	3 969 795	4 188 436	4 484 569
Investments	68 556	68 939	66 696	34 557
Other financial assets	425 516	488 384	473 915	715 986
Goodwill	16 396	16 396	16 396	47 796
Other non-current assets	33 185	13 247	0	0
Total Non-Current Assets	**4 751 740**	**4 556 761**	**4 745 443**	**5 282 908**
Borrowings	789 612	494 717	770 126	645 554
Provisions	401 704	458 691	492 799	413 133
Other financial liabilities	891 216	890 797	934 355	958 432
Deferred tax liabilities	569 678	508 332	561 575	772 775
Total Non-Current Liabilities	**2 652 210**	**2 352 537**	**2 758 855**	**2 789 894**
Net Assets	**2 063 321**	**1 815 715**	**1 789 155**	**2 132 047**
Reserves	(8 122)	(13 242)	(19 226)	296 907
Contributed equity	558 206	353 206	360 239	271 100
Retained profits	1 513 237	1 475 751	1 448 142	1 564 040
Total Equity	**2 063 321**	**1 815 715**	**1 789 155**	**2 132 047**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts from customers	1 470 704	1 998 460	1 488 304	1 007 227
Government grants	9 605	9 264	7 756	8 032
Payments to suppliers and employees	(1 315 603)	(1 598 810)	(1 129 478)	(784 011)
Interest received	256	1 031	685	873
Finance costs	(50 708)	(51 842)	(44 354)	(61 289)
Government guarantee fee	(8 719)	(11 222)	(8 595)	(8 697)
Income tax equivalent paid	(80 069)	(104 208)	(52 769)	(54 799)
Cash from Operations	**25 466**	**242 673**	**261 549**	**107 336**
Proceeds from investments	2 156	900	91 576	88 082
Proceeds from financial assets	1 302	15 792	31 679	0
Payments for financial assets	(2 950)	0	0	(13 041)
Payments for property, plant and equipment	(100 698)	(125 155)	(141 558)	(167 379)
Business acquisition	0	0	(4 326)	0
Proceeds from sale of property, plant and equipment	567	4 156	763	509
Cash (used in) Investing Activities	**(99 623)**	**(104 307)**	**(21 866)**	**(91 829)**
Proceeds from borrowings	475 369	185 700	427 000	565 600
Repayment of borrowings	(484 269)	(227 100)	(582 600)	(537 601)
Equity Contribution	205 000	(7 033)	0	0
Repayment of finance lease	(685)	(669)	(652)	(636)
Dividend paid	(118 576)	(116 058)	(50 686)	(49 008)
Cash from (used in) Financing Activities	**76 839**	**(165 160)**	**(206 938)**	**(21 645)**
Net Increase (Decrease) in Cash	**2 682**	**(26 794)**	**32 745**	**(6 138)**
Cash at the beginning of the year	13 012	39 806	7 061	13 199
Cash at End of the Year	**15 694**	**13 012**	**39 806**	**7 061**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Net profit (loss)		128 675	143 549	(196 280)	13 872
Underlying profit (loss)		62 352	241 113	230 261	103 440
EBIT ($'000s)		134 279	320 953	297 762	190 127
EBITDA ($'000s)		227 197	409 183	389 135	272 400
Operating margin	>1.0	1.18	1.26	1.33	1.35
Return on assets	5.21	2.6%	6.3%	5.4%	3.4%
Return on equity		6.6%	8.0%	(10.0%)	0.7%
Financial Management					
Debt to equity		41.4%	47.6%	50.6%	40.2%
Debt to total assets		16.5%	17.2%	17.7%	14.8%
Interest cover - EBIT	>2	1.87	4.02	4.41	2.19
Interest cover - EBITDA	>2	3.16	5.13	5.76	3.14
Interest cover - operating cash flows		1.50	5.68	6.90	2.75
Current ratio	>1	0.92	0.55	0.66	0.59
Cost of debt	7.9%	6.7%	7.4%	7.9%	7.1%
Debt collection	30 days	62	44	52	50
Creditor turnover	30 days	27	18	19	20
Asset Management					
Investment gap %	100%	108.4%	141.9%	154.9%	203.4%
Returns to and from Government					
Dividends paid ($'000s)		118 576	116 058	50 686	49 008
Income tax paid ($'000s)		80 069	104 208	52 769	54 799
Government guarantee fees ('$000s)		8 719	11 222	8 595	8 697
Total return to the State ($'000s)		207 364	231 488	112 050	112 504
Dividends recommended ($'000s)		25 000	118 576	116 481	50 686
Dividend payout ratio	90%	57.3%	70.3%	72.3%	70.0%
Dividend to equity ratio		1.3%	6.6%	5.9%	2.4%
CSO funding ($'000s)		9 600	9 200	7 700	8 000
Other Information					
Average staff numbers (FTEs)		1 078	1 114	1 037	916
Average staff costs ($'000s)		117	121	118	114
Average leave balance per FTE ($'000s)		24	24	27	24

MOTOR ACCIDENTS INSURANCE BOARD (MAIB)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion issued on 13 August 2015.

Despite lower Premium revenue, caused by the Regulator's decision to reduce base premiums for all vehicle classes by 7.4% from 1 December 2013, and high claims paid, MAIB recorded an Underwriting Profit of $24.269m this year. This was better than the past four-year average primarily due to favourable movements in the outstanding claim liability, which resulted in lower overall claims expenses of $104.342m compared with the four-year average of $129.371m.

Even though MAIB reported a Comprehensive Profit of $100.311m this year, Net Assets declined from $484.380m at 30 June 2014 to $440.121m this year due to payment of special and ordinary dividends of $144.570m.

However, MAIB remained in a sound financial position at 30 June 2015 and its funding ratio was within the Board's target of 120% to 145%.

SNAPSHOT

- MAIB recorded a Net Profit Before Tax of $137.193m.
- Included was an Underwriting Profit of $24.269m.
- Net Investment income remained at a reasonable level of $122.978m, representing an 8.4% return on investments.
- Dividends paid this year totalled $144.570m, consisting of a profit-based dividend, $44.570m, and a special dividend, $100.000m. Dividend recommended by the Board for payment in 2015-16 is $47.692m.
- At 30 June 2015, Total Equity was $440.121m.
- MAIB's funding ratio of 127.8%, was within the Board's target of 120% to 145%.

We engaged an external expert to conduct a triennial peer review of MAIB's insurance liabilities. Our expert concluded that nothing came to their attention that would lead them to believe that the valuation results are unreasonable.

Major variations between the 2014-15 and 2013-14 financial years included:

- Claims expense decreased by $20.260m
- Income tax expense decreased by $9.116m
- the amount of total investments, including Cash, at 30 June decreased by $44.751m to $1.473bn
- Provision for tax decreased by $39.209m
- Outstanding claims liability increased by $22.781m
- Net deferred tax liabilities increased by $17.236m.

The audit was completed satisfactorily without any reportable audit findings.

INTRODUCTION

MAIB was established under the *Motor Accidents (Liabilities and Compensation) Act 1973* (the Act). Its principal business is to manage all aspects of compensation awarded to persons suffering injury as a result of a motor accident as prescribed by the Act.

At 30 June 2015, the MAIB's Board of Directors consisted of five members who are appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister, the Minister for Infrastructure.

KEY AREAS OF AUDIT ATTENTION

Description of area	Impact on audit approach
MAIB held significant investments that back its insurance liabilities. The majority of investments are managed by fund managers who were responsible for achieving agreed performance targets while operating within an established framework. A custodian holds the investments and conducts settlements pursuant to instructions from MAIB and fund managers. The custodian provides monthly reports on investments held by the fund managers including analytical, accounting and tax reports. MAIB, while retaining responsibility for the completeness and accuracy of the investment valuations included in its financial report, placed significant reliance on investment managers and the custodian in regards to the existence, rights and obligations and valuation of the investments, and disclosures in the financial statements. These matters are complex and extensive.	Audit procedures included • review of fund managers' and other related sign offs and certifications provided, including the scope and any limitations, disclaimers or exceptions and their impact on MAIB's financial report • review of the scope agreed between MAIB and fund manager for the GS 007 audit • review of MAIB's assessment of the appropriateness of the scope and timing of the audit work (agreed-upon procedure reviews) to be undertaken over all other investments • analysis of the portfolio in conjunction with management to determine those investments where issues may exist in obtaining evidence regarding the appropriateness of the valuation, including those with stale investment prices at reporting date, and/or the existence of estimation uncertainty. Where possible alternative procedures were undertaken to gain the necessary assurance • review of MAIB's control and oversight functions with respect to this outsourced arrangement and the Service Level Agreement (SLA) between fund managers and MAIB.
MAIB relied upon external actuarial advice for its outstanding claims liability, related balances and valuations in the financial statements. These calculations are highly complex and include significant assumptions which are susceptible to changes in economic conditions such as movements in the Commonwealth bond rate and inflation rates, and changes in MAIB's claims experience. Changes to key underlying variables may have a significant impact on MAIB's financial performance and position.	Audit procedures included: • review of, utilising the services of our expert actuary, the actuarial valuation model (and assumptions) to assess the reasonableness of the valuations in the financial statements • review of quarterly valuation by MAIB's actuary to assess the latest economic assumptions and experience utilised • review of internal audit work that tested controls operating over claim payments and the accuracy of information provided for actuarial review • review of MAIB's control and oversight functions with respect to this outsourced arrangement.

Description of area	Impact on audit approach
Premium collection was outsourced to the Department of State Growth. This collection arrangement was put in place pursuant to the *Motor Accidents (Liabilities and Compensation) Act 1973*. A service level agreement is in place between the two entities covering the requirements and duties of each party under this arrangement.	Audit procedures included: • direct confirmation of the premiums collected with the Department of State Growth • review of the premium revenue system and methodologies in place at MAIB which record and allocate the premium revenue (earned / unearned and receivable) • review of the monitoring and oversight functions of MAIB over the premium collection process conducted by the Department of State Growth • review of the treatment of revenue in accordance with *AASB 1023 General Insurance Contracts*.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2015 and an unqualified audit report was issued on 13 August 2015.

KEY FINDINGS

The audit was completed without any reportable audit findings.

External Peer Review of Insurance Liabilities

This was the third time we engaged an external expert to conduct a triennial peer review of MAIB's insurance liabilities. The main objectives of the review were to assess:

- the reasonableness of the outstanding claims and premium liabilities
- the processes and methodologies used to derive the liability results
- compliance with accounting and actuarial standards.

Our expert concluded that nothing came to their attention that would lead them to believe that the valuation results are unreasonable. Nevertheless, our expert made a number of low risk observations which were reported to management.

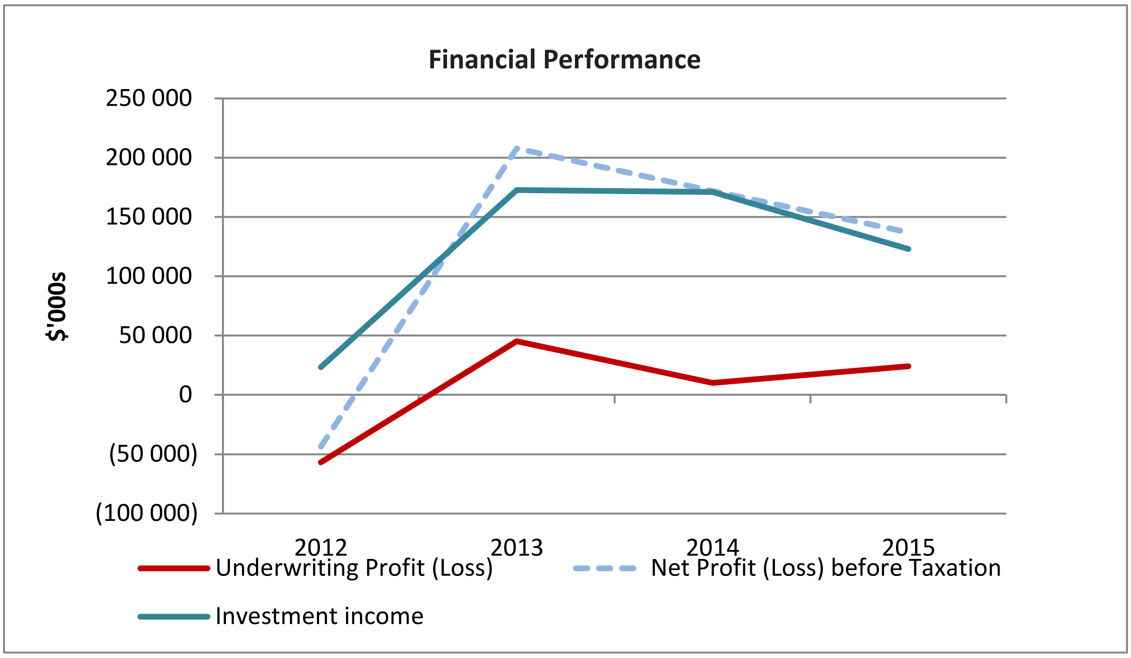
KEY DEVELOPMENTS

Tasmanian Economic Regulator Review

Subsequent to the Regulator's review in 2012-13, base premiums for all vehicle classes were reduced by 7.4% (excluding duty and GST) from 1 December 2013.

The impact of this premium reduction was particularly evident in 2014-15 when average Premium revenue declined by 5.7%. However, the decrease was partially offset by a 2.2% increase in the number of registered vehicles. Overall, Premium revenue was 3.6% lower compared to the previous year.

FINANCIAL ANALYSIS



For the year ended 30 June 2015, MAIB generated a Net Profit before Tax of $137.193m, compared to a 2013-14 profit of $171.942m. An increase in the Underwriting Profit, $14.133m, was more than offset by the decrease in Investment income, $48.157m. Despite this decrease, MAIB's investment returns were $122.978m in 2014-15, which represented an 8.4% return on its investments.

The increase in the Underwriting Profit was mainly due to Claims expenses being $20.260m lower. Claims expenses over the past four years are detailed in the table below:

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Claims paid	81 238	73 505	78 836	72 984
Movement in the outstanding claims liability	22 781	50 767	8 165	127 682
Other claims expenses	323	330	445	428
Total claims expenses	**104 342**	**124 602**	**87 446**	**201 094**

Claims expenses represented the combined impacts of actual and estimated future costs of claims incurred in the year and revisions to economic and actuarial assumptions on claims incurred in prior years. An independent Actuary undertook the valuation of the year-end claims liability. Reasons for the increase of $22.781m this year are included in the commentary on financial position later in this Chapter.

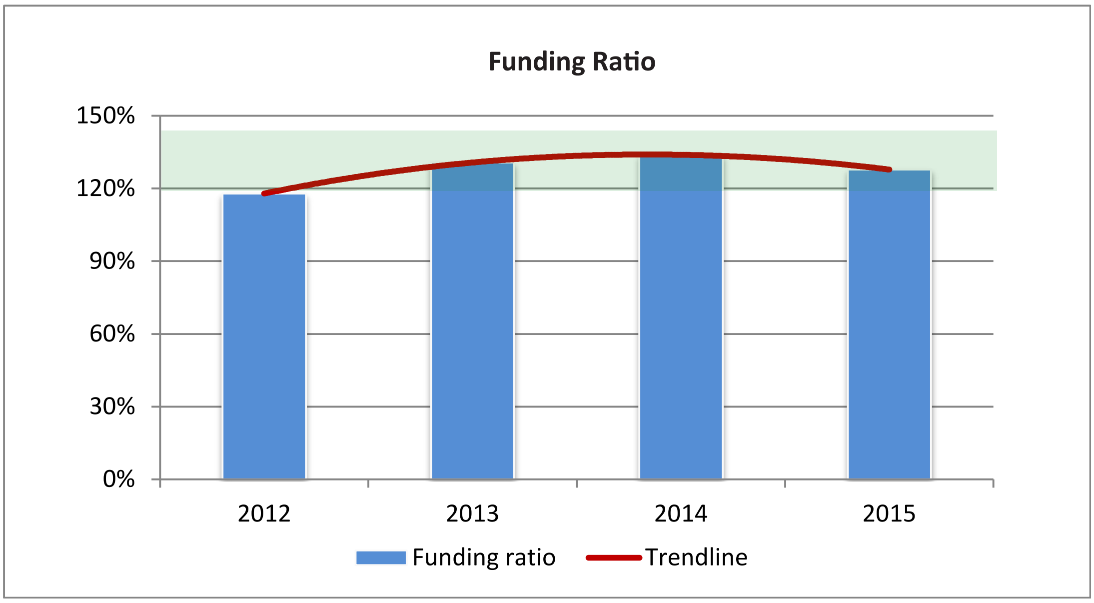
Over the four-year period Claims expenses averaged $129.371m per annum. Claims paid were relatively consistent and averaged $76.641m. Variability in the movement in the outstanding claims liability was mainly driven by revisions to economic assumptions underlying the valuation of the claims liability. Discount rates dropped during 2014-15 which increased the balance of the long-tail liability.

The table below shows the make-up of MAIB's investment revenue over the last four years.

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Investment income	53 965	42 970	52 216	47 799
Changes in fair value of investments				
Realised	313	51 237	(1 252)	9 637
Unrealised	70 734	78 866	123 149	(32 811)
Less investment related expenses	(2 034)	(1 938)	(1 430)	(1 333)
Total investment revenue	**122 978**	**171 135**	**172 683**	**23 292**
Return on investments	**8.4%**	**12.8%**	**15.5%**	**2.2%**

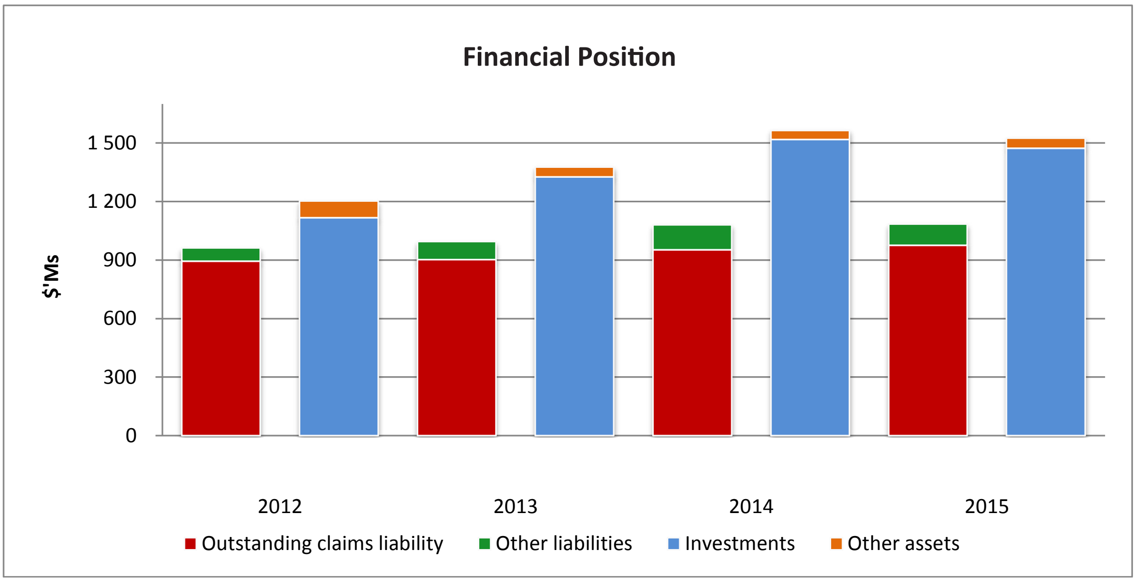
MAIB continued to achieve reasonable investment returns, due to the continuation of strong investment markets.

In summary, the Financial Performance graph and tables highlight the year on year volatility experienced by the MAIB resulting from its mix of long-tail liabilities matched by an appropriate long term investment strategy. MAIB's focus on the longer term introduces short term volatility in annual financial results mainly caused by movements in international and local financial markets and the impact of movements in inflation, discount rate assumptions and future costs underlying the valuation of its outstanding claims liability. This volatility is further illustrated in the Return on assets and Return on equity ratios (refer Financial Analysis in Chapter Appendices).



The Board, in conjunction with its consulting Actuary, has developed a capital adequacy policy that takes account of the capital requirements of MAIB's claims liability profile and investment strategy and balances those with being a monopoly provider and a GBE.

The Board targets a funding ratio between 120% and 145% which takes into account the liability profile and investment risk profile. At 30 June 2015 the funding ratio was 127.8% (2014: 133.9%).



The major component of MAIB's Total Assets is its investment portfolio (including cash), which at 30 June 2015 totalled $1.473bn (2014, $1.518bn) and represented 96.6% of Total Assets (97.0%). Total investments decreased by $44.751m, 2.95%, from 30 June 2014.

The Board adopts an investment strategy which seeks to maximise long-term growth within acceptable risk parameters to ensure sufficient funds are available to meet its claim liabilities at the long term rate of return of 6.0%. To achieve this outcome, it invests in a mix of growth and defensive asset classes. At 30 June 2015 the Board's actual investment holdings were 65% in the growth category (including Australian and international equities, property and infrastructure) and 35% defensive (including cash and fixed interest). The Board has adopted benchmark allocations for each asset class within the investment portfolio, which is expected to achieve a satisfactory level of return for an acceptable risk. Funds are transferred within asset classes to maintain target allocations or to implement strategic decisions to deviate from benchmark allocations where opportunities or material risks are identified.

The major component of the MAIB's Total Liabilities is its Outstanding claims liability, which at 30 June 2015 represented 90.0% of total liabilities (2014, 88.2%). As previously noted, an independent actuary is engaged by the Board to undertake the valuation of the year end claims liability. Determination of the claims liability is impacted by a variety of factors including:

- the number of claims received as a result of motor accidents
- the nature, type and severity of claims received
- duration of liability
- statutory obligations to claimants
- movement in economic factors such as inflation and discount rates.

The composition of the claims liability is provided in the following table:

	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Future care[1]	716 516	675 203	638 841	628 166
Common law[2]	210 214	230 002	217 613	210 292
Scheduled benefits[3]	48 734	47 478	45 462	55 293
Outstanding claims liability	**975 464**	**952 683**	**901 916**	**893 751**
New claims received	2 847	2 924	2 839	2 707
Total open claims at 30 June	**2 551**	**2 619**	**2 749**	**2 676**

[1]*Future care – claimants requiring 'daily care' as defined by S27A of the Act.*

[2]*Common law – claims where damages may be payable for personal injury caused by the negligence of a motorist.*

[3]*Scheduled benefits – claims accepted on a no-fault basis for payment including medical and rehabilitation costs and disability allowance irrespective of who caused the accident.*

The liability increased by $22.781m this year due to claims incurred of $130.014m offset by claim payments of $81.238m and the net effect of changes in claims experience and economic assumptions of $25.995m.

Evident from the table is that the majority of the movement was in Future care claims which represented 73.5% of the outstanding claims liability.

Returns to Government

Dividends are payable to Government under a dividend averaging policy agreed between the Board and Government. In accordance with the policy, dividends are based on average Net Profit over the current and four preceding years.

Over the four year period under review, MAIB paid $194.178m in dividends (including a special dividend of $100m in 2014-15). The Board recommended a $47.692m dividend to be paid in 2015-16.

The Board is also required under the *Government Business Enterprise Act 1995* to make tax equivalent payments to Government. Tax payable for 2014-15 was $20.283m. MAIB paid instalments totalling $21.887m during the year, resulting in a pre-paid tax position of $1.789m as at 30 June 2015.

Including tax equivalent payments, MAIB returned total cash payments to the State of $265.333m over the four year period under review.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Premium revenue	134 465	139 539	139 143	139 167
Outwards reinsurance expense	(5 840)	(6 025)	(5 923)	(5 448)
Claims expense	(104 342)	(124 602)	(87 446)	(201 094)
Recovery revenue	3 696	4 767	3 514	13 490
Unexpired risk benefit (expense)	(912)	(912)	(1 331)	(428)
Other underwriting expenses	(2 798)	(2 631)	(2 644)	(2 665)
Underwriting Profit (Loss)	**24 269**	**10 136**	**45 313**	**(56 978)**
Investment income	122 978	171 135	172 683	23 292
General and administration expenses	(5 926)	(5 783)	(6 040)	(5 693)
Road safety strategy funding	(3 543)	(3 491)	(3 484)	(3 483)
Injury Prevention and Management Foundation	(585)	(55)	(680)	(698)
Net Profit (Loss) before Tax	**137 193**	**171 942**	**207 792**	**(43 560)**
Income tax benefit (expense)	(37 328)	(46 444)	(60 330)	16 506
Net Profit (Loss)	**99 865**	**125 498**	**147 462**	**(27 054)**
Other Comprehensive Income (Net of Tax)				
Defined benefits plan actuarial gains (losses)	446	(315)	706	(947)
Total Comprehensive Profit (Loss)	**100 311**	**125 183**	**148 168**	**(28 001)**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	267 962	286 658	138 326	150 689
Trade and other receivables	1 789	1 357	2 161	2 144
Deferred acquisition costs	0	0	0	668
Reinsurance recoveries receivable	24 418	22 336	26 429	23 469
Other investments	1 951	2 912	1 605	185
Listed instruments	23 085	23 960	97 274	78 636
Unlisted instruments	1 007 619	1 039 605	870 565	671 816
Bonds	157 643	149 901	203 907	200 015
Investment properties	14 630	14 605	14 740	15 040
Plant and equipment and intangibles	702	911	947	1 080
Deferred tax asset	22 681	22 273	20 952	51 541
Other assets	1 789	0	24	7 410
Total Assets	**1 524 269**	**1 564 518**	**1 376 930**	**1 202 693**
Trade and other payables	2 101	1 966	2 117	1 984
Provision for tax	0	39 209	6 347	0
Unearned premium liability	58 584	56 274	59 951	58 661
Injury Prevention and Management Foundation liability	0	89	781	815
Unexpired risk liability	2 403	1 486	640	0
Outstanding claims liability	975 464	952 683	901 916	893 751
Provision for employee benefits – leave	596	720	695	653
Provision for employee benefits – superannuation	4 612	4 967	4 217	4 924
Deferred tax liability	40 388	22 744	17 850	1 517
Total Liabilities	**1 084 148**	**1 080 138**	**994 514**	**962 305**
Net Assets	**440 121**	**484 380**	**382 416**	**240 388**
Retained Earnings	440 121	484 380	382 416	240 388
Total Equity	**440 121**	**484 380**	**382 416**	**240 388**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts from premiums	150 043	150 155	154 452	152 463
Payments for claims	(87 049)	(79 050)	(84 129)	(78 228)
Other payments	(28 804)	(28 611)	(28 718)	(28 073)
Other receipts	3 460	11 294	3 032	6 323
Income tax paid	(61 281)	(9 874)	0	0
Dividends received	39 957	29 805	42 211	34 336
Interest received	13 946	10 837	8 880	8 669
Cash from Operations	**30 272**	**84 556**	**95 728**	**95 490**
Net receipts (payments) for investments	95 852	87 221	(101 493)	(89 684)
Payments for property, plant and equipment	(325)	(246)	(552)	(208)
Proceeds from sale of property, plant and equipment	75	20	94	6
Cash from (used in) Investing Activities	**95 602**	**86 995**	**(101 951)**	**(89 886)**
Dividends paid	(144 570)	(23 219)	(6 140)	(20 249)
Net Increase (Decrease) in Cash	**(18 696)**	**148 332**	**(12 363)**	**(14 645)**
Cash at the beginning of the year	286 658	138 326	150 689	165 334
Cash at End of the Year	**267 962**	**286 658**	**138 326**	**150 689**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
EBIT ($'000s)		137 193	171 942	207 792	(43 560)
Net profit (loss) ($'000s)		99 865	125 498	147 462	(27 054)
Operating margin	>1.0	2.12	2.21	2.96	0.80
Return on assets		8.9%	11.7%	16.1%	(3.7%)
Return on equity		21.6%	29.0%	47.4%	(10.2%)
Financial Management					
Funding ratio	120-145%	127.8%	133.9%	130.7%	117.9%
Returns to Government					
Dividends paid ($'000s)		144 570	23 219	6 140	20 249
Income tax paid ($'000s) [1]		61 281	9 874	0	0
Total return to the State ($'000s)		205 851	33 093	6 140	20 249
Dividends paid or payable ($'000s)		47 692	44 570	23 219	6 140
Dividend payout ratio [2]	50%	47.8%	35.5%	15.7%	(22.7%)
Dividend to equity ratio	6%	10.3%	10.3%	7.5%	2.3%
Other Information					
Average staff numbers (FTEs)		35	35	36	35
Average staff costs ($'000s)		94	88	85	81
Average leave balance per FTE ($'000s)		17	21	20	19

[1] *No Tax equivalent was payable in respect of 2011-12. Tax equivalent payable for 2012-13 was offset against amounts prepaid in 2009-10.*

[2] *The actual Dividend paid or payable is based on a five-year average of the Net Profit.*

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY (The Authority)

OVERALL CONCLUSION

The audit was completed on time with no major items raised with management and an unqualified audit opinion issued on 3 September 2015.

The Authority recorded Underlying Surpluses in each of the past two financial years primarily due to growing visitor numbers and support from the Commonwealth and State Governments for conservation funding. Over the past four years its Net Assets increased from $25.777m to $30.097m.

In 2014-15, visitor numbers rose at the Port Arthur Historic Site from 286 915 to 306 750 resulting in Site revenue of $13.462m, an increase of 8.48% compared to 2013-14.

SNAPSHOT

- The Authority recorded a smaller Net Profit for the year of $0.211m (2013-14, $2.364m).
- Conservation and tourism works were funded by State and Commonwealth Governments in 2014-15 which amounted to $4.170m ($5.686m) and $2.210m ($0.263m), respectively.
- Visitor numbers at the Port Arthur Historic Site increased by 6.50% (18.0%) in 2014-15 to 306 794 (286 915).
- Net Assets increased by $1.123m to $30.097m.

Key audit findings included three moderate risk matters, two of which related to the implementation of a new ledger system, which was not unexpected, and were promptly addressed. These included the need for the Authority to prepare bank reconciliations on a timely basis, check the trial balance to ensure that it was in balance and review segregation of duties in the processing of journals.

Key developments this year included:

- the Penitentiary Precinct was officially launched on 21 January 2015. The total cost of the project was approximately $7.000m which was funded by the State, $3.000m, and Commonwealth, $2.111m, and from the Authority's own resources
- the Authority implemented a new cloud based general ledger system on 31 March 2015
- it used market yields on high quality corporate bonds to discount its defined benefit plan obligation and long service leave provision for the first time. The change in estimate resulted in a decrease in the superannuation liability of $0.458m and long service leave provision by $0.032m
- the Authority changed its accounting policy in how it recognised commission expenditure. Related revenue is now recognised on a gross basis and commission expenditure allocated to cost of goods sold. There was no impact on the Net Profit.

INTRODUCTION

The Authority is governed by the *Port Arthur Historic Site Management Authority Act 1987* (the Act). It is managed by a Board consisting of seven members. Its main activities are the conservation, maintenance, visitor management and promotion of the Port Arthur, Coal Mines and the Cascades Female Factory Historic Sites.

It operates two distinct activities: the conservation of the historic sites under its control for the enjoyment of future generations; and the operation of tourism activities and promotion of the sites as tourist destinations.

In recent years, State and Australian Governments have provided additional support in recognition of the unique heritage value and economic benefits of the sites to the Tasmanian economy. These funds have been, and are being, applied to significant works across the sites. In the last two years, significant conservation works were undertaken within the Penitentiary precinct.

The Authority is a Government Business Enterprise, was not subject to the tax equivalents regime and contributed to conservation and infrastructure works across all three sites through its tourism activities and the revenue generated by them. However, it remained economically dependent on funding from the State Government.

The Responsible Minister is the Minister for Environment, Parks and Heritage.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
The Authority received a number of grants for a variety of purposes.	We tested grant transactions reported as they applied to the Penitentiary Precinct Project and other purposes as well as reviewed the status of this source of funding.
The Authority applied an index to building and infrastructure assets.	We tested the indexation of revaluation ensuring its appropriateness and compliance with the accounting standard AASB13 *Fair Value Measurement*.
The Department of Treasury and Finance (Treasury) revised the disclosure Guideline for Tasmanian Government Businesses in December 2014. The revised Guideline established better practice principles and approval procedures including: • setting of Chief Executive Officer remuneration and employment arrangements • setting of other Senior Executive remuneration and employment • the disclosure of remuneration packages for Directors and Senior Executives in Tasmanian Government Business.	We tested the disclosure of Director and Executive remuneration by the Authority to ensure it met the requirements of the Guideline.

The Authority recorded a superannuation liability relating to RBF members. The liability was determined by an independent actuary. The liability also required detailed disclosure in the annual financial statements.	We engaged a specialist to undertake a peer review of the State Actuary which was engaged by Treasury to provide actuarial services for the RBF Contributory Scheme. The peer review provided assurance that assumptions and methodology used by the State Actuary comply with legislation and relevant valuation framework, were reasonable and appropriate. We: • ensured member data on the valuation of the defined benefit superannuation liability was complete, accurate and represented the Authority's employees (either current or former) • ensured the discount rate used complied with the requirements of Accounting Standards • reviewed the superannuation note disclosure in the Authority's financial statements.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2015 and an unqualified audit report was issued on 3 September 2015.

KEY DEVELOPMENTS

Penitentiary Precinct Project

The Penitentiary Precinct was officially launched on 21 January 2015. The total cost of this project was approximately $7.000m. The State Government provided $3.000m in 2013-14 and the Commonwealth Government contributed $2.111m in 2014-15 to the project. Remaining costs were funded from the Authority's own resources.

We tested Grants by reviewing deeds and the State Budget, and verified balances to ensure they were appropriately recorded.

Implementation of New General Ledger

The Authority implemented a new cloud based general ledger system 31 March 2015. The system included accounts payable, accounts receivable and general ledger modules. The Authority plans to integrate the asset management and human resource management modules in 2015-16.

We tested the transfer of balances from previous general ledger system.

Superannuation liabilities

There was a change in accounting policy regarding superannuation liabilities. The Authority used market yields on high quality corporate bonds to discount its defined benefit plan obligation and long service leave provision for the first time. Previously, discount rates based on market yields on government bonds were used. The change in estimate resulted in a decrease to the superannuation liability, $0.458m, and the long service leave provision, $0.032m.

Change in accounting policy regarding Commission expenditure

This year the Authority changed its accounting policy on commission expenditure. The change resulted in revenue recognised on a gross basis and commission expenditure allocated to cost of goods sold. There was no impact on the Net Profit from this change. The change resulted in:

- additional revenue of $0.426m in 2014-15 offset by
- a decrease in Other operating expenses of $0.095m in 2014-15
- increased in cost of goods sold of $0.521m in 2014-15.

The Authority disclosed the impact of this change in accounting policy. We concurred with the accounting treatment.

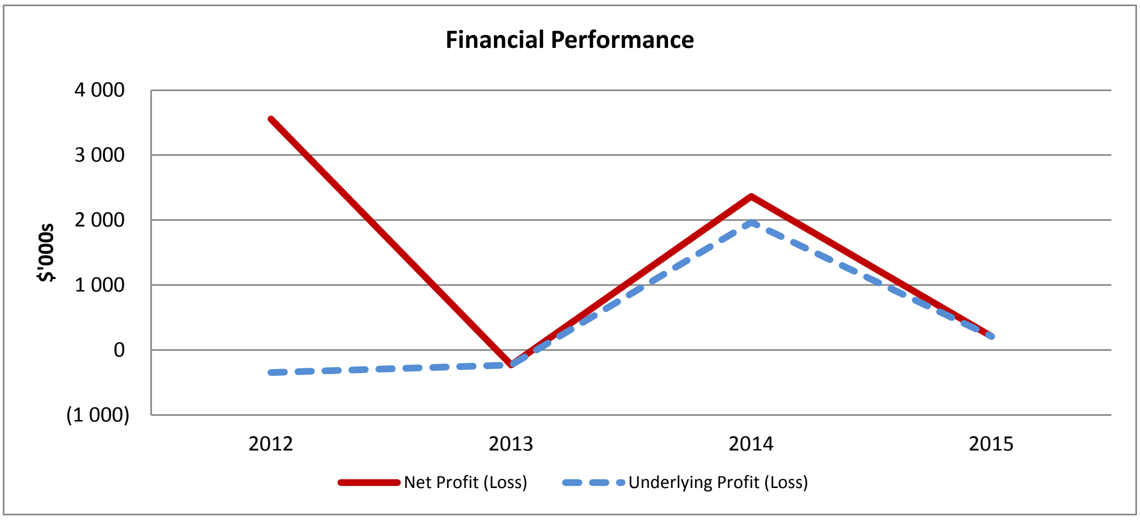
KEY FINDINGS

During the audit three moderate risk audit findings were identified and reported to management. These related to the Authority's need to:

- prepare and review the bank reconciliation on a timely basis. The issue arose in the implementation of the new general ledger system
- check the trial balance to ensure it balanced. The issue also arose in the implementation of the new general ledger system
- review segregation of duties in relation to manual processing of journals.

A low risk finding in relation to Inventory was also raised. These matters were reported to and were addressed by management.

FINANCIAL ANALYSIS



The Authority recorded an Underlying Profit of $0.211m in 2014-15. It continued to experience significant growth in Site revenue which increased by 51.75% over the four years under review. There was also additional conservation funding of $0.847m in 2014-15 for the Penitentiary Precinct Project and a $1.051m increase in Receipts from customers due to higher tourism activity.

Despite higher Total Revenue, the lower Underlying Profit in 2014-15 was mainly due to higher Conservation expenses $2.661m driven by the Penitentiary Precinct Project and increased Site operating expenses of $0.752m due to increased tourism activity. These higher costs included a 10.4% increase in FTEs due to greater tourism and conservation activities.

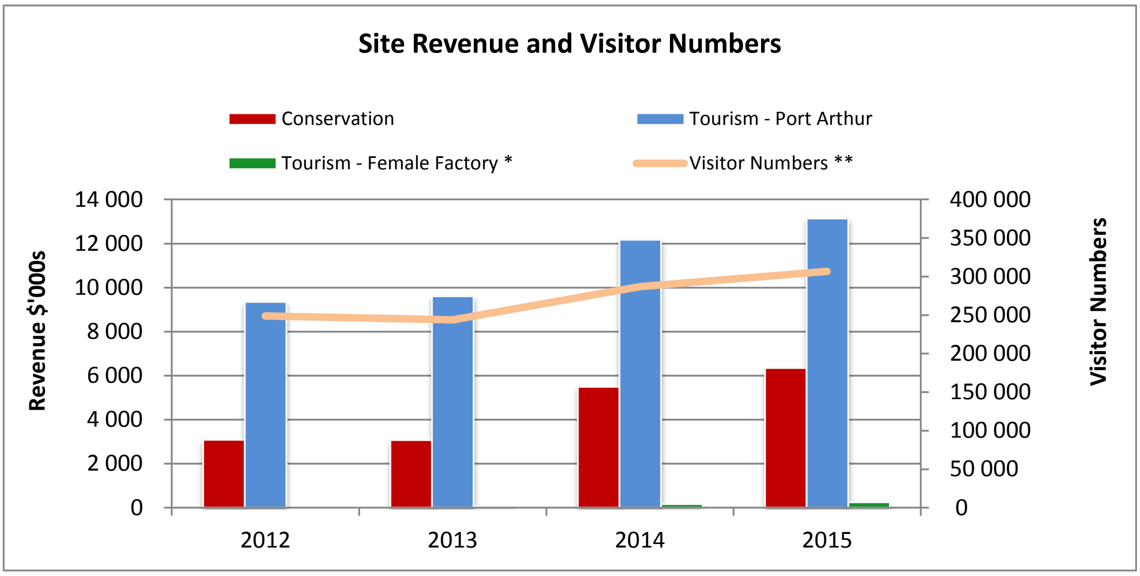
The Authority received Government support to fund its conservation and tourism works. In 2014-15, it received funding of $6.380m (2013-14, $5.949m), which consisted of State and Commonwealth funding of $4.170m and $2.210m, respectively.

Conservation funding represented 31.33% of Total Revenue.

Underlying Profit peaked in 2013-14 at $1.967m. That result was due mainly to higher Site revenue offset in part by higher operating expenses. Additional conservation funding was predominantly offset by increased conservation expenses.

The improved Net Profit in 2013-14 was driven by the Underlying Profit together with a further contribution of land related to the Female Factory site.

The Authority reported a significant Net Profit in 2011-12 due to the contribution of land and buildings amounting to $3.929m. Without these contributions, the Net Profit would have been a Net Loss of $0.372m.



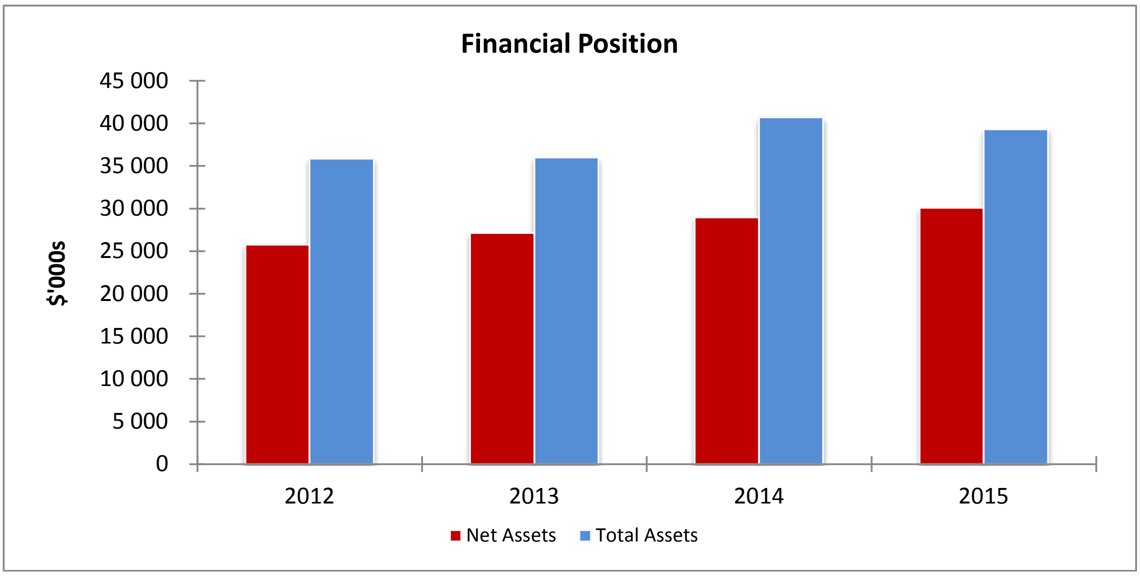
**The Coal Mines Historic Site currently generates no income.*
***Visitor numbers include both day and ghost tour visitors.*

Visitor numbers increased by 7.70% in 2014-15 to 306 794 (2013-14, 286 915) and by 21.05% over the past four years. In 2012-13, visitor numbers were lowest in the four years under review, was primarily due to the closure of the site during the Tasmanian bushfire disaster in January 2013.

Site revenue increased by $2.574m in 2014-15 primarily due to a combination of the higher visitor numbers and the impact of the change in accounting policy regarding commission expenditure.

The Cascades Female Factory Site generated higher revenue of $0.323m (2013-14, $0.248m) mainly due to a combination of increased visitor numbers and a higher average yield per visitor.

The graph shows that Conservation funding from Governments remained fairly stable over the first two years followed by a significant increase of $2.019m in 2013-14 and $0.847m 2014-15. These increases mainly related to the Penitentiary Stabilisation Project funding.



Net Assets increased steadily over the four year period of review to $30.097m at 30 June 2015 with the increase in 2014-15 entirely due to the Comprehensive result for the year.

The Authority recorded Cash and deposits of $6.353m at 30 June 2015 (2014, $8.106m). The decrease of $1.753m was primarily due to cash used in operations, $0.845m, and spending on Property, plant and equipment of $0.908m.

Negative cash generated from operations resulted mainly from increased Payments to suppliers and employees due to higher level of conservation activity, and lower Grants from government, $2.162m.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Site revenue	13 462	12 410	9 380	8 871
Interest and other income	521	519	390	547
Conservation funding	5 934	5 087	3 068	3 088
Grants – other	446	464	591	522
Total Revenue	**20 363**	**18 480**	**13 429**	**13 028**
Site operating expenses	10 100	9 348	8 227	7 761
Conservation expenses	7 842	5 181	3 424	3 804
Other operating expenses	2 210	1 984	2 009	1 812
Total Expenses	**20 152**	**16 513**	**13 660**	**13 377**
Gross margin*	**3 362**	**3 062**	**1 153**	**1 110**
Underlying Profit (Loss)	**211**	**1 967**	**(231)**	**(349)**
Contributed non-current assets	0	397	0	3 929
Impairment of non-current assets	0	0	0	(23)
Net Profit (Loss)	**211**	**2 364**	**(231)**	**3 557**
Other Comprehensive Income				
Increase (decrease) in asset revaluation reserve	237	(115)	252	(71)
Defined benefit plan actuarial gain (loss)	675	(416)	1 343	(1 791)
Total Comprehensive Profit (Loss)	**1 123**	**1 833**	**1 364**	**1 695**

* *Gross margin is Site revenue less Site operating expenses*

Statement of Financial Position

	2015	2014	2013*	2012*
	$'000s	**$'000s**	**$'000s**	**$'000s**
Cash assets	6 353	8 106	4 054	3 790
Receivables	181	352	167	161
Inventories	467	460	457	431
Other	63	60	43	59
Total Current Assets	**7 064**	**8 978**	**4 721**	**4 441**
Payables	725	1 129	577	614
Provisions	1 543	1 564	1 691	1 500
Unearned revenue	324	1 838	89	264
Total Current Liabilities	**2 592**	**4 531**	**2 357**	**2 378**
Net Working Capital	**4 472**	**4 447**	**2 364**	**2 063**
Property, plant and equipment	32 248	31 724	31 278	31 422
Total Non-Current Assets	**32 248**	**31 724**	**31 278**	**31 422**
Provisions	6 623	7 197	6 500	7 708
Total Non-Current Liabilities	**6 623**	**7 197**	**6 500**	**7 708**
Net Assets	**30 097**	**28 974**	**27 141**	**25 777**
Retained earnings	23 582	22 696	20 747	19 636
Reserves	6 515	6 278	6 394	6 141
Total Equity	**30 097**	**28 974**	**27 141**	**25 777**

** Comparative numbers in 2013 and 2012 have been restated in line with change in accounting policy by the Port Arthur Historic Site Management Authority.*

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts from customers	13 305	12 254	9 596	9 419
Grants from government	4 866	7 301	3 484	3 874
Payments to suppliers and employees	(19 237)	(14 685)	(12 523)	(13 091)
Interest received	221	260	172	199
Cash from (used in) Operations	**(845)**	**5 130**	**729**	**401**
Payments for property, plant and equipment	(987)	(1 113)	(488)	(676)
Proceeds from sale of property, plant and equipment	79	36	23	18
Cash from (used in) Investing Activities	**(908)**	**(1 077)**	**(465)**	**(658)**
Net Increase (Decrease) in Cash	**(1 753)**	**4 052**	**264**	**(257)**
Cash at the beginning of the year	8 106	4 054	3 790	4 047
Cash at End of the Year	**6 353**	**8 106**	**4 054**	**3 790**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Profit (Loss) from operations ($'000s)		211	1 967	(231)	(349)
Operating margin	>1.0	1.01	1.12	0.98	0.97
Financial Management					
Current ratio	>1	2.73	1.98	2.00	1.87
Debt collection	30 days	5	10	6	6
Creditor turnover	30 days	20	13	15	17
Other Information					
Average staff numbers (FTEs)		106	96	85	87
Average staff costs ($'000s)		76	77	80	69
Average leave balance ($'000)		14	14	14	11

PUBLIC TRUSTEE (PT)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion issued on 12 August 2015.

PT continued to produce reasonable results reporting Net Profits in each of the last four years. Its financial position was sound with a strong cash balance and positive working capital. PT's liabilities were dominated by its defined benefits superannuation obligation but this was more than offset by its investments at 30 June 2015 with net assets totalling $7.178m at 30 June.

However, because of the relative significance of both these items, the fact that they are based on fair values involving numerous economic and other assumptions, and the relative volatility associated with each, PT's results and financial position will fluctuate from year to year.

SNAPSHOT

- PT's Underlying Profit before Tax, $0.435m decreased by $0.601m compared to prior year.
- Comprehensive Profit Net of Tax of $2.172m included an after tax gain of $0.413m, being a fair value movement on investment in managed funds, and a gain on superannuation liabilities of $1.371m from a change to a corporate bond rate.
- Net Assets increased by $1.910m to $7.178m. This increase was predominantly due to the Comprehensive Profit, offset by dividend payments of $0.262m in 2014-15.
- PT held funds in trust on behalf of clients totalling $145.309m ($138.336m restated).
- No dividend was payable as the gap in Community Service Obligation (CSO) funding exceeded dividends payable in 2015.

Key developments this year included:

- refurbishment of PT's Hobart Office
- the first year of a new three year CSO Agreement.

The audit was completed satisfactorily with no findings during the audit

INTRODUCTION

PT is a Government Business Enterprise (GBE) established by the *Public Trustee Act 1930* (the Act). Principal commercial activities undertaken include provision of access to the general community of professional advice and service in relation to trustee services including:

- preparation of wills
- estate administration
- trust management and powers of attorney
- protection of the financial interests of individuals under a legal, physical or intellectual disability where PT is appointed to act on their behalf.

PT collects fees and commissions for providing these services. In addition, it receives funding from Government to enable it to satisfy its CSOs.

PT's financial report shows the results of its provision of the above services, its management of the Common Fund and two group investment funds. As part of its executor and trustee role, PT holds funds in trust on behalf of clients during the course of estate and trust administrations. Revenues earned by client funds are not treated as PT's income but are credited to relevant trust accounts. Estate and other assets under administration are not recognised in PT's statement of financial position but details are reported in the notes to the financial statements, its annual report and in this Chapter.

KEY AREAS OF AUDIT ATTENTION

<table>
<tr><th>Description of area</th><th>Impact on our audit approach</th></tr>
<tr><td>PT's investment in financial assets
Economic and market conditions cause volatility in investment market values. Investment values may not reflect their underlying value.
The movement in investments can have a significant impact on PT's profitability and solvency.</td><td>Audit procedures undertaken included:
• reconciliation and confirmation of investment balances
• analytical review of revenue and investment balances
• ensured standards-compliant disclosures in the notes to the financial statements in particular regarding the fair value hierarchy
• confirmation procedures noted immediately below.</td></tr>
<tr><td>Assets under management and trusteeship
These assets included funds invested in both cash with banks and unlisted funds managed by fund managers. Valuations of unlisted funds are based on proprietary valuations prepared by fund managers under their respective valuation methodologies. There is no active market to support the valuation of unlisted funds of corporate and client investments held by Group Investment Funds (GIFs) No.1 and No.2.</td><td>As part of our confirmation process, we obtained additional information from fund managers on unlisted funds held by PT as follows:
• extent to which the layers of investments downstream can be monitored by PT
• transparency, independence and robustness of the valuation process including for offshore investments
• adequacy of PT resources to evaluate and manage such investments
• capacity of PT to drill down to the level of constituent assets, documented triggers for such a drill down to occur and evidence of such occurrence.
We used this information to evaluate the valuation risk of each investment and tailored our approach accordingly.
We continued to seek confirmations of the number of units, the redemption value of those units at year-end and copies of audited financial statements directly from fund managers.</td></tr>
<tr><td>Commissions and fees
Failure to identify and correctly record Commissions and Fees earned from several sources using journals.</td><td>We:
• tested the completeness and accuracy of commission fee revenues
• performed analytical procedures that compared current year's balance with budget and prior year.</td></tr>
<tr><td>Taxation balances
Taxation balances are determined at year-end based on PT's financial performance and balances. The tax balances were material.</td><td>We tested the 2015 tax calculation, reviewed the 2014 tax return and assessed PT's compliance with tax legislation and AASB 112 Income Taxes.</td></tr>
</table>

Description of area	Impact on our audit approach
Superannuation PT recorded a superannuation liability relating to RBF members. The liability was determined by an independent actuary. The liability also required detailed disclosure in the notes to the financial statements.	We: • reviewed the superannuation note disclosure in PT's financial statements and ensured balances were in agreement with details provided by the State actuary • engaged our own actuary to assess the work of the State actuary.
Executive Remuneration Guidelines Compliance with updated Treasury Director and Executive Remuneration Guideline.	We ensured that PT was in compliance with the revised guideline.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2015. An unqualified audit report was issued on 12 August 2015.

KEY FINDINGS

No findings were made during the audit.

KEY DEVELOPMENTS

Refurbishment of Hobart Office

PT budgeted $1.270m to fund a major refurbishment of its Hobart office which commenced in 2015. The refurbishment was an upgrade of existing accommodation which also resulted in improved access for the public. There was a temporary relocation of PT to Kirksway Place during the works. The refurbishment was held ready for use in June 2015 and completed in July 2015 within budget.

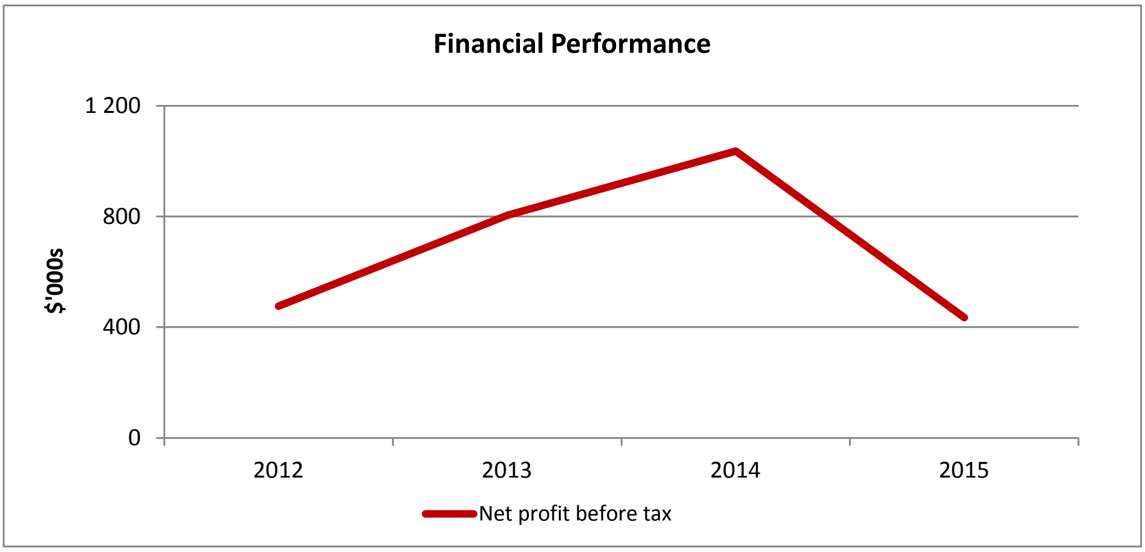
Funding and operational model

This was the first year of a new three year CSO Agreement between PT and Treasury. PT's dividend policy states that a dividend will only become payable should the amount of that dividend exceed the CSO funding gap for that year. To illustrate this, based on the year under review:

- a dividend payable in respect of the 2015 net profit after tax based on Government's current dividend policy would be 90% of $0.388m which is $0.349m
- the CSO funding gap for 2015 was $0.500m.

As a result, no dividend was payable in respect of the year ended 30 June 2015.

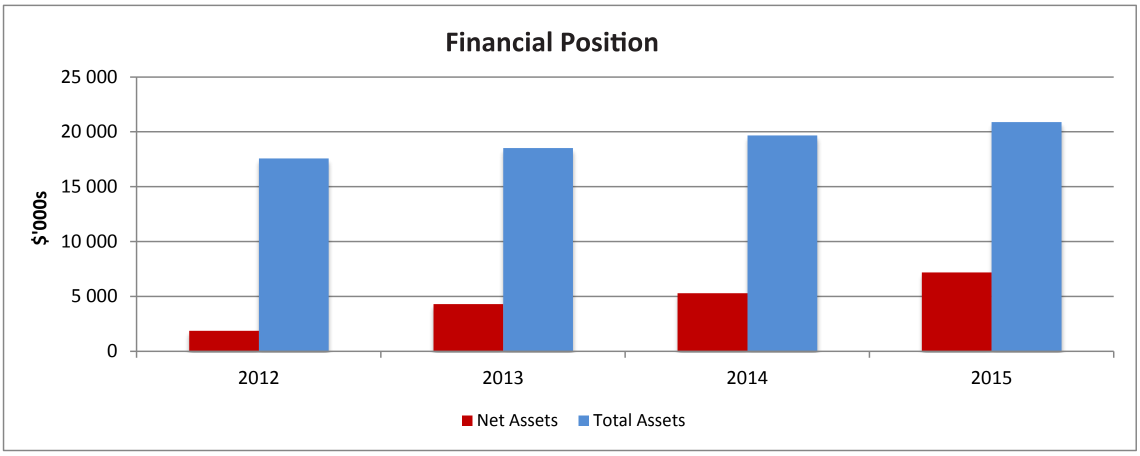
FINANCIAL ANALYSIS



PT's Net Profit before Tax, $0.435m, decreased by $0.601m compared to prior year. It was lower mainly due to:

- higher Employee costs, $0.366m or by 7.3% as a result of normal award increases and vacant positions from the 2014 financial year being filled for the full 2015 financial year
- higher Administrative expenses, $0.216m or by 11.6% due mainly to non-recurring temporary relocation costs associated with the refurbishment of the Hobart Office
- lower commission and fees, $0.175m or by 2.8%. This result was partly due to lower than expected capital commissions on assets called in and lower income receipts compared to prior year. Further, fees were lower than prior year due to activity and fund values.

The stronger result in 2013-14 was primarily due to increased fees and commissions, $0.617m, and increased CSO funding, $0.110m, partly offset by lower investment returns, $0.327m.



Total Assets increased each year since 2012. This was almost entirely related to higher cash balances, up by $0.326m over the period, and higher investments, up by $0.581m.

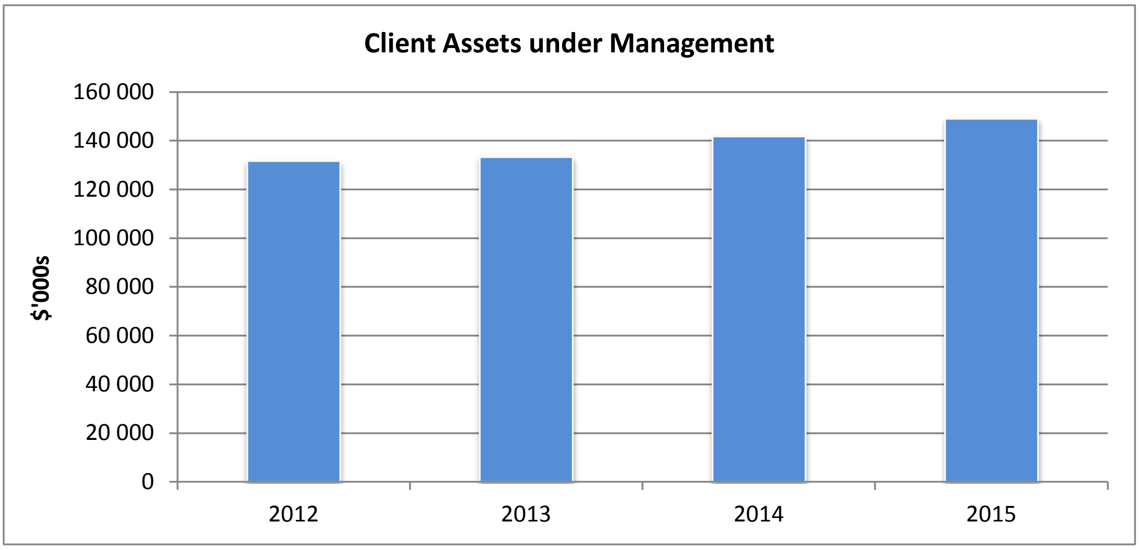
Net Assets increased by $1.910m this year mainly due to:

- Fair value gain on superannuation liabilities, net of tax, $1.371m which was mainly a result of using the corporate bond rate instead of the government bond rate
- higher value of investments, $0.413m, due to market movements.

Refurbishment of the Hobart Office referred to earlier and the lower net profit after tax this year impacted on a number of ratios as follows:

- Return on assets fell to 4.7% (2014, 8.2%)
- Return on equity fell to 6.2% (15.5%)
- Creditor turnover ratio, 92 days, (26 days) increased due higher trade creditors at year end. If invoices associated with the refurbishment are removed, the number of days would be 27days, which is within benchmark.

The current ratio, 1.45, (2.27) decreased due to higher trade creditors because of one-off outstanding invoices at year end.



PT managed the assets of its clients pursuant to the Act. These assets are not reflected in the Statement of Financial Position as they are held in trust. The entity maintains one Common Fund (cash) and two investment funds to provide clients with a prudent investment for the particular circumstances of each client.

The value of the client funds reported in PT's financial statements, $145.309m, increased mainly due to the value of cash held in the Common Fund.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Commission and fees	6 110	6 285	5 668	5 591
Funding of community service obligations	1 556	1 470	1 360	1 311
Income from investments	670	629	956	608
Total Revenue	**8 336**	**8 384**	**7 984**	**7 510**
Employee costs	4 989	4 623	4 394	4 081
Accommodation expenses	424	439	433	422
Administration expenses	1 863	1 647	1 685	1 754
Finance expenses	523	533	573	679
Depreciation	102	106	95	98
Total Expenses	**7 901**	**7 348**	**7 180**	**7 034**
Net Profit (Loss) before Tax	**435**	**1 036**	**804**	**476**
Income tax expense (benefit)	47	297	247	98
Net profit (loss)	**388**	**739**	**557**	**378**
Other Comprehensive Income				
Change in value of investments	413	635	757	(252)
Fair value gains (losses) on super liabilities , net of tax	1 371	(389)	1 274	(2 854)
Other Comprehensive Income	**1 784**	**246**	**2 031**	**(3 106)**
Total Comprehensive Profit (Loss)	**2 172**	**985**	**2 588**	**(2 728)**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Cash	3 677	3 351	2 732	2 297
Receivables	305	332	508	196
Other	4	37	36	37
Total Current Assets	**3 986**	**3 720**	**3 276**	**2 530**
Payables	1 296	528	623	629
Provisions	1 329	1 016	1 122	1 008
Income tax liability	130	97	68	(19)
Total Current Liabilities	**2 755**	**1 641**	**1 813**	**1 618**
Net Working Capital	**1 231**	**2 079**	**1 463**	**912**
Financial assets	12 281	11 700	10 802	10 044
Property, plant and equipment	1 365	437	461	444
Deferred tax asset	3 248	3 791	3 964	4 548
Total Non-Current Assets	**16 894**	**15 928**	**15 227**	**15 036**
Provisions	10 947	12 739	12 407	14 101
Total Non-Current Liabilities	10 947	12 739	12 407	14 101
Net Assets	**7 178**	**5 268**	**4 283**	**1 847**
Retained profits	6 130	4 633	4 283	1 847
Asset revaluation reserve	1 048	635	0	0
Total Equity	**7 178**	**5 268**	**4 283**	**1 847**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts from clients, Government and Common Fund	8 287	8 354	7 543	7 731
Payments to suppliers and employees	(7 694)	(8 273)	(7 423)	(7 259)
Interest received	67	74	76	65
Taxation paid	(237)	(200)	(121)	(121)
Cash from (used in) operations	**423**	**(45)**	**75**	**416**
Proceeds from Financial assets	632	746	623	978
Proceeds from disposal of plant and equipment	5	0	0	0
Payments for property, plant and equipment	(472)	(82)	(112)	(106)
Cash from (used in) investing activities	**165**	**664**	**511**	**872**
Dividends paid	(262)	0	(151)	(225)
Cash (used in) financing activities	**(262)**	**0**	**(151)**	**(225)**
Net increase in cash	**326**	**619**	**435**	**1 063**
Cash at the beginning of the year	3 351	2 732	2 297	1 234
Cash at end of the year	**3 677**	**3 351**	**2 732**	**2 297**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Net Profit (Loss) ($'000s)		388	739	557	378
EBIT ($'000s)		958	1 569	1 377	1 155
EBITDA ($'000s)		1 060	1 675	1 472	1 253
Operating margin	>1.0	1.06	1.14	1.11	1.07
Return on assets		4.7%	8.2%	7.6%	6.8%
Return on equity		6.2%	15.5%	18.2%	11.4%
Financial Management					
Current ratio		1.45	2.27	1.81	1.56
Creditor turnover	30 days	92	26	48	28
Returns to Government					
Dividends paid ($'000s)		262	0	151	225
Income tax paid ($'000s)		237	200	121	121
Total return to the State ($'000s)		499	200	272	346
Dividends payable ($'000s)		0	262	0	151
Dividend payout ratio		0.0%	25.3%	0.0%	31.7%
Dividend to equity ratio		0.0%	5.5%	0.0%	4.5%
Other Information					
Average Staff numbers (FTEs)		54	53	52	52
Average staff costs ($'000s)		92	87	85	78
Average leave balance per FTE ($'000s)		15	14	14	17

TASMANIAN PUBLIC FINANCE CORPORATION (TASCORP)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion issued on 7 August 2015.

TASCORP continues to play an important role generating borrowings and financing State entities on behalf of State and Local Government. Its Net Profit before tax improved this year, almost entirely due to lower hedging and funding costs, with 2014-15 being the highest result over the past four years.

During 2014-15 it returned more to the State in the form of taxes and dividends than the prior period.

SNAPSHOT

- TASCORP reported a Net Profit before Tax of $19.557m in 2014-15. This was an improvement of $4.596m on last year's profit as margins for client advances improved.
- Client advances increased to $3.274bn at 30 June 2015.
- Borrowings decreased to $5.131bn at 30 June 2015
- TASCORP paid dividends of $10.512m during the year and income tax of $4.488m.

The audit was completed satisfactorily with no findings.

INTRODUCTION

TASCORP was established by the *Tasmanian Public Finance Corporation Act 1985*. Its Board consists of five members appointed by the Governor. Its functions include the development and implementation of borrowing and investment programs for participating authorities, including Local Government, Government Business Enterprises, Other State Authorities, State Owned Companies and inner budget agencies.

Terms used in this Chapter

- **Commercial paper** means a form of borrowing that is an unsecured promissory note with a fixed maturity of no more than 364 days.
- **Preferred stock** means fixed bonds with semi-annual interest payments that are traded in the market place.

KEY AREAS OF AUDIT ATTENTION

Description of area	Impact on Audit approach
TASCORP valued financial instruments using market-to-market valuations, which relied on judgement in the absence of quoted market prices.	Financial instrument valuation experts were utilised to audit the valuation of financial instruments at year-end. Valuations impact on both asset and liability values carried at year end. Our audit applied external support and valuation techniques to test a sample of valuations.
TASCORP utilised derivative financial instruments to hedge risks associated with its borrowing and lending processes. By nature, these instruments represent an audit risk based on the completeness of the derivative instruments recorded.	Confirmations from external counter-parties were used to confirm the derivative positions at year end.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 7 August 2015 and an unqualified audit report was issued the same day.

KEY FINDINGS

There were no key findings.

KEY DEVELOPMENTS

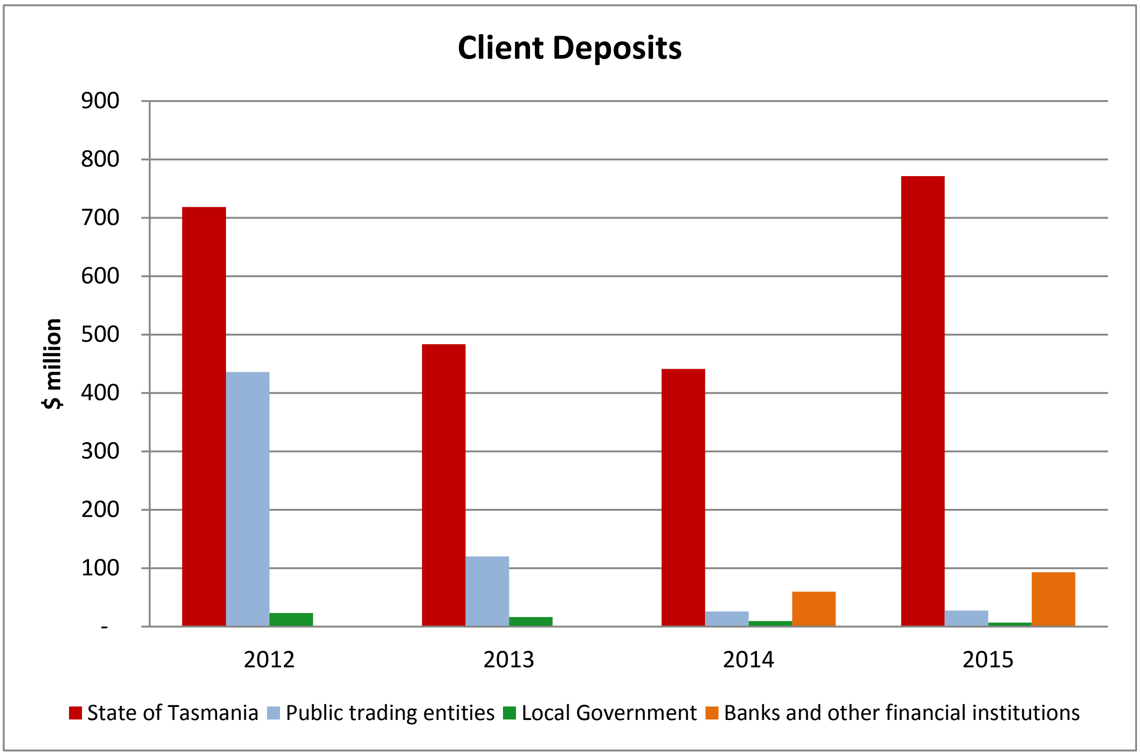
Interest Rates

Cost of borrowings decreased from a weighted average cost at 30 June 2014 of 4.09% to 3.18% at 30 June 2015 as a result of lower interest rates. The interest rate achieved on investments also decreased from a weighted average interest return of 3.81% at 30 June 2014 to 3.18% at 30 June 2015.

A difference in the return received from investments and the cost of borrowings represents the cost of hedging surplus long term borrowings with bonds issued by other Australian states. Surplus long term borrowings were invested in other semi-government bonds. The difference in the return from these is the cost of hedging surplus long-term borrowings. The surplus borrowings were invested in this manner to ensure sufficient funds were available to meet funding requirements of State entities. These percentages represented the weighted average effective interest rates received and paid based on the assets and liabilities held at 30 June each year. This cost is worn by TASCORP through higher interest expense compared to the return received through investments. The marginal improvement in both the cost of borrowings and returns from investments led to the higher profit this year.

Financial Instruments

Borrowings dropped by $0.489bn to $5.131bn at 30 June 2015 as there was an increase in client deposits. Deposits, which represented cash held on deposit with TASCORP, increased by $0.362bn to $0.899bn at 30 June 2015. The table below shows Deposits held by TASCORP and their composition by sector.



The increase in Deposits in 2014-15 reversed the trend seen in previous years and was predominantly driven by increased deposits by the State of Tasmania due to an improved cash position at 30 June 2015.

The majority of client deposits and unallocated borrowings were invested in fixed and floating interest rate securities. Investments decreased by $0.434m to $2.741bn at 30 June 2015, with the majority, 76.7% (2013-14, 65.9%) invested with banks and other financial institutions.

FINANCIAL ANALYSIS

TASCORP achieved a Profit before tax in 2014-15 of $19.557m (2013-14, $14.961m) and at 30 June 2015 it had Net Assets of $52.763m ($49.585m) that consisted of:

	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Investments	2 741 304	3 175 371	2 747 733	3 081 251
Advances to State entities	3 274 039	3 009 298	2 974 507	3 141 851
Deposits	(899 467)	(536 589)	(620 161)	(1 177 998)
Borrowings	(5 130 571)	(5 620 442)	(5 087 045)	(5 040 617)
Net derivatives	59 885	21 858	20 529	9 444
Other assets & liabilities	7 573	89	5 895	28 965
Total	**52 763**	**49 585**	**41 458**	**42 896**

A significant factor in the overall decrease in both borrowings and investments was the issue of commercial paper in the prior year to fund the refinancing of client advances that occurred in July 2014.

Impact of overnight loan

On 30 June 2015 the Department of Treasury and Finance took a client advance from TASCORP of $575.000m ($920.000m) and simultaneously entered into an equal and offsetting transaction for a client deposit of the same amount. The nature of this transaction met the definition of a derivative transaction as outlined in AASB 139 *Financial Instruments: Recognition and Measurement*. Therefore, the two transactions were recognised on a net basis with only the resulting derivative, interest receivable, being recognised on the Statement of Financial Position and in the Statement of Comprehensive Income.

Had this transaction not been recorded on a net basis, Advances to State entities and Deposits from State entities would have each been $575.000m ($920.000m) higher with the same net outcome. However, recognition of Advances and Deposits on this basis would have been inconsistent with the nature of the transaction and thus not in compliance with AASB 139.

Profitability

The increased Profit before tax of $4.596m for the year was driven by increased Net Interest Revenue of $3.522m, as illustrated in the table below:

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Interest revenue	232 103	249 406	290 570	365 831
Interest expense	(197 947)	(218 772)	(264 213)	(337 474)
Net Interest Revenue	**34 156**	**30 634**	**26 357**	**28 357**

This increase in Net interest was due to lower hedging and funding costs.

The table below outlines TASCORP's Assets and Liabilities from 2012 through to 2015, showing the weighted average effective interest rate at 30 June each year.

The declining interest rates follows the trend of the declining cash rate, which drive the rates paid and the rates earned:

	2015		2014		2013		2012	
	%	$m	%	$m	%	$m	%	$m
Assets								
Investments	3.18	2 741	3.81	3 175	3.49	2 748	4.17	3 081
Client advances	4.38	3 274	5.03	3 009	5.3	2 975	5.59	3 142
Liabilities								
Client deposits	2.10	899	2.51	537	2.78	620	3.5	1 178
Borrowings	3.18	5 131	4.09	5 620	4.18	5 087	4.61	5 041

Dividends and taxes paid

Dividends paid for the year were $10.512m (2013-14, $2.346m) and income tax equivalents paid were $4.488m ($2.654m).Income tax expense incurred in 2014-15 was $5.867m ($4.488m). In total, TASCORP returned $15.000m ($5.000m) to Government.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Interest revenue	232 103	249 406	290 570	365 831
Interest expense	(197 947)	(218 772)	(264 213)	(337 474)
Net Interest Revenue	**34 156**	**30 634**	**26 357**	**28 357**
Net gains/losses from financial instruments	(9 377)	(10 674)	(11 521)	(11 668)
Other operating revenue	331	975	509	535
Net Revenue	**25 110**	**20 935**	**15 345**	**17 224**
Other operating expenses	5 553	5 974	6 500	5 987
Profit (Loss) before:	**19 557**	**14 961**	**8 845**	**11 237**
Income tax expense (benefit)	5 867	4 488	2 654	3 371
Net Profit (Loss)	**13 690**	**10 473**	**6 191**	**7 866**
Total Comprehensive Income	**13 690**	**10 473**	**6 191**	**7 866**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Cash	2 218	3 104	1 144	1 121
Investments	2 741 304	3 175 371	2 747 733	3 081 251
Client advances	3 274 039	3 009 298	2 974 507	3 141 851
Derivative instruments receivable	206 225	153 297	149 305	153 517
Property, plant and equipment	124	167	199	147
Intangibles and other	11 958	2 198	8 214	119 078
Total Assets	**6 235 868**	**6 343 435**	**5 881 102**	**6 496 965**
Payables	360	465	519	87 501
Deposits	899 467	536 589	620 161	1 177 998
Borrowings	5 130 571	5 620 442	5 087 045	5 040 617
Derivative instruments payable	146 340	131 439	128 776	144 073
Current tax liabilities	5 867	4 488	2 654	3 371
Provisions	500	427	489	509
Total Liabilities	**6 183 105**	**6 293 850**	**5 839 644**	**6 454 069**
Net Assets	**52 763**	**49 585**	**41 458**	**42 896**
Reserves	10 000	10 000	10 000	10 000
Retained earnings	42 763	39 585	31 458	32 896
Total Equity	**52 763**	**49 585**	**41 458**	**42 896**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Interest and other receipts	295 107	271 249	293 458	373 928
Interest payments	(252 991)	(269 316)	(310 463)	(456 815)
Net receipt of goods and services tax	0	582	0	0
Payments to suppliers and employees	(5 492)	(6 035)	(6 472)	(5 852)
Tax paid	(4 488)	(2 654)	(3 371)	(2 881)
Net increase (decrease) in deposits	35 400	57 900	400	0
Net increase (decrease) in short term borrowings	(401 410)	933 330	(266 640)	(2 221 690)
Net (increase) decrease in advances	(272 258)	88 261	(156 848)	126 902
Net (increase) decrease in investments	503 844	(447 641)	(163 522)	316 166
Cash from (used in) operations	**(102 288)**	**625 676**	**(613 458)**	**(1 870 242)**
Payments for property, plant and equipment	(711)	(109)	(88)	0
Proceeds from sale of property, plant and equipment	0	61	0	0
Cash from (used in) Investing Activities	**(711)**	**(48)**	**(88)**	**0**
Receipts from new issues of preferred stock	903 533	472 960	1 202 717	1 375 354
Repayments of preferred stock	(1 026 719)	(971 188)	(816 101)	0
Dividends paid	(10 512)	(2 346)	(7 629)	(6 445)
Cash from (used in) Financing Activities	**(133 698)**	**(500 574)**	**378 987**	**1 368 909**
Net Increase (Decrease) in Cash	**(236 697)**	**125 054**	**(234 559)**	**(501 333)**
Cash at the beginning of the year	617 587	492 533	727 092	1 228 425
Cash at End of the Year	**380 890**	**617 587**	**492 533**	**727 092**

Cash and cash equivalents includes highly liquid short term investments and "at call" elements of advances, borrowings and client deposits.

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Profit (Loss) ($'000s)		19 557	14 961	8 845	11 237
Return on equity		37.1%	30.2%	21.3%	26.2%
Returns to Government					
Dividends paid ($'000s)		10 512	2 346	7 629	6 445
Dividend payout ratio		76.8%	22.4%	123.2%	81.9%
Dividend to equity ratio		19.9%	4.7%	18.4%	15.0%
Income tax expense ($'000s)		5 867	4 488	2 654	3 371
Effective tax rate	30%	30.0%	30.0%	30.0%	30.0%
Total return to the State ($'000s)		16 379	6 834	10 283	9 816
Total return to equity ratio		32.0%	15.0%	24.4%	23.3%
Other Information					
Staff numbers (FTEs)		16	15	15	16
Average staff costs ($'000s)		171	173	166	156
Average leave balance per FTE ($'000s)		22	22	18	23

AUDIT SUMMARY - STATE OWNED CORPORATIONS

BACKGROUND

Government Businesses that may be subject to provisions of their enabling legislation, and also subject to the provisions of the *Corporations Act 2001*, are referred to as State Owned Corporations or State Owned Companies (SOCs).

The Treasurer and Portfolio Ministers are the shareholders in each SOC holding these shares on behalf of the Tasmanian community. The broad governance framework for SOCs is set out in legislation for each SOC, the *Corporations Act 2001*, the Constitution of each SOC and in Corporate Governance Guidelines developed by the Department of Treasury and Finance.

While still serving a public purpose and owned by the State, corporatised entities are autonomous in their day to day decision making with Ministerial direction capable of being provided generally through the strategic planning process.

Enabling legislation provides for the payment of guarantee fees, taxation equivalents and dividends.

This Chapter provides financial information on all SOCs, being:

- Aurora Energy Pty Ltd (Aurora)
- Metro Tasmania Pty Ltd (Metro)
- Tasmanian Irrigation Pty Ltd (TI)
- Tasmanian Networks Pty Ltd (TasNetworks)
- Tasmanian Ports Corporation Pty Ltd (Tasports)
- Tasracing Pty Ltd (Tasracing)
- Tasmanian Railway Pty Ltd (TasRail)
- TT-Line Company Pty Ltd (TT-Line).

KEY OUTCOMES FROM AUDITS

All SOCs submitted financial statements within the statutory deadline being 45 days following the end of the financial year. Audits of the financial statements, and where relevant subsidiary companies, were completed with unqualified audit opinions issued in each case.

All audits were completed satisfactorily but with the following high to moderate audit risk findings noted for management attention:

Metro

We recommended that management should establish a range over which variances between manual and automatic dip readings, used to measure fuel volumes in storage tanks, will be investigated. We also recommended that fuel pumps are regularly calibrated to ensure that fuel taken out is recorded accurately.

TI

A recommendation was made to review the current methodology for forecasting asset replacement costs to ensure that the annualised asset renewal levy reflected the best estimate of future expenditure. We also recommended that the treatment of interest earned on funds held in the separate asset renewal levy accounts be clarified.

Tasports

We noted the Technology Business Continuity Plan was out dated and due for review.

Tasracing

We noted the need for independent review of a payroll control checklist.

TasNetworks

We noted preparation and posting of journals in the Navision system needed independent review. In addition, the Salary Packaging Account included bank signatories who were not current employees; valuations of land was last independently valued in July 2011; buildings; excessive annual leave; revaluations being put through one line item in the general ledger; and the need for improvements in the management of inventory.

FINANCIAL ANALYSIS

Tasmania's SOCs collectively had Net Assets of $1.788bn (2013-14, $2.027bn), employed 2 571 (2 573) FTEs, and recorded after tax profits of $12.340m (2014, $50.309m).

Details of SOCs' profits and Net Assets are set out in Table 1.

Table 1 Summarised Financial Results

	Underlying Profit (Loss)	Net Profit (Loss) Before Tax	Net Profit (Loss) After Tax	Total Comprehensive Profit (Loss)	Net Assets 2015	Net Assets 2014
	$'000s	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Aurora	43 847	44 984	31 487	43 688	83 326	563 016
Metro	(3 200)	50	35	1 861	30 401	28 540
TI	1 358	(89 974)	(89 974)	(89 974)	31 198	103 779
Tasports	(12 581)	(11 598)	(8 548)	(8 640)	188 644	193 785
Tasracing	(512)	(1 215)	(1 215)	(1 224)	39 994	40 635
TasRail	(12 925)	(36 629)	(33 531)	(26 304)	121 459	118 167
TasNetworks	161 396	161 396	112 931	167 944	1 016 050	-
TT-Line	17 492	1 672	1 155	(4 287)	276 577	280 864
Total	**194 875**	**68 686**	**12 340**	**83 064**	**1 787 649**	**2 037 693**

SOCs recorded Underlying Profits from their operations of $194.875m and combined Net Profits after Tax of $12.340m. The two energy companies, Aurora and TasNetworks, recorded the highest profits. In comparison, TI and TasRail recorded material losses after tax. These two entities were completing significant infrastructure projects which were predominantly funded by State and Commonwealth grants, which have, in some cases, been treated as equity contributions. Apart from Aurora, Metro and TasNetworks, all other SOCs recorded Comprehensive Losses.

Details of SOCs' debt, working capital and relevant ratios and employee data are set out in Table 2.

Table 2 Debt, Working Capital, Relevant Ratios and Employee Data

	Borrowings	Debt to Equity	Net Working Capital	Current Ratio	Return on Assets	Return on Equity	Average Staff Costs	FTEs
	$'000s		**$'000s**					
Aurora	-	-	57 502	1.3	5.6%	3.7%	104	128
Metro	-	-	3 789	1.4	1.6%	1.0%	75	421
TI	30 003	99.4%	(14 700)	0.6	2.6%	(134.6%)	115	45
Tasports	27 884	14.8%	16 812	1.8	(4.9%)	(5.1%)	145	225
Tasracing	11 442	28.6%	5 303	2.1	(0.9%)	(3.0%)	89	65
TasRail	4 000	3.3%	5 141	1.4	(10.3%)	(22.0%)	110	254
TasNetworks	1 643 718	161.8%	(142 238)	0.5	8.5%	34.7%	106	970
TT-Line	-	-	68 207	2.5	4.5%	0.4%	106	463
Total	**1 717 047**		**(184)**					**2 571**

SOCs held borrowings of $1.717bn (2014, $1.498bn) at 30 June 2015, with TasNetworks' loans representing 95% of total debt. The nature of TasNetworks' activities requires a heavy investment in infrastructure with significant debt transferred from Aurora and the former Transend Networks Pty Ltd. In addition, during 2014-15 it took on $205.000m of Hydro Tasmania debt and contributed $20.000m in equity, to TI.

The level of TasNetworks' debt resulted in a Debt to Equity ratios of 161.8%, which is considered high. TI also had a high Debt to Equity ratio of 99.4%.

TasNetworks' net working capital deficit of $142.238bn at 30 June 2015, resulted in a Current Ratio well below our benchmark of one. However, TasNetworks had unutilised borrowing facilities covering this.

TI also recorded a net working capital deficit due to borrowings to fund capital construction activity, which included a short term borrowing and increased unearned revenue.

Excluding Aurora and TasNetworks, none of the other SOCs produced strong return on assets and equity results. Metro, TI, Tasracing and TasRail were all reliant on Government funding and struggled to generate profits.

Average staff costs fluctuated between the SOCs.

Details of SOC's Returns to Government paid in 2014-15 are set out in Table 3.

Table 3 Returns to Government

	Dividends	Taxation	Guarantee Fees	Total Returns	Dividend Payable
	$'000s	$'000s	$'000s	$'000s	$'000
Aurora	0	32 932	0	32 932	27 600
Metro	0	0	0	0	0
TI	0	0	0	0	0
Tasports	0	786	0	786	0
Tasracing	0	0	0	0	0
TasRail	0	0	0	0	0
TasNetworks	61 000	79 089	11 954	152 043	63 200
TT-Line	0	0	0	0	0
Total	**61 000**	**112 807**	**11 954**	**185 761**	**90 800**

SOCs paid $185.761m to the State during 2014-15. The majority of these returns were made by the two electricity companies.

RESPONSIBLE MINISTERS

The Ministers responsible for the various SOCs at 30 June 2015 were:

Entity	Responsible Minister
Aurora Energy Pty Ltd	Minister for Energy
Metro Tasmania Pty Ltd	Minister for Infrastructure
Tasmanian Irrigation Pty Ltd	Minister for Primary Industries and Water
Tasmanian Networks Pty Ltd	Minister for Energy
Tasmanian Ports Corporation Pty Ltd	Minister for Infrastructure
TasRacing Pty Ltd	Minister for Racing
Tasmanian Railway Pty Ltd	Minister for Infrastructure
TT-Line Company Pty Ltd	Minister for Infrastructure

AURORA ENERGY PTY LTD (Aurora)

OVERALL CONCLUSION

The audit was completed satisfactorily and on time with no matters outstanding and an unqualified audit opinion issued on 12 August 2015.

Following the transfer of its distribution and telecommunications businesses to Tasmanian Networks Pty Ltd (TasNetworks), Aurora operated as a stand-alone electricity retailer in 2014-15. In its first year of operation, Aurora recorded an Underlying Profit before Tax of $43.847m which exceeded the Board's budget expectations. Higher than expected retention of commercial and residential customers and significantly lower than expected operating costs were the main drivers of this result.

Aurora was in a sound financial position at 30 June 2015 with positive Net Working Capital of $57.502m.

SNAPSHOT

- Aurora transferred its distribution and telecommunications businesses to TasNetworks on 1 July 2014. The value of the businesses transferred (represented by net assets at that date) was $523.378m. The transfer was undertaken by way of distribution at carrying value to shareholders.
- This transfer changed the nature and risk profile of the Aurora business as it now operated as a stand-alone electricity retailer in Tasmania and no longer funded the maintenance and development of a geographically dispersed distribution network.
- Post transfer, Aurora had Net Assets of $39.637m represented as follows:

Net Asset Transfer Snapshot	
Net Assets at 30 June 2014	$563.016m
Net Assets transferred to TasNetworks by way of distribution to shareholders	$523.379m
Net Assets at 1 July 2014 (post transfer)	**$39.637m**

Operating highlights during the year included:

- Operating revenue of $948.951m.
- Operating margin of approximately 5%.
- An Underlying Profit before Tax of $43.847m, which exceeded the Board's budget expectations primarily as a result of higher than expected retention of commercial and residential customers and lower than expected operating costs.
- Total Equity post transfer increased by $43.688m largely as a result of the Net Profit after Tax of $31.487m and favourable movements in the cash flow hedge reserve of $11.903m (net of tax).
- After the transfer of all debt to TasNetworks on 1 July 2014, Aurora was debt free.
- Aurora made a Return on Equity of 51.2% (after net assets transferred to TasNetworks) and contributed $32.932m to the State through payment of income taxes.

- A $27.600m dividend was declared after 30 June 2015.

Other key developments in the year included:

- Increased contestability resulted in a decrease in commercial customers of approximately 6% and a reduction in major industrial customers of $116.940m, principally due to the loss of a major industrial customer from 1 January 2015 and lower contractual price revisions for other major industrial customers.
- business transformation to a stand-alone electricity retailer by implementing a new organisational structure and revising major processes and systems to allow Aurora to operate on a much smaller scale.

INTRODUCTION

Aurora was established on 17 June 1998 under the *Electricity Companies Act 1997* and is subject to the *Corporations Act 2001.* The Treasurer and the Minister for Energy held shares in Aurora on behalf of the State of Tasmania. Currently, the Board consists of four directors.

In May 2005 Tasmania joined the National Energy Market (NEM) with Aurora purchasing wholesale electricity from the Australian Energy Market Operator (AEMO) (formerly the National Electricity Market Management Company Limited - NEMMCO). In order to provide retail electricity, Aurora pays for energy at the market spot price and enters into hedge contracts with counterparties (Hydro Tasmania) to manage risks associated with fluctuations in the spot price.

To 30 June 2014 Aurora consisted of two core operating units:

- **Distribution Business:** Responsible for the management, development and operation of the distribution system including poles, lines and substations, asset stewardship and network management, with the Australian Economic Regulator (AER) regulating the revenue that Aurora received for distribution services.
- **Energy Business:** Responsible for the on-going activities in retail customer service, including electricity and gas sales to business and residential customers, and wholesale energy activities, including contracting and risk management of electricity.

To 30 June 2014, the consolidated entity consisted of Aurora and the following wholly owned subsidiaries:

- **Ezikey Group Pty Ltd (Ezikey)** was responsible for the commercialisation of broken neutral detection technology owned by Aurora.
- **Auroracom Pty Ltd (Auroracom)** which held Aurora's Telecommunications Carrier Licence.

Effective from 1 July 2014 Aurora's distribution and telecommunication businesses were transferred by government to TasNetworks via a gazettal Transfer Notice dated 25 June 2014. The transfer also included subsidiaries Ezikey and Auroracom. Following the transfer, Aurora operated as a stand-alone electricity retail business in Tasmania.

To facilitate a reasonable assessment of Aurora's financial position in this Chapter, comparative amounts in the Statement of Financial position represent assets and liabilities after the transfers to TasNetworks on 1 July 2014.

KEY AREAS OF AUDIT ATTENTION

Area:	Impact on audit approach:
Transfer of Distribution Business' Assets and Liabilities to TasNetworks The assets and liabilities of Aurora's distribution and telecommunications businesses were transferred to TasNetworks at midnight on 1 July 2014 in accordance with the Transfer Notice dated 25 June 2014. The transfer was accounted for as an administrative arrangement under *AASB 5 Non-current assets Held for Sale* and Discontinued Operations, as a distribution to Aurora's shareholders equivalent to the net assets (at book value) of $523.379m.	We reviewed the Transfer Notice and resulting accounting entries for the transfer of the assets and liabilities to TasNetworks on 1 July 2014 and concluded that the transfer had been accounted for appropriately in accordance with relevant Australian Accounting Standards. We ensured that disclosure of the transfer was appropriately included in the financial statements.
Revenue Recognition Aurora's electricity revenue is predominantly made up of three segments – Major Industrial ("MI"), Large and Small customers. In total these segments contain over 276 000 customers and contribute 99% of total revenues (the remaining 1% is predominantly gas sales).	We completed all planned substantive procedures on revenue recognition to gain evidence over the existence, measurement and completeness related revenue assertions of each revenue segment. From the procedures undertaken we concluded that revenue amounts in the financial statements were fairly stated for 2014-15.
Receivables Existence and Collectability Existence and Collectability of receivables balances remained a focus throughout the audit process.	We relied on the test of details performed as part of our revenue testing to validate the debtors' balance at reporting date with no exceptions noted. Through testing performed over receivables balances we were able to support the existence of receivables and we noted no material collectability issues that had not already been accounted for in the financial statements.
Hedge Accounting for Electricity Derivatives In the prior year Aurora entered into various electricity related derivative contracts and interest rate swaps to manage its exposure to electricity price and interest rate fluctuations respectively. On 1 July 2014, the interest rate swaps were transferred to TasNetworks. All electricity related derivative contracts remained with Aurora Energy as it continued to manage its electricity price exposure.	We obtained an external deal confirmation from Hydro Tasmania and reviewed the valuation and current/non-current classification of derivative asset and liability values. We also reviewed the appropriateness of Aurora's hedge accounting in accordance with the hedge accounting policy.

Area:	Impact on audit approach:
Renewable Energy Certificate Carrying Amount At 30 June 2015, Aurora held $15.321m in Large and Small Renewable Energy Certificates (RECs) to surrender throughout the FY16 in line with Clean Energy Regulator regulatory requirements. These RECs were carried at the lower of cost and net realisable value in line with policy choices available under accounting standard requirements. Changes in Clean Energy legislation and/or movements in the market prices could have a significant impact on the market value of these certificates. Contractual commitments, under which Aurora has to purchase REC's at fixed prices in the future, also needed to be assessed for onerous contact provision requirements.	Our testing indicated that the current weighted average price of REC's on hand were valued correctly at the lower of cost and net realisable value under *AASB 102 Inventories*. We further noted no onerous contract related issues with Aurora's existing future purchase obligations.
Carrying Amount of Non-Current Assets Accounting standards required Aurora to review the carrying amounts of its tangible and intangible assets (finite useful lives) to determine if there were any possibly triggers that had occurred in 2014-15 that would indicate that these assets had suffered an impairment loss. This also included an assessment of the current useful life profile of tangible and intangible assets.	We reviewed the underlying analysis undertaken by Aurora. An impairment charge of $0.837m was recognised on software no longer used by Aurora. Based on the performance of the business in 2014-15 (that is above budget, lower customer churn and removal of wholesale energy risk) and the budget for 2015-16 and beyond, there were no other indicators of impairment triggers as at 30 June 2015.
Energy Related Costs Aurora's cost of sales expenses during the year were impacted on by market conditions and the transfer of the distribution business. In the current period there were material energy related expenses that had previously eliminated on consolidation.	Testing was undertaken over the full financial year with emphasis on key expense items. Additional detailed testing was performed around year end accrual balances that required judgment and analysis of material distribution related expense balances.
Government Remuneration and Key Management Personnel (KMP) Additional Disclosures Government issued remuneration and KMP disclosure guidelines were required to be complied with in the financial statements.	We reviewed the disclosures required by Government relating to remuneration and KMP compensation in the financial statements. The disclosures made were consistent with guidance released by the Department of Treasury and Finance (Treasury) and previous discussions with us.

Area:	Impact on audit approach:
Retail Unbilled Revenue Accrual Valuation The majority of Aurora's residential customers have meters installed that need to be physically read. For this reason, most residential customers are billed quarterly. At any point in time these customers could have up to more than three months usage that has yet to be billed by Aurora. The unbilled revenue accrual was a significant estimation in the financial statements.	We reviewed the methodology for the calculation of the unbilled energy accrual. We also recalculated an estimate of unbilled revenue based on purchased versus sold electricity (load) for the period.
Unbilled Use of System Accrued Expense Similar to recognition of unbilled energy revenue, Aurora must recognise a liability for network charges for usage that has not yet been billed by the network service provider. The estimation of the unbilled use of system (UBUOS) was a significant estimation in the financial statements.	We reviewed the methodology for the UBUOS accrual and performed testing of the calculation inputs on a sample basis. We reconciled the billing data, load data, loss factors and other inputs used in the calculation to supporting evidence with no material issues identified. We performed an overall analytical review of the accrued expense balance using both the input data and average distribution tariff rates over the period.
Solar Feed in Tariff Related Matters The growth of solar customer feed-in generation and the transfer of the distribution business to TasNetworks raised a number of accounting matters in 2014-15 related to metering capture and process, GST treatment and disclosure requirements that Aurora had identified. These matters were worked through by Aurora (and TasNetworks) to ensure that they had been accounted for correctly in the financial statements at 30 June 2015.	We reviewed Aurora's position and accounting treatment in relation to the Solar Feed in Tariff matters identified.
Accounting Treatment of Transactions with TasNetworks In view of the transfer of the Distribution Business to TasNetworks on 1 July 2014, the 2014-15 financial statements included various new charges from TasNetworks. These included UBUOS charges, transition agreement costs in relation to lease and other payroll and IT services provided by TasNetworks and other maintenance, connection and telecommunication charges.	We performed testing procedures over charges from TasNetworks and reviewed underlying contractual agreements to ensure that all relevant charges had been captured and accounted for correctly.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

The Directors signed the financial statements on 12 August 2015 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Transfer of distribution business

On 1 July 2014 Aurora's distribution and telecommunication businesses were transferred to a new entity TasNetworks, which consisted of Aurora's distribution and telecommunications businesses, previous Aurora subsidiaries Ezikey Group Pty Ltd (Ezikey) and Auroracom Pty Ltd, as well as Transend Network's transmission business. At the same time, Aurora's facility limits under its Master Loan Agreement were amended as follows:

- $902.000m of the facility limit was transferred to TasNetworks
- an amount of $80.000m was added to the facility limit.

The transfer was accounted for as an administrative arrangement under the *Australian Accounting Standards Board's Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities,* as a distribution to Aurora's shareholders equivalent to the net assets (at book value) of approximately $523.378m for nil cash consideration.

Following the transfer, and with the introduction of full retail contestability from 1 July 2014, Aurora's principal business activities in 2014-15 were the retailing of electricity and gas to customers within the State of Tasmania.

Full retail contestability in the Tasmanian electricity market

As part of the 15 May 2012 electricity reform package, from 1 July 2014 full retail contestability was introduced in Tasmania, with other retailers able to contract with and sell to all Tasmanian residential and business customers. Increased contestability has resulted in a loss of commercial customers of approximately 6% and a reduction in major industrial customers of $116.940m, principally due to the loss of a major industrial customer from 1 January 2015 and lower contractual price revisions for other major industrial customers.

KEY FINDINGS

The audit was completed satisfactorily and on time with no matters outstanding.

FINANCIAL ANALYSIS

In 2014-15 Aurora reported an Underlying Profit before Tax of $43.847m[1], exceeding budget expectations with higher than expected retention of customers and lower than budgeted operating costs.

Aurora's financial performance was mainly derived from electricity sales, being 95.2% of Total Revenue. Energy related purchases comprised 90.4% of Total Expenses.

Aurora made a Return on equity of 51.2% and returned $32.932m to the State in the form of tax equivalents during 2014-15. Post 30 June 2015, Aurora's Board recommends a dividend of $27.600m in relation to earnings in 2014-15.

The transfer of $523.379m in Net Assets to TasNetworks reduced Aurora's Total Equity to $39.637m. The transfer was predominantly made up of fixed and intangible assets, working capital balances net of debt, deferred tax provisions and employee entitlement provisions.

The following comments compare Aurora's Statement of Financial Position balances as at 1 July 2014 and 30 June 2015.

1 This calculation of underlying profit differs from that used by Aurora in its financial statements due to different treatment of electricity derivative fair value movements.

For the year ended 30 June 2015, Aurora's Total Equity increased by $43.688m as a result of the following factors:

- $31.487m Net Profit for the year
- $11.903m in cash flow hedge reserve gains (net of tax) from favourable movements in electricity price swaps
- $0.226m actuarial superannuation re-measurement gains (net of tax)
- $0.072m increase in asset revaluation (net of tax) arising from the remaining Pay As You Go meters on Aurora's books that had been accounted for under the revaluation method as part of the distribution asset base in line with the regulated asset base as prescribed by the AER.

Overall, Cash and cash equivalents increased by $5.436m from $31.909m (Cash $44.679m net of overdraft $12.770m in Payables) to $37.345m at 30 June 2015, primarily driven by net Cash from operations during 2014-15. During the year Aurora also invested $20.000m in a term deposit recorded in Other current assets. No cash was transferred on 1 July 2014.

Aurora experienced reductions in Receivables of $39.432m, 21.4%. The decrease was mainly driven by a one-off $15.000m receivable tax adjustment from TasNetworks at 1 July 2014 related to an element of the transfer that was received during the year and lower receivables/accrued revenue as a result of the loss of a major industrial customer.

Payables decreased largely due to the repayment of a $12.770m overdraft recognised at the beginning of the period.

At 30 June 2015 Aurora was in a sound financial position with positive Working Capital of $57.502m and a Current ratio of 1.34, that indicated it had sufficient liquid assets to cover current liabilities as and when they fall due.

Statement of Comprehensive Income

	2014-15	2013-14
	$'000s	**$'000s**
Sales revenue	903 817	1 134 514
Other revenue	45 134	60 025
Total Revenue	**948 951**	**1 194 539**
Energy and transmission purchases	773 343	626 602
Electricity derivative fair value movements (Realised)	2 116	78 814
Renewable energy credit purchases	42 499	54 822
Employee expenses	16 602	104 026
Depreciation	7 247	102 344
Other expenses	63 080	115 605
Total Expenses	**904 887**	**1 082 213**
Earnings before Interest and Tax	**44 064**	**112 326**
Borrowing costs	121	41 031
Guarantee fee	0	9 679
Nominal interest on superannuation liability	96	3 823
Underlying Profit (Loss) before Tax[1]	**43 847**	**57 793**
Income tax (expense) benefit	(13 156)	1 096
Net Profit (Loss) after Tax before Customer Contributions and Financial Instrument Fair Value Unrealised Movements	**30 691**	**58 889**
Customer contributions		8 432
Electricity derivative fair value movements (Unrealised)	1 137	(1 144)
Income tax (expense) benefit	(341)	(2 186)
Net Profit (Loss) for the Year	**31 487**	**63 991**
Other Comprehensive Income Net of Tax		
Revaluation of property, plant and equipment	72	18 682
Superannuation actuarial movement	226	(5 155)
Cash flow hedge fair value gains taken to equity	11 903	(11 622)
Other Comprehensive Income	**12 201**	**1 905**
Total Comprehensive Profit	**43 688**	**65 896**

[1] This calculation of Underlying Profit differs from Aurora's in its financial statements due to different treatment of electricity reform and restructuring costs.

Statement of Financial Position

	2015	2014*
	$'000s	**$'000s**
Cash	37 345	44 679
Receivables	145 034	184 466
Inventories	15 485	8 865
Financial assets	22 803	6 496
Other	3 716	3 134
Total Current Assets	**224 383**	**247 640**
Payables	131 772	155 683
Provisions	1 891	4 423
Current tax payable	2 566	22 294
Financial liabilities	5 568	26 143
Other	25 084	34 407
Total Current Liabilities	**166 881**	**242 950**
Net Working Capital	**57 502**	**4 690**
Property, plant and equipment	3 727	4 417
Deferred tax asset	7 471	21 174
Intangible assets	20 090	26 437
Financial assets	13 720	34 597
Total Non-Current Assets	**45 008**	**86 626**
Provisions	2 993	2 796
Deferred tax liability	9 503	17 684
Financial liabilities	6 688	31 198
Total Non-Current Liabilities	**19 184**	**51 679**
Net Assets	**83 326**	**39 637**
Capital	50 212	50 212
Reserves	1 401	(10 575)
Retained earnings	31 713	0
Total Equity	**83 326**	**39 637**

* *Adjusted balances recognised at 1 July 2014 after the transfer of Aurora's distribution and telecommunications businesses to TasNetworks.*

Statement of Cash Flows

	2014-15	2013-14
	$'000s	**$'000s**
Receipts from customers	1 041 785	1 334 960
Payments to suppliers and employees	(984 794)	(1 089 640)
Payments to Australian Government for carbon	0	1 490
Interest received	2 428	965
Borrowing costs and guarantee fee paid	(121)	(50 332)
Taxation paid	(32 932)	(29 881)
Cash From Operations	**26 366**	**167 562**
Payments for intangible assets	(935)	(31 644)
Payments for property, plant and equipment	(14)	(107 038)
Payments for bank term deposits	(20 000)	0
Proceeds from sale of property, plant and equipment	19	3 256
Cash (Used In) Investing Activities	**(20 930)**	**(135 426)**
Proceeds from borrowings	0	582 483
Repayment of borrowings	0	(569 726)
Dividends paid	0	(25 000)
Proceeds from contribution of equity	0	7 203
Cash from (Used In) Financing Activities	**0**	**(5 040)**
Net Increase (Decrease) in Cash	**5 436**	**27 096**
Cash at the beginning of the year	31 909	4 813
Cash at End of the Year	**37 345**	**31 909**

Financial Analysis

	Bench Mark	2014-15
Financial Performance		
Net profit (loss) ($'000s)		31 487
EBIT ($'000s)		45 201
EBITDA ($'000s)		52 448
Operating margin[1]	>1.0	1.05
Return on assets[1]	5.6%*	15.0%[3]
Return on equity[1]	3.7%*	51.2%[3]
Financial Management		
Current ratio	>1	1.34
Debt collection	30 days	44
Creditor turnover	30 days	51
Returns to Government		
Dividends paid ($'000s)		0
Income tax paid ($'000s)		32 932
Total return to the State ($'000s)		32 932
Dividends payable ($'000s)		27 600
Dividend payout ratio[2]	90%	87.7%
Dividend to equity ratio		44.9%
Other Information		
Average staff numbers (FTEs)		128
Average staff costs ($'000s)		104
Average leave balance per FTE ($'000s)		16

* *Internal benchmarks come from Aurora's corporate plan and are not subject to audit.*

[1] *These values differ from those described by Aurora in its annual report in order to align calculations with other Government entities*

[2] *These values differ from those described by Aurora in its annual report in order to align calculations with other Government entities.*

[3] *This is derived net of the transfer of $523.379m in Net Assets to TasNetworks on 1 July 2014.*

METRO TASMANIA PTY LTD (METRO)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion issued on 6 August 2015.

Metro reported a small profit for the first time in four years. Lower fuel costs and indexation of service contract payments helped to achieve the positive result, together with small increases in bus fares and patronage. Cost-saving measures implemented during the year will fund the continuation of the cost of its 'Turn Up and Go' initiative. Metro decided to continue this service despite no additional Government funding. This type of a high frequency bus service is also being trialled in Launceston in collaboration with the University of Tasmania.

SNAPSHOT

- Metro reported a Net Profit before Tax of $0.050m in 2014-15.
- The improved result was predominantly due to an indexation of Government service contract payments, increases in fare revenue, advertising income and lower fuel costs.
- On average over the past four years, Metro relied on Government for 75% of its Total Revenue. This included annual funding of $3.250m provided outside of the contract for service delivery, without which Metro would be unsustainable under its current model.
- Equity totalled $30.401m at 30 June 2015.
- Delays in the delivery of buses meant that no new buses were commissioned during 2014-15. This resulted in a higher Cash balance, $9.243m, at 30 June 2015. Capital commitments totalled $3.251m at that date.

We recommended to management that it should establish a range over which variances between manual and automatic dip readings, used to measure fuel volumes in storage tanks, will be investigated. We also recommended that fuel pumps are regularly calibrated to ensure that fuel taken out is recorded accurately.

Key developments this year included the issuance of a new pricing order by the Tasmanian Economic Regulator, which resulted in an increase to bus fares and the decision by Metro to continue the 'Turn Up and Go' service despite no additional Government funding.

Major variations between the 2014-15 and 2013-14 financial years were:

- Government contributions, $0.723m higher
- Employee expenses increased by $1.454m
- Fuel costs decreased by $0.721m
- Metro's unfunded superannuation liability decreased by $2.402m to $21.948m.

The audit was completed satisfactorily and on time with no matters outstanding.

INTRODUCTION

Metro is a State-Owned Company incorporated under the *Metro Tasmania Act 1997.* It provides public transport in the urban areas of Hobart, Launceston and Burnie under service contracts with Government through the Department of State Growth. It also provides passenger transport services to a number of urban fringe areas in the regions of Wynyard, Ulverstone, the South Arm Peninsula and the D'Entrecasteaux Channel through a series of individual route contracts.

Metro is predominantly funded by Government through service delivery contracts, making it economically dependent on the State for its continued operations.

Metro's Board has five members appointed by the shareholder Ministers. The CEO, who is appointed by the Board, is not a Board member.

KEY AREAS OF AUDIT ATTENTION

Description of area	Impact on our audit approach
Metro is predominantly funded by Government however a significant amount of revenue is derived from ticket sales. Inherently, this is an area of high risk because of the volume of sales and cash receipts and the large number of points of sale.	The analytical procedures we performed confirmed the accuracy and completeness of ticketing revenue. In addition, we tested controls over fortnightly driver cash summaries and monthly reconciliation of cash received to the receipting system. The testing confirmed controls were operational.
Metro budgeted to spend $3.250m on replacement buses under its $3.928m capital plan in 2014-15.	No new buses were commissioned during 2014-15. One bus was sold at a loss and 17 buses were reclassified as assets held for sale. On reclassification, the carrying value of those buses was written down by $0.148m to reflect estimated proceeds, with $0.088m recognised as a loss on the income statement and $0.060m recorded against the asset revaluation reserve in respect of the buses earmarked for sale which will be transferred directly to retained earnings when the assets are de-recognised.
Land and buildings were revalued at 30 June 2015 on an 'in use' basis. The valuer assessed the value assuming a notional 10 year lease using market rates for similar accommodation in the area and considering the location and quality of the accommodation currently situated on each site.	Our audit procedures confirmed that the value of land and buildings was not materially mis-stated. There was a decrease in the value of land that was largely offset by an increase in the value of buildings. The overall movement was insignificant. We assessed that the revaluation of land and buildings complied with relevant accounting standards, mainly AASB 13 *Fair Values*.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 6 August 2015 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

New Bus Fares Pricing Order

The Tasmanian Economic Regulator issued a new bus fares pricing order, which was applicable from January 2015. The *Economic Regulator (Metro Bus Fares) Order 2014* specifies the maximum full adult fares that Metro may charge for travel on scheduled route services. If a full adult fare-paying passenger presents a Metro Greencard as the means of payment for travel on scheduled route services, the amount debited from the Metro Greencard must not exceed, for a single trip, 80% of the amount of the full adult fare for that trip. This Order is valid for 2 years. Metro increased bus fares from 5 January 2015.

'Turn Up and Go' Initiative

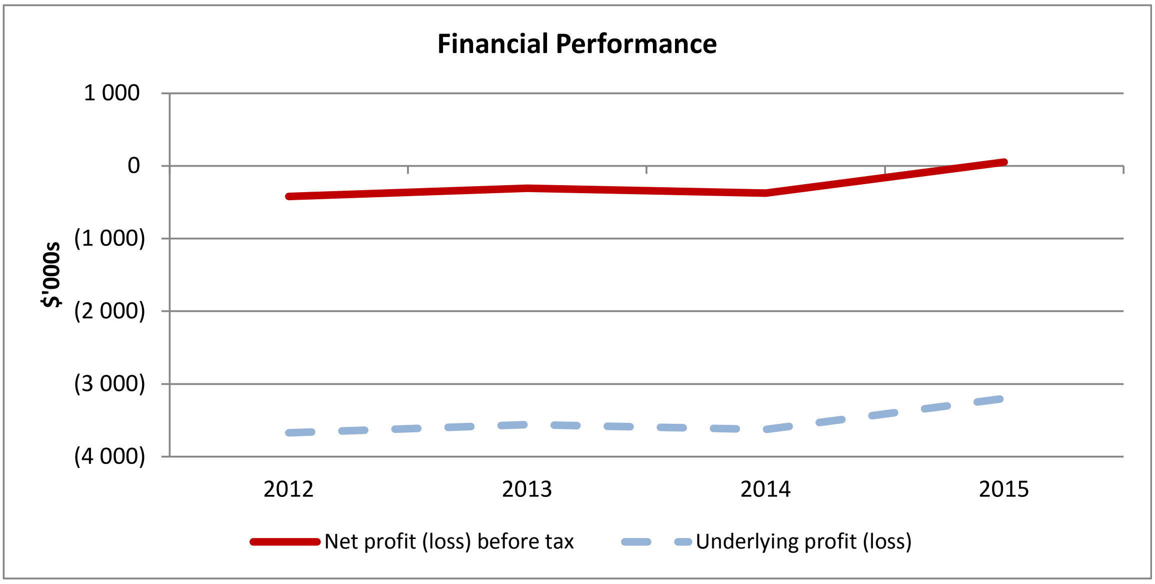
A trial of high frequency bus services along the Main Road between Hobart CBD and Glenorchy concluded in November 2014. Metro decided to continue the service despite no additional Government funding. Additional staff and fuel costs are funded from existing sources of revenue and by implementing cost-saving measures.

This year, Metro partnered with the University of Tasmania to trial a high frequency bus service between Launceston CBD and the Newnham Campus.

KEY FINDINGS

We reported to management one moderate and one low risk audit findings. The moderate risk finding related to differences between the manual and automatic dip readings used to measure fuel volumes in storage tanks. While we understand that manual readings are inherently inaccurate, we recommended that management establish a range over which variances between manual and automatic dip readings will be investigated. We also recommended that fuel pumps are regularly calibrated to ensure that fuel taken out is recorded accurately. Metro agreed to undertake fuel pump calibrations State-wide twice a year.

FINANCIAL ANALYSIS



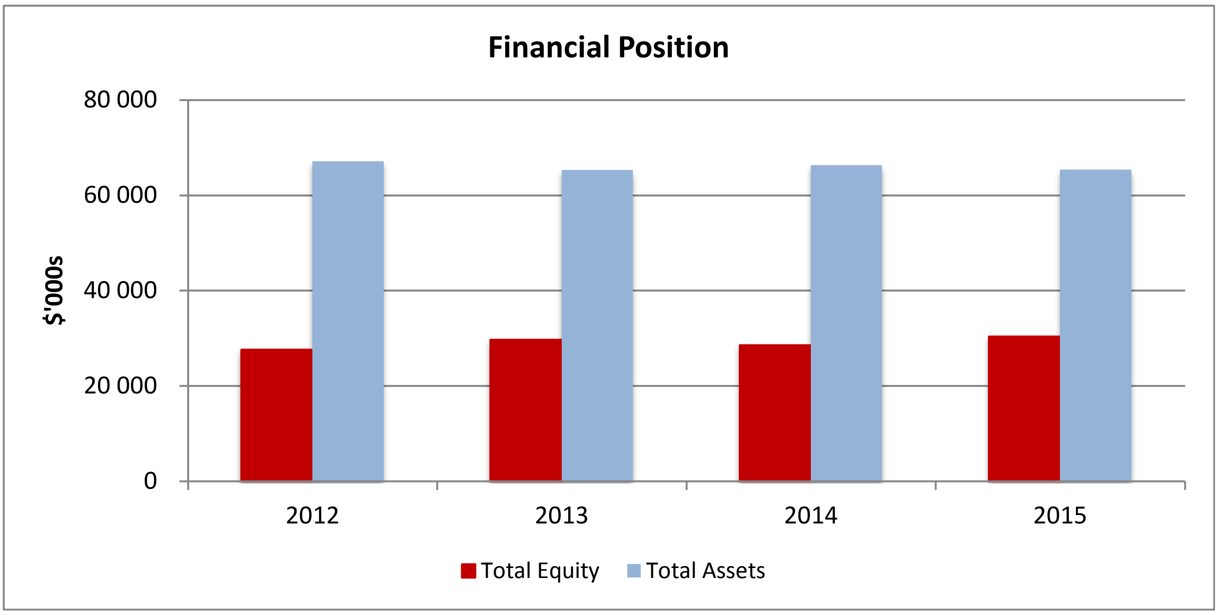
Metro reported a Net Profit before Tax of $0.050m in 2014-15, an improvement on last year's Net Loss before Tax of $0.375m. The improved result was predominantly due to an increase in Government's contributions, including a partial write-back of a penalty deductions provision, $0.247m, which was re-invested into a 'Turn Up and Go' type service on the Mowbray corridor in conjunction with the University of Tasmania. Fare revenue and advertising income (included in Other revenue) also increased by $0.379m and $0.235m respectively.

Fuel costs were $0.721m lower this year due to a drop in the price of diesel at the beginning of 2015. Since then, prices have risen again but not to the same levels they were in the first half of 2014-15. The higher revenue and lower fuel expenditure were partly offset by higher employee and related expenses, up $1.454m.

Wages increased in line with current enterprise agreements. Negotiations for a new bus operators' enterprise agreement have commenced. Metro made losses in the past three years and employee expenses represent, on average, more than half of its operating costs. Any significant increases to existing entitlements, without additional funding or significant cost savings, would be unsustainable.

The average number of bus operators increased by eight FTEs to 300 (including casual employees). This, along with enterprise agreement increases, resulted in bus operators' wages being 6.3% higher compared to last years. The number of other employees decreased by three FTEs to 118 (including casual employees). During the year, Metro implemented a redundancy program at a cost of $0.334m. It is anticipated that any savings achieved will fund the continuation of the 'Turn Up and Go' service.

On average, over the four year period under review, Metro relied on Government for 75% of its Total Revenue, including annual funding of $3.250m provided outside of the contract for service delivery. This additional funding allowed Metro to pursue a range of priorities, predominantly its fleet replacement program. In total, $19.500m was provided in additional Government funding since 2009-10. Without this additional support, Metro would have incurred losses of $17.865m over the six-year period and would be unsustainable under the current funding model.



Total Assets were consistent over the period under review, predominantly due to the major asset class, Property, plant and equipment, remaining stable as capital investment exceeded depreciation charges.

Metro's Cash balance was $9.243m at 30 June 2015. This was higher compared to previous years because of delays in the delivery of new buses. The higher Cash balance contributed to the improvement in Metro's working capital, which was positive for the first time in the past four years at $3.789m. Metro's capital commitments were $3.251m at the end of 2014-15.

Equity fluctuated between years primarily as a result of movements in the Defined benefit superannuation liability. At 30 June 2015, Metro's unfunded superannuation liability decreased by $2.402m to $21.948m due to a reassessment of its obligations which resulted in an actuarial gain of $2.698m.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Government service contract revenue	36 567	35 844	34 290	32 343
Fare revenue	11 635	11 256	11 011	11 125
Other revenue	1 421	1 109	1 282	1 337
Gain on sale of non-financial assets	30	11	69	16
Total Revenue	**49 653**	**48 220**	**46 652**	**44 821**
Depreciation	4 699	4 790	4 605	4 734
Maintenance	4 427	4 368	4 260	3 810
Employee expenses	31 754	30 300	29 548	27 905
Fuel	5 224	5 945	5 380	5 408
Finance costs	971	926	1 046	1 329
Other expenses	5 778	5 516	5 372	5 306
Total Expenses	**52 853**	**51 845**	**50 211**	**48 492**
Underlying Profit (Loss)	**(3 200)**	**(3 625)**	**(3 559)**	**(3 671)**
Additional Government funding	3 250	3 250	3 250	3 250
Net Profit (Loss) before Tax	**50**	**(375)**	**(309)**	**(421)**
Income tax benefit (expense)	(15)	107	92	125
Net Profit (Loss)	**35**	**(268)**	**(217)**	**(296)**
Revaluation of property, plant and equipment	(90)	(16)	(308)	(1 091)
Defined benefit plan actuarial gains (losses)	2 698	(1 238)	3 587	(6 113)
Income tax on other comprehensive income	(782)	377	(1 011)	1 875
Other Comprehensive Income	**1 826**	**(877)**	**2 268**	**(5 329)**
Total Comprehensive Profit (Loss)	**1 861**	**(1 145)**	**2 051**	**(5 625)**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Cash	9 243	6 758	6 564	3 808
Receivables	666	520	448	572
Inventories	1 916	1 687	1 518	1 385
Assets classified as held for sale	166	14	0	99
Other	1 777	746	686	882
Total Current Assets	**13 768**	**9 725**	**9 216**	**6 746**
Payables	4 482	4 077	3 663	4 279
Provisions – leave and other	4 389	4 596	4 576	4 416
Provisions – superannuation	1 108	1 183	1 141	1 254
Total Current Liabilities	**9 979**	**9 856**	**9 380**	**9 949**
Working Capital	**3 789**	**(131)**	**(164)**	**(3 203)**
Property, plant and equipment	42 647	46 555	46 016	49 245
Intangible assets	410	178	201	151
Deferred tax assets	8 551	9 872	9 891	10 950
Total Non-Current Assets	**51 608**	**56 605**	**56 108**	**60 346**
Provisions – leave and other	1 153	1 241	928	735
Provisions – superannuation	20 840	23 167	21 302	24 605
Deferred tax liabilities	3 003	3 526	4 030	4 170
Total Non-Current Liabilities	**24 996**	**27 934**	**26 260**	**29 510**
Net Assets	**30 401**	**28 540**	**29 684**	**27 633**
Capital	15 503	15 503	15 503	15 503
Retained earnings/(Accumulated losses)	2 647	680	1 686	(668)
Reserves	12 251	12 357	12 495	12 798
Total Equity	**30 401**	**28 540**	**29 684**	**27 633**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts from Government	37 013	36 196	34 863	32 615
Additional Government funding	3 250	3 250	3 250	3 250
Receipts from customers	13 790	13 304	13 097	13 812
Payments to suppliers and employees	(50 527)	(47 371)	(46 973)	(44 519)
Interest received	191	140	178	155
Interest paid	0	0	(20)	(26)
Cash from (used in) Operations	**3 717**	**5 519**	**4 395**	**5 287**
Payments for property, plant and equipment	(1 359)	(5 419)	(1 862)	(4 465)
Proceeds from sale of property, plant and equipment	127	94	223	120
Cash from (used in) Investing Activities	**(1 232)**	**(5 325)**	**(1 639)**	**(4 345)**
Net increase (decrease) in cash	**2 485**	**194**	**2 756**	**942**
Cash at the beginning of the year	6 758	6 564	3 808	2 866
Cash at End of the Year	**9 243**	**6 758**	**6 564**	**3 808**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Net Profit (Loss) ($'000s)		35	(268)	(217)	(296)
EBIT ($'000s)		1 021	551	737	908
EBITDA ($'000s)		5 720	5 341	5 342	5 642
Operating margin	>1.0	0.94	0.93	0.93	0.92
Return on assets		1.6%	0.8%	1.1%	1.4%
Return on equity		0.1%	(0.9%)	(0.8%)	(1.0%)
Financial Management					
Creditor turnover	30 days	23	23	33	45
Other Information					
Average staff numbers (FTEs)		421	411	407	408
Average staff costs ($'000s)		75	74	67	67
Average leave balance per FTE ($'000s)		13	14	14	13

TASMANIAN IRRIGATION PTY LTD (TI)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion was issued on 19 August 2015.

TI commissioned three new schemes during 2014-15 and completed the first stage of its construction program following the commissioning of the Upper Ringarooma Irrigation Scheme in August 2015. This greater capacity resulted in higher revenue. It also led to an increase in the generation of electricity from TI's mini hydro systems and creation of Renewable Energy Certificates (RECs).

In February 2015, it secured $90.000m towards the second stage of its construction program from the Tasmanian and Australian Government.

It reported an Underlying Profit of $1.358m in 2014-15, which was $1.026m higher compared to the previous year.

However, its Net Loss was $89.974m because newly commissioned schemes were impaired in accordance with its policy that schemes are operated on a cost recovery basis.

Since the establishment of the Water Infrastructure Fund in 2008-09, both the State and Australian Governments have made a significant investment in water infrastructure in the State. The operating model established for TI relies heavily on government support for investment in irrigation schemes. The tax benefit on losses was not recognised, as it was not probable that future taxable profit would be available.

SNAPSHOT

- TI recorded an Underlying Profit of $1.358m in 2014-15.
- Included in the Underlying Profit was $0.970m revenue from the sale of electricity generated by TI's mini hydro systems, RECs created during the year and valued at $1.374m and $5.272m of government grants received for operational funding.
- Three new schemes were commissioned during the year, which resulted in an impairment expense of $135.311m. Impairment losses reflect that schemes are operated on a cost recovery basis rather than to generate a profit.
- Net Assets totalled $31.198m at 30 June 2015.

A recommendation was made to review the current methodology for forecasting asset replacement costs to ensure that the annualised asset renewal levy reflected the best estimate of future expenditure. We also recommended that the treatment of interest earned on funds held in the separate asset renewal levy accounts be clarified as to whether it forms part of TI's operating revenue or is credited to the asset renewal account.

Key developments included the completion of projects planned under the Tranche One construction program. The Midlands Water Scheme, South East Irrigation Scheme (Stage 3) and Dial Blythe Irrigation Scheme were commissioned during 2014-15. The Upper Ringarooma Irrigation Scheme was commissioned in August 2015.

TI secured $90.000m towards the Tranche Two construction program, with $60.000m to be contributed by Australian Government and $30.000m by Tasmanian Government.

During 2014-15, TI paid no dividends or income tax equivalents.

The commissioning of three new schemes resulted in the following major variations between 2014-15 and 2013-14:

- Total Revenue and Total Expenses increased as more schemes became operational during the year and water usage increased.
- Impairment expense was $122.785m higher.
- Water entitlements revenue was $26.592m higher.
- Total Assets were $88.395m lower because impairments were only assessed and recognised once irrigation schemes were commissioned.
- Equity was $71.296m lower.

The audit was completed satisfactorily and on time with no matters outstanding.

INTRODUCTION

TI is a State Owned Company established under the *Irrigation Company Act 2011,* responsible for developing and operating irrigation schemes.

The construction of new irrigation schemes is funded by both the State and Australian Governments and from water entitlement sales. Because schemes are operated on a cost recovery basis, rather than to generate a profit, the value of water infrastructure assets and dams is impaired to an amount that represents unsold water entitlements. Once all entitlements are sold, the carrying value of a scheme is nil.

TI's shares are held by the Treasurer and the Minister for Primary Industries and Water on behalf of the State of Tasmania.

TI's Board has five non-executive Directors appointed by the shareholder Ministers.

KEY AREAS OF AUDIT ATTENTION

Description of area	Audit approach
The development cost of new irrigation schemes is predominantly funded by grants from the Australian and Tasmanian Governments. TI also receives funding to meet operational requirements.	We audited government funding received and its designation as either operating, capital or equity contribution to information obtained from the Department of Treasury and Finance.
Despite TI being a for-profit entity, it operates on a cost-recovery basis. This generally leads to the assets being impaired, i.e. the carrying amount is reduced to the recoverable amount (the higher of fair value less costs to sell and value in use). That reduction is an impairment loss which must be recognised immediately in profit or loss.	We audited TI's impairment model to ensure that • data used was relevant and appropriate for the calculation • assumptions and methodology used complied with Australian Accounting Standards, mainly *AASB 136 Impairment of Assets* • assumptions used were consistent with relevant and published data • methodology and calculations applied were appropriate. We discussed with management any indications that an impartment loss recognised in prior periods may no longer exist or may have decreased, which could potentially result in its reversal.
TI sold water entitlements in irrigation districts that are either currently operating or were under construction. Water entitlements included irrigation rights and delivery rights. The entitlements under irrigation rights and delivery rights are tradeable within the district in which they are issued.	We audited water entitlements sales to ensure that revenue was calculated correctly and recognised in the correct period. We ensured that payments for water entitlements received before a scheme was commissioned were accounted for as revenue in advance and recognised as a liability. Conversely, we ensured that water entitlements for completed schemes were recognised as revenue in the period the scheme was commissioned.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2015 and an unqualified audit report was issued on 19 August 2015.

KEY FINDINGS

As discussed later in this Chapter, TI changed the way it accounted for the asset renewal levy. In considering this change, we recommend that the current methodology for forecasting asset replacement costs be reviewed to ensure the annualised asset renewal levy reflects the best estimate of future expenditure. We also recommended that the treatment of interest earned on funds held in the separate asset renewal levy accounts be clarified.

In a separate matter, we recommended implementing an accounting policy on classification of cash flows so that information presented is useful in understanding TI's ability to generate cash and how that cash is used.

The audit was completed satisfactorily with no items outstanding.

KEY DEVELOPMENTS

Projects Commissioned or Under Construction

Projects planned under the Tranche One construction program were completed following the commissioning of the Upper Ringarooma Irrigation Scheme in August 2015. Three schemes were commissioned in 2014-15:

- Midlands Water Scheme
- South East Irrigation Scheme (Stage 3)
- Dial Blythe Irrigation Scheme.

A total of $135.253m was impaired and recognised as an expense during 2014-15 in accordance with TI's policy that schemes are operated on a cost recovery basis rather than to generate a profit. This means that the value of water infrastructure assets and dams is impaired to an amount that represents unsold water entitlements. Once all entitlements are sold, the carrying value of a scheme is nil. Impairment of the Upper Ringarooma Irrigation Scheme will be recorded in 2015-16.

Projects Under Way or in Development

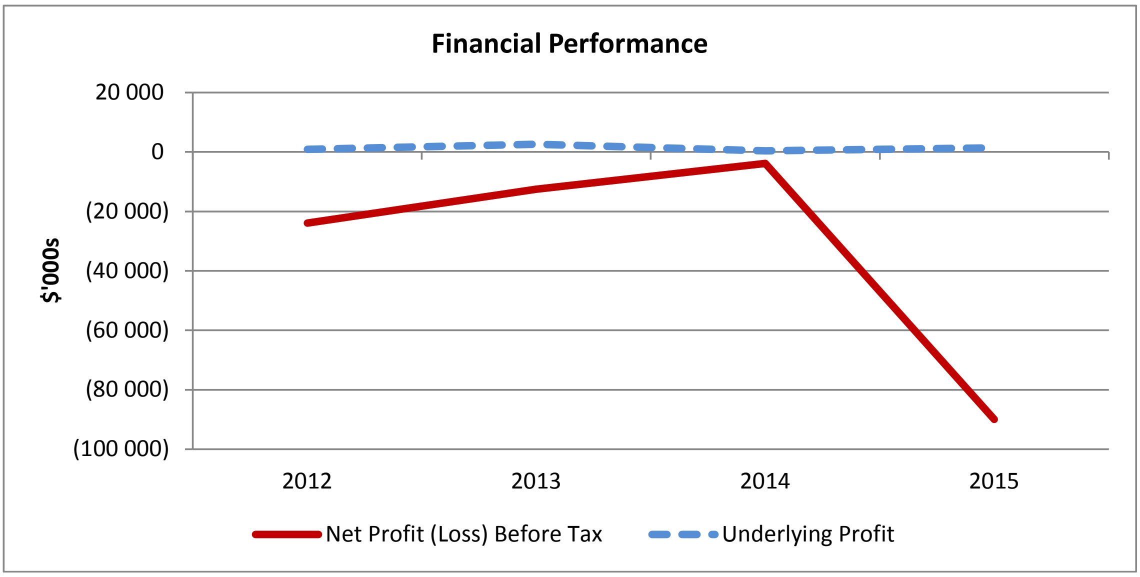
In February 2015, TI secured $60.000m from the Australian Government towards Tranche Two construction program which includes Scottsdale, North Esk, Southern Highlands, Circular Head and Swan Valley Irrigation Schemes. The Tasmanian Government will contribute $30.000m.

Accounting for Asset Renewal Levy

TI charges irrigators fixed and usage fees. Fixed charges are billed annually based on water entitlement holdings and have two components: operation and maintenance charge; and an asset renewal levy. The asset renewal levy provides for future refurbishment and replacement of significant scheme assets.

TI changed the way it accounted for the asset renewal levy on the basis that it can be used only in accordance with the publicly announced restrictions and conditions. As a result, the asset renewal levy revenue was deferred until obligations are met. The change in accounting policy was disclosed in the financial report, which also included a reconciliation of asset renewal levy liabilities for each irrigation district. The change resulted in a decrease in revenue and higher liabilities.

FINANCIAL ANALYSIS



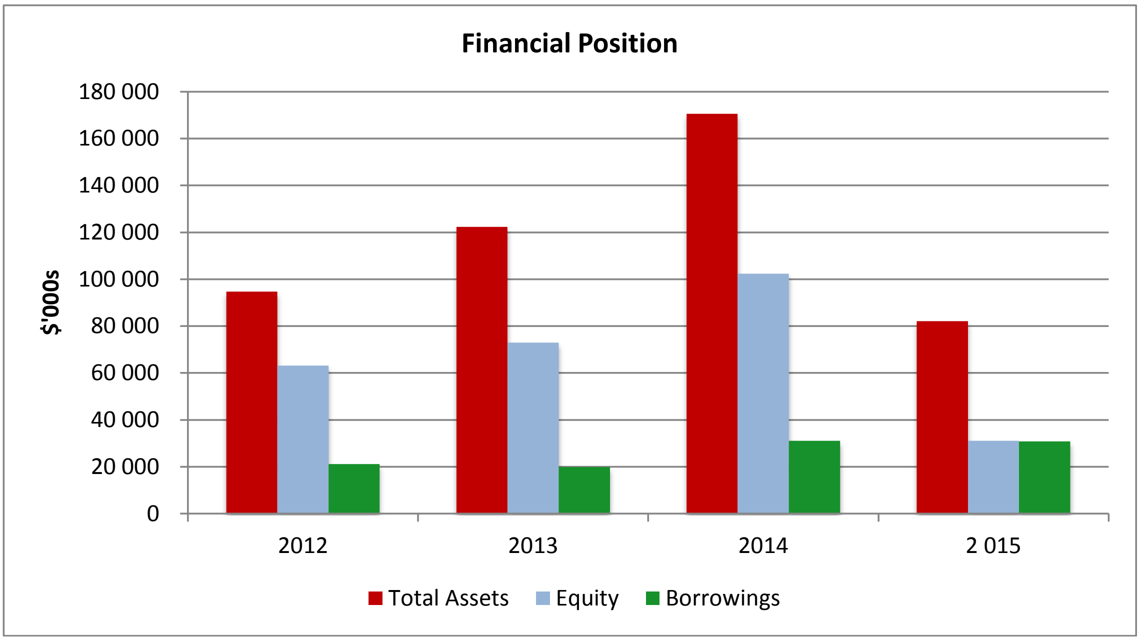
TI reported an Underlying Profit of $1.358m (2013-14, $0.332m) for 2014-15. Total Revenue increased by 34% and Total Expenses by 25% as more schemes became operational during the year and water usage increased. However, the increased profit was mainly driven by higher Renewable energy income, up $1.444m, as a result of increased generation of electricity from TI's mini hydro system and the subsequent creation of Renewable Energy Certificates (REC). These certificates can be sold at a negotiated price and in 2014-15 TI sold RECs worth $1.077m.

Total Revenue also went up due to higher Government operating grants which increased by $0.488m.

Included in the Underlying Profit was $0.970m revenue from the sale of electricity generated by TI's mini hydro systems, RECs created during the year and valued at $1.374m and $5.272m of government grants received for operational funding.

TI's Total Comprehensive Loss for 2014-15 was $89.974m and was due to three new schemes commissioned during the year, which resulted in an Impairment expense of $135.311m, partly offset by the recognition of Water entitlements revenue, $34.919m. Water entitlements are held as unearned revenue until a scheme is commissioned.

The Total Comprehensive Loss included accounting for the Australian Government provision of additional Capital grants, $9.060m, for the construction of the Dial Blythe Irrigation Scheme. This project was originally in the Tranche Two program, however its construction was brought forward with funding provided under the Tasmanian Forests Agreement.



Total Assets were $82.169m at 30 June 2015 and consisted mainly of the cost of dams and water infrastructure, $262.729m, less depreciation and impairment expense, $204.348m. The decrease in both Total Assets and Equity was predominantly due to the impairment of schemes commissioned during the year, $135.311m.

Capital works totalled $40.513m (2014, $79.328m) in 2014-15 and were funded by proceeds from water entitlement sales and Government funding. During the year, Government grants totalling $18.678m were designated as an equity contribution. TI did not borrow any additional funds and its Borrowings were $31.003m at 30 June 2015.

TI did not record any deferred tax balances nor does it generate taxable income. It had generated significant taxation losses due to the impairment of the irrigation schemes. However, the tax benefit of these losses was not recognised, as it was not probable that future taxable profit will be available.

The lower Equity balance at 30 June 2015 had a negative impact on financial management ratios such as debt to equity and debt to total assets.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Revenue	4 609	2 939	2 955	3 003
Renewable energy income	2 334	890	843	847
Government grants	5 272	4 784	5 897	6 219
State Government interest contributions	915	985	649	608
Finance income	228	397	1 916	802
Other revenue	899	627	1 143	845
Total Revenue	**14 257**	**10 622**	**13 403**	**12 324**
Employee benefits	4 156	3 767	3 948	4 121
Finance costs	2 143	1 735	1 568	1 661
Depreciation	694	567	414	593
Operational and other	5 906	4 221	4 934	5 094
Total Expenses	**12 899**	**10 290**	**10 864**	**11 469**
Underlying Profit	**1 358**	**332**	**2 539**	**855**
Impairment expense	(135 311)	(12 526)	(15 311)	(40 124)
Capital grants	9 060	0	0	0
Water entitlements	34 919	8 327	223	15 361
Net Profit (Loss) Before Tax	**(89 974)**	**(3 867)**	**(12 549)**	**(23 908)**
Income tax benefit (expense)	0	0	0	582
Net Profit (Loss) After Tax	**(89 974)**	**(3 867)**	**(12 549)**	**(23 326)**
Other comprehensive income	0	0	0	0
Total Comprehensive Profit (Loss)	**(89 974)**	**(3 867)**	**(12 549)**	**(23 326)**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Cash and deposits	12 357	9 454	23 443	47 494
Receivables	6 745	1 910	3 602	4 710
Fixed repayment plans	595	783	1 955	1 341
Water stock	224	204	261	275
Other	230	312	212	107
Total Current Assets	**20 151**	**12 663**	**29 473**	**53 927**
Payables	6 006	10 037	13 671	4 573
Unearned revenue	13 151	26 160	14 946	4 654
Borrowings	15 287	13 934	1 337	3 970
Provisions	407	328	469	488
Total Current Liabilities	**34 851**	**50 459**	**30 423**	**13 685**
Working Capital	**(14 700)**	**(37 796)**	**(950)**	**40 242**
Property, plant and equipment	59 264	154 911	88 226	33 634
Fixed repayment plans	1 793	2 474	4 274	6 802
Other	961	516	426	426
Total Non-Current Assets	**62 018**	**157 901**	**92 926**	**40 862**
Borrowings	15 716	17 253	18 687	17 290
Provisions	404	358	261	549
Total Non-Current Liabilities	**16 120**	**17 611**	**18 948**	**17 839**
Net Assets	**31 198**	**102 494**	**73 028**	**63 265**
Reserves	0	0	0	746
Accumulated losses	(130 623)	(40 649)	(36 782)	(23 998)
Capital	161 821	143 143	109 810	86 517
Total Equity	**31 198**	**102 494**	**73 028**	**63 265**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts from customers	2 981	13 515	10 550	3 799
Government grants and contributions	6 657	8 389	14 136	6 126
Interest received	229	786	2 435	1 694
Payments to suppliers and employees	(9 588)	(15 510)	(14 988)	(7 798)
Finance costs	(2 143)	(1 735)	(1 568)	(1 661)
Other				
Cash from (used in) operations	**(1 864)**	**5 445**	**10 565**	**2 160**
Payments for property, plant and equipment	(44 365)	(83 068)	(62 138)	(18 841)
Proceeds from sale of property, plant and equipment	129	134	541	4
Loans	27	(90)	0	0
Proceeds from sale of water entitlements	27 126	16 760	4 924	11 794
Cash from (used in) investing activities	**(17 083)**	**(66 264)**	**(56 673)**	**(7 043)**
Capital contribution from Government	22 034	35 668	23 292	35 939
Cash from acquisition of RWSC & TIS*	0	0	0	1 867
Proceeds from borrowings	0	11 163	0	0
Repayment of borrowings	(184)	0	(1 236)	(1 196)
Cash from (used in) financing activities	**21 850**	**46 831**	**22 056**	**36 610**
Net increase (decrease) in cash	2 903	(13 988)	(24 052)	31 727
Cash at the beginning of the year	9 454	23 442	47 494	15 767
Cash at end of the year	**12 357**	**9 454**	**23 442**	**47 494**

* *Rivers and Water Supply Commission and Tasmanian Irrigation Schemes Pty Ltd*

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Underlying profit (Loss) ($'000s)		1 358	332	2 539	855
Net Profit (Loss) ($'000s)		(89 974)	(3 867)	(12 549)	(23 326)
Operating margin	>1.0	1.1	1.0	1.2	1.1
Return on assets		2.6%	1.1%	2.0%	1.8%
Total return to equity ratio		(134.6%)	(4.4%)	(18.4%)	(36.9%)
Financial Management					
Debt to equity		99.4%	30.4%	27.4%	33.6%
Debt to total assets		37.7%	18.3%	16.4%	22.4%
Interest cover - EBIT	>2	1.5	1.0	1.4	1.0
Current ratio	>1	0.6	0.3	1.0	3.9
Other Information					
Average staff numbers (FTEs)		45	43	39	37
Average staff costs ($'000s)		115	118	105	93
Average leave balance per FTE ($'000s)		18	16	19	28

TASMANIAN NETWORKS PTY LTD (TasNetworks)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion issued on 14 August 2015.

This was TasNetworks' first year of operation making comparative analysis difficult. Based on conventional indicators, its financial performance was satisfactory as is evident by the Operating margin, Return on assets and Return on equity all exceeding benchmark.

TasNetworks generated $210.794m in operating cash flows, invested $139.764m in Property, plant and equipment and returned $152.043m to government in the form of tax equivalents, guarantee fees and dividends.

We noted TasNetworks had a high level of negative net working capital of $142.238m at 30 June 2015, primarily due to current borrowings of $189.427m, and total borrowings of $1.644bn giving rise to a debt/equity ratio of 161.8%. While TasNetworks had un-utilised borrowing facilities of $166.282m at 30 June, and its operating cash flows were strong, management need to keep its level of debt under constant review.

SNAPSHOT

- Profit after Income Tax was $112.931m this year.
- Net Assets totalled $1.016bn and borrowings were $1.644bn. TasNetwork's debt to equity ratio at 30 June was 161.8%.
- Paid dividends of $61.000m consisting of dividends of $40.000m and $21.000m respectively declared by Aurora and Transend, in relation to the 2013-14 year, income tax equivalents of $79.089m and loan guarantee fees of $11.954m.
- Declared a final dividend for 2014-15 of $63.200m
- Returned capital to the State of $20.000m
- Took on $205.000m in additional borrowings as a result of a transfer of debt from the Hydro-Electric Corporation
- made an equity transfer of $30.000m to Forestry Tasmania on 1 July 2015.

One high risk and six moderate risk audit findings were raised during the audit. The high risk finding related to preparing and posting of journals in the Navision system without independent review. The moderate findings related to bank signatories, valuation of land, and buildings, excessive annual leave, revaluations being put through one line item in the general ledger and the need for improvements in the management of inventory. There were also five low risk findings.

The audit was completed satisfactorily with no issues outstanding.

Other major financial transactions this year included:

- defined benefit superannuation actuarial gain, $23.091m
- payments for Property, plant and equipment, $139.764m.

INTRODUCTION

TasNetworks is a proprietary limited company incorporated on 4 February 2014. Its principal activities are to build, own and operate the transmission, communication and distribution networks of the Tasmanian electricity network.

The *Electricity Reform Act 2012* (Tas), (the Act), enacted in December 2012, facilitated implementation of reforms to the electricity supply industry in Tasmania. The Act resulted in the merger of the electricity network businesses owned by Aurora Energy Pty Ltd (Aurora) and the former Transend Networks Pty Ltd (Transend).

On 1 July 2014 the assets and liabilities of Transend and the electricity distribution network owned by Aurora were transferred to TasNetworks via a gazetted Transfer Notice dated 25 June 2014. All assets, rights, liabilities, reserves, obligations of Transend and the distribution business of Aurora were transferred to TasNetworks.

TasNetworks applied Australian Accounting Standard AASB 3 *Business Combinations* by analogy resulting in all assets, rights, liabilities, reserves and obligations being recorded at their fair values on acquisition date. As these items were transferred for no consideration, the net position arising from the transfers was reflected as contributed equity, $467.555m.

The Board is comprised of five non-executive directors who were appointed by the two shareholder Ministers. The Board appointed a Chief Executive Officer in late 2013. The CEO is not a Board member.

TasNetworks issued two $1 fully paid ordinary shares which are held in trust for the Crown in Right of the State of Tasmania. One share was issued to each of the Treasurer and the Minister for Energy.

TasNetworks had two 100% controlled subsidiaries which were consolidated into its financial statements:

- Ezikey Group Pty Ltd (Ezikey) was responsible for the commercialisation of broken neutral detection technology. For the year ended 30 June 2015, Ezikey had no activity.
- Auroracom Pty Ltd which holds the distribution business' Telecommunications Carrier Licence. To date this company has not traded.

While TasNetworks existed at 30 June 2014, financial activities at that time were minimal and funded by Aurora and the former Transend. To facilitate a reasonable assessment of TasNetworks' financial position in this Chapter, comparative amounts in the Statement of Financial position represent assets and liabilities transferred on 1 July 2014. However, comparative amounts are not included in the Statements of Comprehensive Income or Cash Flows nor in the financial analysis.

KEY AREAS OF AUDIT ATTENTION

<table>
<tr><th>Description of Area</th><th>Audit Approach</th></tr>
<tr><td>

Integrating systems and processes

TasNetworks was a new electricity business merged from the distribution arm of Aurora and Transend's transmission business. While both of these companies were Government owned, regulated businesses, the individual companies had different cultures, people, IT systems, and processes.

TasNetworks needed to effectively integrate people, systems, processes and culture, to fully deliver the benefits of the merger.

</td><td>

We undertook a review of TasNetworks' processes and systems including performing assessments of:

- TasNetworks' entity controls
- roles and effectiveness of management
- risk management framework
- internal audit plan
- IT general control environment
- risk of fraud
- updating our systems documentation and walkthroughs.

Our initial review, at the time of planning the audit strategy, concluded that the internal control structure was not fully effective. We reached this conclusion because, during the period under review, TasNetworks was not an established entity with stable management, well defined responsibilities and procedures.

As the audit progressed, we noted improvement in the internal control structure and defined management roles and we will revisit our assessment of the internal control structure at our next audit.

As a result of our assessment, a substantive based audit approach was conducted for 2014–15.

</td></tr>
<tr><td>

Initial take up of balances

The creation of TasNetworks resulted in all assets, liabilities, rights and obligations being transferred to it on 1 July 2014 from Transend and Aurora's distribution business.

Consequently, TasNetworks completed journal entries on 1 July 2014 recording assets and liabilities transferred which need to be consistent with the Transfer Notice.

Adjustments to balances taken up

Adjustments were made to balances transferred based on subsequent information.

</td><td>

For the initial take up of and adjustments to balances we:

- confirmed that the consolidated opening balances reconciled with closing balances from Aurora, Transend and TasNetworks
- tested the transfer order as this related to assets/ liabilities and reserves transferred from Transend and Aurora
- tested the fair value adjustments on take up of the initial balances and ascertained reasons therefor.
- substantiated adjustments
- reviewed disclosures in the financial statements.

</td></tr>
</table>

Description of Area	Audit Approach
Unbilled Revenue Receivable TasNetworks' distribution business recorded an amount for unbilled energy receivable from Aurora Retail at 30 June 2015 totalling $46.481m.	An external specialist was appointed to complete the audit of the unbilled revenue receivable. The scope of work broadly covered: • whether the methodology used was appropriate • verification of inputs and assumptions • analytical reviews • management review processes • ensuring ledger and financial statements agree to model • appropriateness of financial statement disclosures • material agreement with the amount recorded as payable by Aurora. We concluded that the unbilled revenue balance was fairly stated.

Description of Area	Audit Approach
Capital Expenditure Program TasNetworks planned to undertake significant strategic infrastructure investment and maintenance expenditure. TasNetworks is responsible for maintaining significant infrastructure assets across the State.	We appointed an external specialist to complete the audit of the valuation of network assets which was prepared on the Regulatory Asset Basis (RAB). The scope of work broadly covered: • verification of inputs and assumptions • testing additions • a documented assessment of the internal control framework for review and calculation of the valuation • assessing the reasonableness of the valuation • ensuring ledger and financial statements agree to valuation • appropriateness of financial statement disclosures. We concluded that transmission and distribution infrastructure assets were fairly stated. We also undertook the following work: • re-computed depreciation values across asset classifications or individual assets • verified useful lives as being reasonable • verified asset additions, disposals and work-in-progress • verified asset registers to general ledger • reviewed the asset valuation methodology applied to land and buildings. In addition to the above procedures, the intangibles impairment assessment was also reviewed.
Defined Benefits Superannuation liability TasNetworks has employees who are members of defined benefit superannuation schemes. Its obligations under these schemes (less fair value of plan assets) are recognised in the statement of financial position. The value of the unfunded superannuation liability and movements in the liability recognised in the financial statements are based on an annual valuation. This valuation is based upon a number of assumptions and the use of discount rates, all of which are volatile.	We engaged a specialist to undertake a peer review of work done by the State Actuary which was engaged by the Department of Treasury and Finance to provide a valuation of the RBF Contributory Scheme liability. Our expert concluded that assumptions and methodology used by the State Actuary complied with legislation and the relevant valuation framework.

<table>
<tr><th>Description of Area</th><th>Audit Approach</th></tr>
<tr><td>Equity withdrawals
TasNetworks made equity transfers to TasRail of $20.000m during 2014–15.
In addition, TasNetworks provided Forestry Tasmania with $30.000m on 1 July 2015 to help pay off its debt.</td><td>We undertook the following work:
• ensured compliance with the transfer notice
• tested disclosures in the financial statements.
During the year there was a $205.000m debt transfer from Hydro Tasmania.</td></tr>
<tr><td>Inventory risk
While inventory is not a significant balance, some items held are attractive and there is a fraud risk. Management recognised this and initiated internal reviews.</td><td>We attended a stocktake at the Cambridge and Bridgewater stores and undertook:
• a review of stocktake procedures
• performed test counts for a sample of inventory
• obtained explanations for material differences between stock records and physical counts
• verified unit prices to supporting documentation.</td></tr>
<tr><td>Debt and going concern
At 30 June 2015 TasNetworks had:
• negative working capital of $142.238m
• a total debt with TASCORP of $1.644bn
• a borrowing limit of $1.840bn
• positive operating cash flows which exceeded $210.000m for the year.</td><td>We reviewed management's and the Audit and Compliance Committee's assessment of TasNetworks' negative working capital position at 30 June 2015.
We also:
• tested the classification of borrowings
• checked debt covenant compliance
• obtained confirmations of borrowings.
In addition, we noted that TasNetworks had entered into interest rate swaps. These were audited by:
• obtaining confirmations from TASCORP and Westpac
• ensuring hedge effectiveness was demonstrated
• ensuring there were appropriate financial statement disclosures.</td></tr>
</table>

Description of Area	Audit Approach
Director and Executive Remuneration Disclosures The Department of Treasury and Finance issued revised Guidelines for Director and Executive Remuneration disclosures in December 2014. We developed a template endorsed by Treasury for use by government businesses for disclosing director and executive remuneration in the notes to the financial statements.	Audit work: • ensured remuneration disclosures complied with our template • verified remuneration disclosures to supporting documentation • ensured disclosures cover all directors and executive management • re-computed information into the appropriate bands.
Loss of major customers and attracting new customers A small number of transmission customers used a large portion of Tasmania's energy and contributed a significant percentage of total transmission revenue. TasNetworks was exposed to the risk that the operations of large industrial customers may cease to be viable resulting in closure and loss of revenue to TasNetworks. Four of TasNetworks' industrial customers used more than 50% of the total electricity consumed in Tasmania.	There was no impact this year as there was no loss of major customers. Audit noted TasNetworks had contracts in place with major users and that it is a legal requirement of the National Electricity Rules to have connection agreements in place before connection to the network can take place.
Harmonisation of Accounting Policies TasNetwork's management reviewed accounting policies used by the transmission and distribution businesses to ensure they are consistent.	We examined TasNetworks' accounting policies and: • ensured compliance with Australian Accounting Standards • reviewed of judgements and decisions used in estimates • reviewed the financial statements and providing feedback to management and the Audit and Compliance Committee.

Description of Area	Audit Approach
Separate accounting systems used in the different segments of merged businesses Aurora's distribution business used the following accounting systems: • Navison general and asset ledger • Peoplesoft payroll. Transend's used the following accounting systems: • Sun general and asset ledger • Aurion payroll. The merged entity continued to operate the separate systems in 2014-15 which added complexity to the audit.	For this audit a fully substantive approach was taken. In regard to expenditure the following tests were applied: • obtained a listing of all invoices and from a sample, tested for accuracy and occurrence for both systems • sampled a list of payments after year end to check for appropriate cut-off • sampled creditors at year end for cut-off and vouch to supporting documentation. In regard to payroll the following tests were applied: • verified termination payments and new starters • analytical review • reviewed employee provisions.
Revenue and metering risk A programming issue was identified in January 2015 that affected approximately 8 000 of the 22 500 customers that have embedded generation (solar) connected in Tasmania. The EMDI MK7A metres were not operating in a manner consistent with TasNetworks' understanding. This was investigated by TasNetworks and resulted in approximately $2.3m credited to customers.	In testing revenue, we: • obtained confirmations from customers • performed tests of detail over tariffs coded into systems • performed analytical reviews. Work around the solar meters matter consisted of discussions with management to ensure actions were being taken to address issues identified. We also noted completion of an internal audit report with the Board receiving regular updates on recommendations.
National Tax Equivalent Regime. TasNetworks is subject to the National Tax Equivalent Regime. Tax effect accounting calculations are subject to complex tax legislation and rulings and generally are performed within a short timeframe. With the creation of TasNetworks, the validity of tax balances (including carried forward tax losses) needed to be established.	We: • obtained a tax certificate from the taxation consultant • tested disclosures in the financial statement • obtained an understanding of movements in tax balances and re-testing where necessary.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2015 and an unqualified audit report was issued on 14 August 2015.

KEY DEVELOPMENTS

Increase in borrowings

The following table summarises movements in TasNetworks' borrowings during 2014-15:

Movement in Borrowings

	Notes	2014-15
		$'000s
Borrowings transferred on 1 July 2014	(a)	1 426 918
Repayments this year		(1 169 692)
New borrowings from TASCORP		1 161 492
Borrowings taken up/transferred:		
Hydro debt taken over	(b)	205 000
Equity transferred to TasRail	(c)	20 000
Balance of borrowing at 30 June 2015	**(d)**	**1 643 718**
Forestry Tasmania debt taken over	(e)	30 000
Balance of borrowing at 1 July 2015		**1 673 718**
Total facility with TASCORP		1 840 000
Unused borrowings		**166 282**

(a) On 1 July 2014 borrowings of Transend and the electricity distribution business owned by Aurora were transferred to TasNetworks via a gazetted Transfer Notice dated 25 June 2014. These totalled $1.427bn.

(b) TasNetworks reduced its contributed equity by $205.000m as a result of a transfer of debt from the Hydro-Electric Corporation mandated by a Transfer Notice made by the Treasurer under section 19 of the of the Electricity Reform Act 2012. It is expected there will be further transfers of debt totalling $70.000m in 2015-16 and $50.000m in 2016-17.

(c) The Shareholder mandated capital reductions of $10.000m each were effected pursuant to Transfer Notices made by the Treasurer under section 10A of the *Government Business Enterprises Act 1995*. This was in response to a Shareholder direction provided to the former Transend in June 2011 and resulted in a total transfer of $20.000m from TasNetworks to Tasmanian Railway Pty Ltd.

(d) By 30 June 2015 TasNetworks' borrowings had increased by $223.205m to $1.644bn and its Debt to equity ratio was 161.8%. The Corporate Plan for 2015-16 to 2019-20 had estimated that borrowings at the end of the period would amount to $1.828bn.

(e) TasNetworks made an equity transfer of $30.000m to Forestry Tasmania on 1 July 2015 pursuant to a Transfer Notice made under section 10A of the *Government Business Enterprises Act 1995*.

CLIENT RESPONSE

"In response to the reservations noted regarding TasNetworks' negative working capital balance at 30 June 2015; we can confirm that appropriate action has since been taken to address this issue. In July 2015 the Board approved the execution of debt market hedging to lock in longer term interest rates into the next Distribution Regulatory period and beyond. This strategy aligns TasNetworks' interest rate exposure with the Australian Energy Regulators benchmark of a 10 year trailing average and will result in TasNetworks dealing debt for the longer duration. In August 2015 management executed the refinance of $518.3m of debt that was set to mature in February 2017. Management will continue to closely monitor debt levels and borrowing maturities to ensure alignment with policy. We also wish to advise that at the end of September 2015 our net working capital balance was positive with current borrowings of $87m.

Dividends

During the year, dividends paid or proposed were as follows:

(a) dividends were paid by TasNetworks based on what was approved by the former Boards of Transend and Aurora, $21.000m and $40.000m, respectively

(b) at its August 2015 meeting the Board recommended a dividend from 2014-15 profits of $63.200m.

KEY FINDINGS

One high risk audit finding was raised during the audit. We noted anyone within the Navision finance team could raise and post journals. In addition, there was no review of journals before or after they had been posted.

Six moderate risk audit findings were raised:

- Salary Packaging Account included bank signatories who were not current employees
- land and buildings were last independently valued on 1 July 2011 and had been indexed using CPI to determine fair value at 30 June 2015. Management should consider performing an independent valuation in 2015-16
- at 30 June 2015, 152 employees had annual leave in excess of the enterprise agreements
- fair value of easements was based upon replacement cost determined by an independent valuer in 2003. Another independent formal valuation was recommended
- revaluation adjustments were not allocated to each asset class
- need for improvements to management of inventory.

We also noted five low risk matters relating to transactions without supporting documentation, some assets had acquisition values less than accumulated depreciation, line items within equity not agreeing with the financial statements, calculation of obsolete inventory and adjustments to the asset reconciliation note to the financial statements.

These were reported to management who are addressing the matters raised.

The audit was completed satisfactorily with no issues outstanding.

FINANCIAL ANALYSIS

A significant determining factor about TasNetworks' financial performance is that over 89.3% of its revenue is generated from regulated services. Its Underlying Profit was $161.396m, which was in line with budget.

Other Comprehensive income included the financial impact of infrastructure asset revaluations and movements in defined benefit superannuation liabilities. Asset revaluations were applied using the Regulatory Asset Basis (RAB) method, which was determined by the Australian Energy Regulator. This amounted to an indexation of transmission and distribution assets of 1.71% and 1.29%, respectively. The fair value revaluation increment amounted to $56.117m.

Income Statement

A significant determining factor about TasNetworks' financial performance is that over 89.3% of its revenue is generated from regulated services. Its Underlying Profit was $176.396m, which was in line with budget. Excluded from the Underlying Profit was a payment for Aurora's 2013-14 tax liability being $15.000m.

Other Comprehensive income included the financial impact of infrastructure asset revaluations and movements in defined benefit superannuation liabilities. Asset revaluations were applied using the RAB method, which was determined by the Australian Energy Regulator. This amounted to an indexation of transmission and distribution assets of 1.71% and 1.29%, respectively. The fair value revaluation increment amounted to $56.117m.

Financial Position

Significant movements in the Statement of Financial Position, other than movements in borrowings already addressed, compared to adjusted balances transferred on 1 July 2014 were:

- Receivables increased by $14.961m primarily due to higher unbilled use of system of $10.218m. The unbilled use of system is an estimate of unbilled power usage by customers between the date of the last meter reading and 30 June each year. This estimate is prone to fluctuation and dependent on various factors including weather conditions
- Current tax assets were higher by $11.951m. It is unusual for an entity to have a receivable for equivalent income tax paid. However, this occurred because the Australian Taxation Office did not provide TasNetworks with an instalment rate, and the previous Transend instalment rate was used. The Transend rate was higher than TasNetworks' subsequent tax expense resulting in a refund due to TasNetworks
- Payables declined by $26.630m due to the lower capital works program in 2014-15. In addition TasNetworks accrued $15.000m for tax liabilities for Aurora at 30 June 2014 which was paid during 2014-15
- Employee benefits reduced by $27.106m primarily because of a change in discount rate to discount those Employee benefits greater than 12 months due. The higher discount rate used, based on the corporate rather than government bond rate, lowered the provision
- Provisions reduced by $63.541m almost entirely due to TasNetworks payment of dividends declared prior to 30 June 2014 by Transend, $21.000m, and Aurora, $40.000m. These dividends were paid in December 2014
- Other non-current assets, which consisted of mainly intangible assets, decreased by $7.996m primarily due to amortisation charges of $12.563m offset by additions of $3.157m
- Deferred tax liability increased by $26.322m primarily as a result of the reduction in employee benefits referred to earlier. This had the effect of reducing TasNetworks' future tax deductions thereby increasing expected future tax liabilities.

At balance date, TasNetworks had negative working capital. Working capital is managed with the assistance of a facility with TASCORP in line with TasNetworks' Treasury Policy. At 30 June 2015 TasNetworks operated within the borrowing limit of this facility. In the current year total debt reached $1.644bn or 51.8% of total assets and at 30 June net working capital was negative $142.238m. However, cash generated from operations was $210.794m.

Equity decreased over the year by 5.3% or $57.056m as a result of distribution to owners, $205.000m, equity returns, $20.000m, and other comprehensive losses, $24.195m offset by net after tax profits, $112.931m, higher asset values, $56.117m, and Superannuation actuarial gains, $23.091m. The distribution to owners and equity returns directly impacted Contributed equity.

Statement of Comprehensive Income

	2014-15
	$'000s
Regulated distribution services	328 200
Regulated transmission services	192 780
Other revenue	62 633
Total Revenue	**583 613**
Depreciation and amortisation	(161 518)
Operating expenses	(168 750)
Total Expenses	**(330 268)**
Underlying Profit before Finance Cost and Tax	**253 345**
Finance costs	(85 098)
Interest cost on defined benefit superannuation plan	(6 851)
Underlying Profit before Tax	**161 396**
Income tax expense	(48 465)
Net Profit	**112 931**
Gain on revaluation of property, plant and equipment	56 117
Hedge reserve movements	(618)
Superannuation actuarial gains (losses)	23 091
Income tax equivalent on items of other comprehensive income	(23 577)
Total Other Comprehensive Income	**55 013**
Comprehensive Profit	**167 944**

Statement of Financial Position

	2015	2014 *
	$'000s	**$'000s**
Cash	768	665
Receivables	105 500	90 539
Inventories	17 029	16 738
Current tax assets	11 951	0
Other	4 505	2 877
Total Current Assets	**139 753**	**110 819**
Payables	52 406	79 036
Borrowings	189 427	74 639
Employee benefits	22 113	26 495
Provisions	7 309	64 503
Other liabilities	10 736	9 077
Current tax liability	0	3 677
Total Current Liabilities	**281 991**	**257 427**
Net Working Capital	**(142 238)**	**(146 608)**
Property, plant and equipment	2 994 905	2 949 733
Other	40 073	48 069
Total Non-Current Assets	**3 034 978**	**2 997 802**
Borrowings	1 454 291	1 352 279
Employee benefits	147 785	170 509
Provisions	3 085	9 432
Other liabilities	34 227	34 888
Deferred tax liability	237 302	210 980
Total Non-Current Liabilities	**1 876 690**	**1 778 088**
Net Assets	**1 016 050**	**1 073 106**
Retained earnings	129 095	0
Contributed equity	242 555	467 555
Reserves	644 400	605 551
Total Equity	**1 016 050**	**1 073 106**

* Adjusted balances recognised at 1 July 2014.

Statement of Cash flows

	2014-15
	$'000s
Receipts from customers	569 169
Payments to suppliers and employees	(206 909)
Interest received	16
Interest paid	(60 439)
Guarantee fees	(11 954)
Taxation paid	(79 089)
Cash from operations	**210 794**
Proceeds from sale of property and plant	1 469
Payments for property, plant and equipment	(139 764)
Payments for software assets	(3 157)
Cash used in investing activities	**(141 452)**
Cash transferred in	665
Proceeds from borrowings	1 386 453
Repayment of borrowings	(1 169 692)
Return of shareholder's capital	(225 000)
Dividends paid	(61 000)
Cash used in financing activities	**(68 574)**
Net increase in cash	**768**
Cash at the beginning of the year	0
Cash at end of the year	**768**

Financial Analysis

	Bench Mark	2014-15
Financial Performance		
Underlying Profit (Loss) ($'000s)	≥$167.000*	161 396
EBIT ($'000s)	≥$247.000 *	253 345
EBITDA ($'000s)		414 863
Operating margin	>1.0	1.77
Return on assets	≥8.4%*	8.1%
Return on equity	≥10.5%*	31.8%
Financial Management		
Debt to equity		161.8%
Gearing	60%	61.8%
Debt to total assets		51.8%
Interest cover - EBIT	>2	2.8
Interest cover - Funds from operations	>2	3.3
Current ratio	>1	0.50
Cost of debt		11.2%
Debt collection	30 days	11
Creditor turnover	30 days	12
Asset Management		
Asset investment ratio	100%	88%
Returns to Government		
Dividends paid ($'000s)		61 000
Income tax paid ($'000s)		79 089
Guarantee fees		11 954
Total return to the State ($'000s)		152 043
Dividends paid or payable ($'000s)	**	63 200
Dividend payout ratio	60%	56.0%
Dividend to equity ratio	6%	6.2%
Other Information		
Average Staff numbers (FTEs)		970
Average staff costs - excluding redundancy costs ($'000s)		106
Average leave balance per FTE ($'000s)		22

* Internal benchmark set by the TasNetworks.

** Dividend approved by the Directors after 30 June 2015.

TASMANIAN PORTS CORPORATION PTY LTD (TASPORTS)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion issued on 11 August 2015 indicating Tasports' financial report presented fairly, in all material respects, its financial performance and position this year.

Tasports improved its trading revenue, reporting an increase in Net Revenue of $4.486m. However, it reported an Underlying Loss of $12.581m (2013-14 loss, $1.334m) almost entirely due to a $12.339m increase in maintenance expenditure. In the current year Tasports invested $26.460m in maintenance including $7.021m for State-wide dredging and $8.353m on its community assets (referred to as Tasports' community assets program).

Despite this Underlying Loss, Tasports financial position remained strong with positive Net Working Capital of $16.812m and Net Assets of $188.644m. It continued its capital expenditure program with $13.230m spent in 2014-15.

SNAPSHOT

- Tasports recorded an Underlying Loss of $12.581m. This was $11.247m worse than the Underlying Loss in the prior year despite higher Net Revenue.
- After bringing to account maintenance on community assets of $8.353m, there was an Underlying Deficit of $4.228m. This Deficit was primarily due to a dredging program that led to an $8.703m increase in commercial asset maintenance.
- High maintenance costs was the main reason for the Net Loss after Tax of $8.548m and the Comprehensive Loss of $8.640m.
- At 30 June 2015, Total Equity was $188.644m, a decrease of $5.141m from the prior year mainly due to the Comprehensive Loss offset by equity injections of $3.500m.
- The equity injections represented Government and other contributions towards Tasports' Burnie Port Optimisation Project and community asset maintenance.
- No dividends were paid.

Key developments this year included:

- The Burnie Port Optimisation Project commenced with expenditure to date being $4.410m.
- Tasports delivered the majority of its dredging program for Devonport Port amounting to $6.902m which was included in maintenance expenditure.

Major variations between the 2014-15 and 2013-14 financial years were:

- higher Net revenue of $4.486m, primarily attributed to the first full year operation of the Burnie Woodchip Facility and increased marine revenue rates
- an increased maintenance expenditure, with greater spending on commercial assets of $8.703m and non-commercial assets of $3.636m, due to State-wide dredging operations, and year two of the five-year community asset program, respectively
- higher Payables, $7.444m, primarily as a result of accrued maintenance works at 30 June 2015.

The audit was completed satisfactorily and on time with one audit finding reported to management, related to the Technology Business Continuity Plan being out-dated and due for review.

INTRODUCTION

Tasports was formed in July 2005 through the amalgamation of Tasmania's major port operators. The enabling legislation is the *Tasmanian Ports Corporation Act 2005*.

It is responsible for the operations and management of all ports in Tasmania and the Devonport Airport. Services provided include port and logistics, shipping and towing. In addition, Tasports is responsible for the maintenance and management of port infrastructure and property.

Tasports' joint shareholders are the Treasurer and the Minister for Infrastructure, who hold their shares on behalf of the State of Tasmania. The shareholders each hold one ordinary share.

The Tasports Board consists of five board members appointed by the Shareholding Ministers. The Chief Executive Officer, who was appointed by the Board, is not a Board member.

Key Subsidiary and Associated Companies

- King Island Ports Corporation Pty Ltd (KIPC) retains ownership of infrastructure and operational assets on King Island. These assets are leased to Tasports and KIPC does not trade.
- Flinders Island Ports Company Pty Ltd is an entity which did not trade during the year.

KEY AREAS OF AUDIT ATTENTION

Area of Audit Attention	Impact on our audit approach
Property, plant and equipment Tasports' property, plant and equipment portfolio exceeded $200m and accounted for over 80% of its total assets. Land and buildings, and infrastructure assets were recognised at fair value. Key risks identified were: • valuation of land and buildings, and infrastructure • impairment testing, methodologies and assumptions • material maintenance program for commercial and community assets, including the contracted dredging project • accounting for capital costs and timely transfer of capital works in progress • calculation of depreciation.	We: • audited infrastructure asset valuations, ensured compliance with accounting standards and existing Tasports' policy • verified Tasports had assessed assets for impairment in line with internally agreed indicators, and confirmed the assessment was reasonable and the impairment assessment procedures in place operated as designed • tested significant maintenance expenditure and capital works for correct accounting treatment, including residual dredging costs that exist for contracted works not completed • reviewed ageing capital works in progress • performed detailed analytical review over depreciation calculations based upon average rates applied in the prior period.

Revenue Revenue was a major balance in the Income Statement. Potential risks identified were: • a wide range of material revenue streams included seaports, rental and operating leases, sales of goods and airport • a number of invoices were raised manually based upon shipping documents • receivables balance was material and the estimation of the provisions for doubtful debts was subjective.	We: • performed detailed analytical review procedures over revenue accounts, including comparison with prior year and budget, as well as shipping statistics for seaport revenue, the relationship with cost of goods sold for fuel sales, and monthly charges to lease agreements for rent • obtained confirmations from a selection of material customers as at 31 May 2015 to verify sales • performed subsequent receipts testing that ensured revenue was allocated to the correct period • assessed the provision for doubtful debts for reasonableness • tested key controls, journal entries (based on risks of override), the rationale for significant transactions and areas of management judgement and estimate.
New payroll system Tasports implemented a new payroll system, 'CHRIS 21', during 2014-15. This application processed and recorded employee expenditure and leave provisions.	We: • audited change management procedures to ensure compliance with Tasports' policy and best practice • performed substantive testing over the transitional period that ensured completeness and integrity of data • examined and tested payroll controls and performed detailed analytical reviews over wages and salaries expenditure • tested employee provisions against the requirements of AASB119 *Employee Benefits*.
Decentralised purchasing Tasports had a decentralised purchase ordering function with centralised payment processing. Payments were made over material expenditure accounts, with significant trade payables and accruals at year end.	We: • examined and tested expenditure and payment controls • performed subsequent payment testing that ensured accruals are complete and expenditure had been allocated to the correct period.
Cash and loan balances Given the nature of Tasports' large scale operations, and requirement to maintain a significant level of infrastructure, it managed significant cash and loan balances on a daily basis.	We: • verified year-end bank reconciliations and agreed balances to external confirmations • confirmed loan balances with TASCORP • verified the classification of loans in accordance with loan covenants.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2015 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Burnie Port Optimisation project

The Burnie Port Optimisation Project commenced during 2014-15. The project objective was to redevelop the port to increase capacity and storage, and enable rail activity into the port. Tasports is acting as the manager of the project, which had a forecast cost of $12.000m. The project was funded through contributions from Government, TasRail, Toll and TasPorts. In 2014-15, $2.500m in equity contributions were received, together with $1.000m in contributions.

Project expenditure in 2014-15 totalled $4.410m.

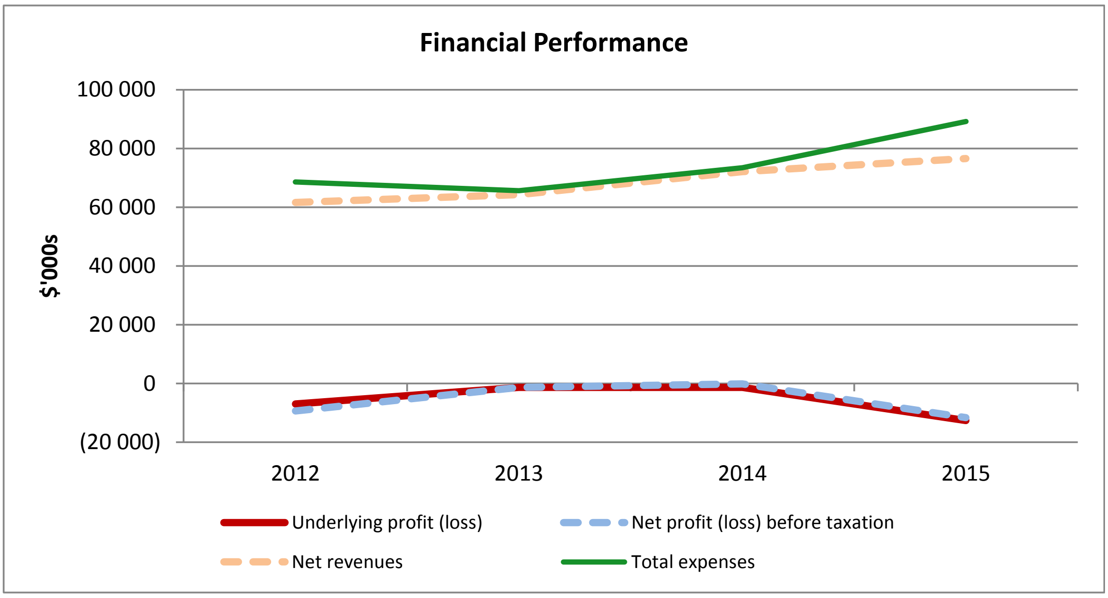
KEY FINDINGS

We reported one moderate risk audit finding to management that related to the Technology Business Continuity plan being out dated and due for review.

Dredging program

Tasports undertook a dredging program during 2014-15, with $7.021m being recognised as maintenance expenditure.

FINANCIAL ANALYSIS

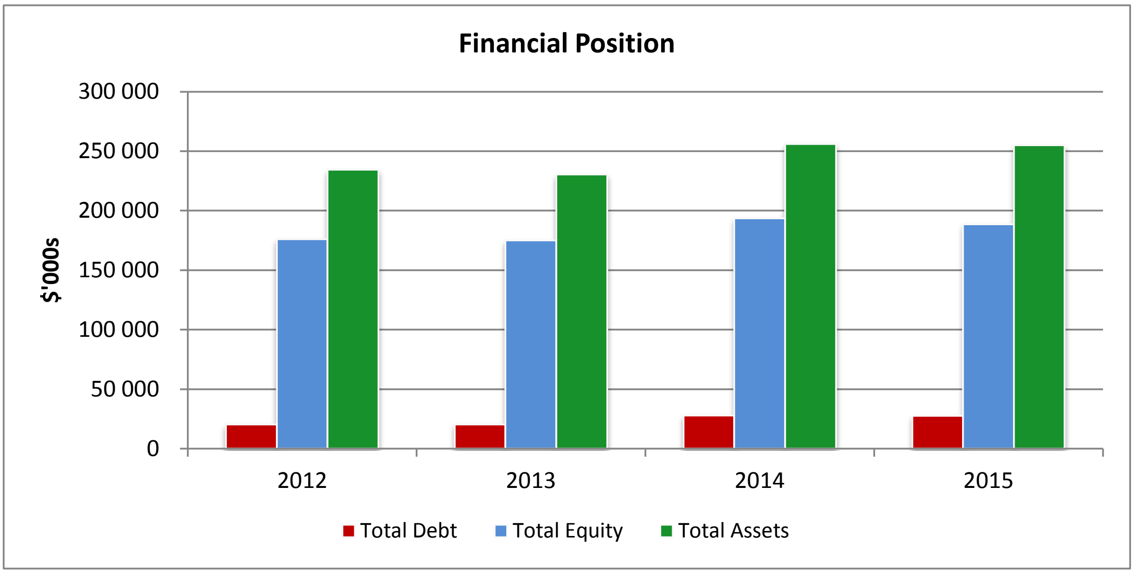


Tasports' Underlying Loss was $12.581m for 2014-15 (2013-14, loss $1.334m). The loss was made despite a $4.486m growth in Net Revenue. This growth was driven by higher Trade revenue of $4.641m, primarily attributed to the first full year operation of the Burnie Woodchip Facility, additional towage jobs and increased marine revenue rates.

The higher revenue was more than offset by:

- greater maintenance costs, which included maintenance on commercial and community assets. Commercial asset maintenance increased by $8.703m primarily as a result of the spending of $7.021m on the State-wide dredging program in 2014-15. Community asset maintenance also increased, by $3.636m, from 2013-14 as Tasports progressed the five-year community asset program
- increased employee costs of $3.001m or 9.91%. This was due to a combination of factors that included wage increases from enterprise bargaining agreements, additional costs associated with redundancy payments, and the full year operation of the Burnie Woodchip Facility.

Tasports' Underlying Deficit, excluding community asset maintenance of $8.353m, was $4.228m. This was $7.611m worse than 2013-14 predominantly as a result of the dredging program discussed previously. The loss contributed to Tasports' Net Loss after Tax of $8.548m in 2014-15.



Total Equity was $188.644m, a decrease of $5.141m from the prior year due to the Comprehensive Loss offset by equity injections of $3.500m.

Total Assets was $255.081m at 30 June 2015. This was consistent with the prior year. The increase from 2012-13 to 2014-15, $24.612m, was predominantly due to the revaluation of infrastructure assets. Borrowings totalled $27.884m at both 30 June 2015 and 2014.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Trade revenue	71 490	66 849	59 459	57 398
Airport revenue	3 175	2 821	2 649	1 696
Interest revenue	668	683	728	787
Other revenue	(272)	278	24	8
Total Revenue	**75 061**	**70 631**	**62 860**	**59 889**
Sale of goods	10 835	11 750	11 718	13 472
Cost of goods sold	(9 327)	(10 298)	(10 275)	(11 776)
Net Revenue	**76 569**	**72 083**	**64 303**	**61 585**
Employee expenses	33 276	30 275	28 382	29 507
Operating expenses	16 195	16 171	15 519	15 357
Maintenance - commercial assets	18 107	9 404	6 666	8 994
Maintenance - non-commercial assets	8 353	4 717	1 932	1 007
Depreciation	11 361	11 268	11 687	12 218
Finance costs	1 858	1 582	1 451	1 497
Total Expenditure	**89 150**	**73 417**	**65 637**	**68 580**
Underlying profit (loss)	**(12 581)**	**(1 334)**	**(1 334)**	**(6 995)**
Impairment expense	(17)	(728)	0	(719)
Impairment reversal	0	2 027	0	0
Burnie Optimisation Project - Contribution	1 000	0	0	0
Provision for restructure	0	0	0	(1 008)
Revaluation decrement of infrastructure assets	0	(85)	0	(630)
Net profit (loss) before tax	**(11 598)**	**(120)**	**(1 334)**	**(9 352)**
Income tax benefit (expense)	3 050	(49)	(58)	2 687
Net Profit (Loss)	**(8 548)**	**(169)**	**(1 392)**	**(6 665)**
Revaluation of infrastructure assets	(547)	20 780	0	3 137
Income tax expense on revaluation	455	(2 454)	(75)	(2 144)
Total Comprehensive Profit (Loss)	**(8 640)**	**18 157**	**(1 467)**	**(5 672)**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Cash	26 220	27 057	24 244	23 548
Receivables	9 421	7 607	6 917	6 869
Inventories	1 114	1 096	1 221	1 332
Assets classified as held for sale	0	0	0	290
Other	1 670	1 016	1 059	663
Total Current Assets	**38 425**	**36 776**	**33 441**	**32 702**
Payables	15 898	8 454	11 280	12 786
Borrowings	300	0	0	13 024
Tax payable	17	760	243	(289)
Employee benefits	5 236	5 237	4 654	5 491
Deferred revenue	162	183	213	213
Total Current Liabilities	**21 613**	**14 634**	**16 390**	**31 225**
Net Working Capital	**16 812**	**22 142**	**17 051**	**1 477**
Property, plant and equipment	208 765	212 525	189 945	193 755
Goodwill	2 800	2 800	2 800	2 800
Deferred tax asset	5 091	4 136	4 283	5 230
Total Non-Current Assets	**216 656**	**219 461**	**197 028**	**201 785**
Borrowings	27 584	27 884	20 383	7 359
Deferred tax liabilities	15 898	18 490	16 935	18 281
Employee benefits	1 022	962	937	902
Deferred revenue	320	482	696	624
Total Non-Current Liabilities	**44 824**	**47 818**	**38 951**	**27 166**
Net Assets	**188 644**	**193 785**	**175 128**	**176 096**
Capital	118 427	116 297	115 797	115 297
Reserves	99 124	101 157	82 831	82 907
Retained earnings (accumulated losses)	(28 907)	(23 669)	(23 500)	(22 108)
Total Equity	**188 644**	**193 785**	**175 128**	**176 096**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts from customers	93 020	88 975	81 952	81 438
Payments to suppliers and employees	(86 935)	(81 592)	(73 350)	(70 849)
Interest received	659	724	732	777
Finance costs	(1 858)	(1 451)	(1 575)	(1 503)
Income tax	(786)	(268)	0	(94)
Cash from operating activities	**4 100**	**6 388**	**7 759**	**9 769**
Payments for assets	(13 230)	(11 994)	(8 317)	(5 395)
Proceeds from sale of assets	4 793	419	754	1 686
Cash used in investing activities	**(8 437)**	**(11 575)**	**(7 563)**	**(3 709)**
Net proceeds from borrowings	0	7 500	0	0
Equity contribution received	3 500	500	500	1 000
Cash from financing activities	**3 500**	**8 000**	**500**	**1 000**
Net increase (decrease) in cash	**(837)**	**2 813**	**696**	**7 060**
Cash at the beginning of the year	27 057	24 244	23 548	16 488
Cash at end of the year	**26 220**	**27 057**	**24 244**	**23 548**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Net Profit (Loss) ($'000s)		(8 548)	(169)	(1 392)	(6 665)
Underlying profit (loss) ($'000s)		(12 581)	(1 334)	(1 334)	(6 995)
Underlying profit (loss) before Community Asset Maintenance ($'000s)		(4 228)	3 383	598	(5 988)
EBIT ($'000s)		(9 740)	1 462	117	(7 855)
EBIT and Community Asset Maintenance ($'000s)		(3 245)	4 597	598	(8 345)
EBITDA ($'000s)		1 621	12 730	11 804	4 363
Operating margin	>1.0	0.87	0.98	0.98	0.91
Operating margin before Community Asset Maintenance	>1.0	0.95	1.04	1.01	0.92
Return on assets – based on EBIT	5.21	(3.8%)	0.6%	0.1%	(3.4%)
Return on assets – based on EBIT and Community Asset Maintenance		(1.3%)	1.9%	0.3%	(3.6%)

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Return on assets – based on Underlying profit (loss)		(4.9%)	(0.5%)	(0.6%)	(3.0%)
Return on equity – based on EBIT		(5.1%)	0.8%	0.1%	(4.4%)
Return on equity – based on EBIT and Community Asset Maintenance		(1.7%)	2.5%	0.3%	(4.7%)
Return on equity – based on Underlying profit (loss)		(6.6%)	(0.7%)	(0.8%)	(3.9%)
Financial Management					
Debt to equity		14.8%	14.4%	11.6%	11.6%
Debt to total assets		10.9%	10.9%	8.8%	8.7%
Interest cover – based on EBIT	>2	(5.24)	0.92	0.08	(5.25)
Interest cover – based on EBIT and Community Asset Maintenance		(1.75)	2.91	0.41	(5.57)
Interest cover – based on Underlying profit (loss)		(6.77)	(0.84)	(0.92)	(4.67)
Interest cover – based on operating cash flows		2.21	4.04	5.35	6.53
Current ratio	>1	1.78	2.51	2.04	1.05
Cost of debt	6.9%	6.7%	6.6%	7.1%	7.3%
Debt collection	30 days	48	42	42	44
Creditor turnover	30 days	38	6	54	21
Asset management					
Asset investment ratio	>100%	116.5%	106.4%	71.2%	44.2%
Asset renewal ratio	>100%	22.7%	9.3%	63.8%	35.6%
Consumption ratio (infrastructure assets)		48.4%	50.3%	50.4%	51.2%
Returns to Government					
Income tax paid ($'000s)		786	268	0	94
Total return to the State ($'000s)		786	268	0	94
Other information					
Average staff numbers (FTEs)		225	222	225	234
Average staff costs ($'000s)		145	136	125	123
Average leave balance per FTE ($'000s)		28	28	25	27

TASMANIAN RAILWAY PTY LTD (TasRail)

OVERALL CONCLUSION

The audit was completed on time with no major items raised with management and an unqualified audit opinion was issued on 10 August 2015.

In 2014-15 TasRail recorded a Net Loss before Taxation of $36.629m after accounting for asset impairments of $15.427m, revaluation decrements of $8.277m and depreciation and amortisation of $12.864m. It completed the majority of its above rail asset replacement program by commissioning new rollingstock and track maintenance plant. The new rollingstock has improved operating efficiencies and reduced costs.

TasRail's capacity to continue its ongoing track infrastructure improvements varies subject to the level of funding received. A jointly funded State-Commonwealth Tasmanian Freight Rail Revitalisation Project under the Infrastructure Investment Programme has been secured which will provide $119.600m capital funding over the next four years for asset renewals, focused on delivering works designed to further improve safety and reliability.

Based on current levels of profitability, TasRail is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

SNAPSHOT

- TasRail continued to record Underlying Losses and to be reliant on State and Commonwealth Government funding.
- It incurred an Underlying Loss of $12.925m before asset impairment and revaluation decrement expenses in 2014-15.
- After accounting for asset impairment, $15.427m, and revaluation decrements, $8.277m, TasRail recorded a Net Loss before Tax of $36.629m.
- It created an Asset revaluation reserve to record revaluation increments, $9.835m.
- It operated two reportable segments; above and below rail, which recorded segment losses before tax of $18.010m and $18.619m, respectively.
- At 30 June 2015, TasRail's Total Equity was $121.459m; it had borrowings of $4.000m and net working capital of $5.141m.
- Based on current levels of profitability, it is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

Key developments in the year included:

- further equity contributions, funded by the State and Commonwealth Governments, totalling $29.596m
- adoption of the fair value measurement basis for rollingstock assets
- reassessment of remaining useful lives of rollingstock and leasehold improvements
- new four year below rail capital funding program secured
- costs associated with derailments during the year, $2.425m
- continued investment in track infrastructure improvements, rollingstock and track maintenance plant, $39.379m.

Major variations between the 2014-15 and 2013-14 financial years were:

- higher Depreciation expense of $6.657m due to commencement of depreciation on new rollingstock and accelerated depreciation for refurbished rollingstock and leasehold improvements
- an Asset revaluation decrement of $8.277m resulting from revaluation of rollingstock
- lower Impairment expense by $26.239m reflecting reduced level of capital expenditure on below rail infrastructure
- reduced Cash balance of $8.318m as part of a strategy to minimise bridging finance
- higher Property, plant and equipment of $9.658m, net of depreciation and asset impairment on below rail infrastructure.

Since TasRail commenced operating in December 2009, theTasmanian and Commonwealth Governments have made equity contributions of $320.929m and provided grants of $83.056m. The equity contributions have been invested in above and below rail assets as part of a capital asset replacement program. The grants were applied to assist with meeting operating expenditure, primarily for maintenance of the below rail infrastructure.

The audit was completed on time with no major items raised with management.

INTRODUCTION

TasRail was established under the *Rail Company Act 2009* for the purpose of acquiring, owning and operating the public rail business in Tasmania. It commenced operations on 1 December 2009 and has two primary roles, being to:

- provide rail freight services to customers, own and operate the Burnie bulk storage and ship loader facility including all associated maintenance and capital programs – also referred to as the ‘above rail’ functions
- manage and operate rail network infrastructure including all maintenance and capital programs - also referred to as the ‘below rail’ function.

TasRail’s joint shareholders are the Treasurer and the Minister for Infrastructure, who hold their shares on behalf of the State of Tasmania.

The Board consisted of five non-executive Directors.

KEY AREAS OF AUDIT ATTENTION

Description of area	Impact on Audit approach
TasRail continued to receive equity amounts from the State as well as grant funding.	We reviewed the classification and allocation of the grants and ensured compliance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.
TasRail had a few major customers who provided the majority of its sales revenue. Complex calculations were performed and some reliance was placed on customer data for processing transactions.	We adopted a fully substantive approach and sought external debtor confirmations from the major customers at balance date. We also tested a sample of invoices to ensure revenue calculations were correct.
TasRail expended significant funds on capital expenditure and major projects.	We agreed significant expenditure to supporting documentation and contracts and reviewed the Company's classification between capital and maintenance.
TasRail held balances in cash at bank, term deposits and deposits at call. Cash and cash equivalents by nature are liquid assets and are susceptible to fraud.	We re-performed the year end bank reconciliation and obtained external confirmation of balances from the Company's financial institutions. With the capital expenditure program well progressed and the Company now borrowing, substantially less cash was being held in order to minimise interest repayments.
TasRail commenced draw down of bridging finance during 2014-15.	We confirmed the balance outstanding at 30 June 2015 with Tascorp.
Tasrail continued to impair below rail capital works and adopted a fair value methodology for above rail assets based on market value.	We audited asset impairment calculations including the assumptions and data used by management within the context of our understanding of TasRail.
TasRail is subject to the National Tax Equivalent Regime.	We tested tax effect accounting calculations, balances and disclosure within the financial statements.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

The Board signed the financial statements on 4 August 2015 and an unqualified audit report was issued on 10 August 2015.

KEY DEVELOPMENTS

Fair Value Measurements and valuation process

Tasrail has invested heavily in plant and equipment over the last few years. During 2013-14 TasRail took delivery of:

- 14 Locomotives (plus an additional three received in July 2014)
- 18 Cement wagons
- 54 Ore wagons
- 120 Intermodal wagons
- 17 Coal wagons
- Tamper/ballast regulator.

During 2014-15, after commissioning and testing, TasRail accepted for operation the rollingstock and track maintenance plant listed on the previous page. It adopted a fair value measurement basis for all rollingstock assets and classified rollingstock into refurbished and new. An independent valuation was undertaken based on the market value of like assets. The market value was determined based on the estimated market selling price less costs to sell (including marketing and transport costs).

The valuation resulted in a fair value of $90.556m with the following occurring:

- revaluation increment, recorded in asset revaluation reserve, of $9.835m relating to new rollingstock, mainly the new locomotives
- decrements, recorded in expenses, of $8.277m made up of $3.759m predominantly on new wagons and $4.518m on older refurbished rollingstock.

Overall, an increment of $1.558m was recorded across all rollingstock.

With the transition to use of the new rollingstock, a number of older locomotives were retired from use and offered for sale. These locomotives were transferred to 'held for sale assets' at 30 June 2015.

Useful lives of rollingstock and leasehold improvements

TasRail determined new rollingstock assets commissioned during the reporting period had a useful life between 25 and 30 years.

During the year, estimated remaining lives of refurbished rollingstock and leasehold improvements (buildings) were revised, predominantly downwards. The net effect of the changes was increased depreciation expense of $4.013m for 2014-15.

In future years, no material effect is expected on depreciation expense for refurbished rollingstock as the revaluation decrement, noted previously, will offset the change in useful lives.

If leasehold improvements are held until the end of their estimated useful lives, depreciation in future years in relation to these will increase by $0.305m per annum over the next eight years.

Tasmanian Freight Rail Revitalisation Program

A jointly funded State-Commonwealth Tasmanian Rail Freight Revitalisation Project under the Infrastructure Investment Programme has been secured which will provide $119.600m capital funding over the next four years for asset renewals, focused on delivering projects designed to further improve safety and reliability.

Derailments

The derailment of a freight train at Colebrook in November 2014 resulted in extensive damage. A minor derailment occurred at Kimberley in January 2015. Costs incurred from these incidents, $2.425m, were expensed during the year. No derailment provision was required at 30 June 2015.

Segment Reporting

TasRail determined that it operates two reportable segments:

- above rail – provision of rail freight services, mainly funded by freight service customers, which recorded a segment loss before tax of $18.010m, (2013-14, $3.958m). The current year result included two significant items from the rollingstock replacement program, an asset revaluation decrement of $8.277m and accelerated depreciation on refurbished rollingstock and leasehold improvements of $4.013m
- below rail – management and operation of the rail network and related infrastructure, funded by grant revenue, recorded a segment loss before tax of $18.619m, ($43.992m), after impairment of $15.427m.

These results were after including a regulatory access fee (inter-entity pricing) of $3.289m, ($2.912m), for the use of the rail network by TasRail's above rail operations.

Results by segment are shown in the following table:

2015	Above Rail	Below Rail	Total
	$'000s	$'000s	$'000s
Underlying Loss Before Taxation	(6 444)	(6 481)	(12 925)
Asst revaluation decrement	(8 277)	0	(8 277)
Impairment expense	0	(15 427)	(15 427)
Management fee	(3 289)	3 289	0
Loss before Taxation	**(18 010)**	**(18 619)**	**(36 629)**

For its above rail operations, TasRail is forecasting to break even and recording profits on an earnings before interest, taxation, depreciation and amortisation basis from 2015-16 onwards.

Financially Dependent on Government

TasRail generated Underlying Losses before tax totalling $29.825m in the past four years. Grant income, to assist with operating expenditure, of $68.466m was received over the same period. On-going Underlying Losses are not sustainable. In recognition of this, the State Government has budgeted to contribute $40.158m over the next four years to further assist TasRail to meet rail network maintenance and administrative costs.

TasRail indicated that at the end of the current Government funded capital programs for both above and below rail segments, critical infrastructure and equipment will have been significantly improved. However, on-going capital needs and investment into rail infrastructure and equipment will be required. This will allow for further below rail track infrastructure development and on-going above rail equipment and associated infrastructure replacement.

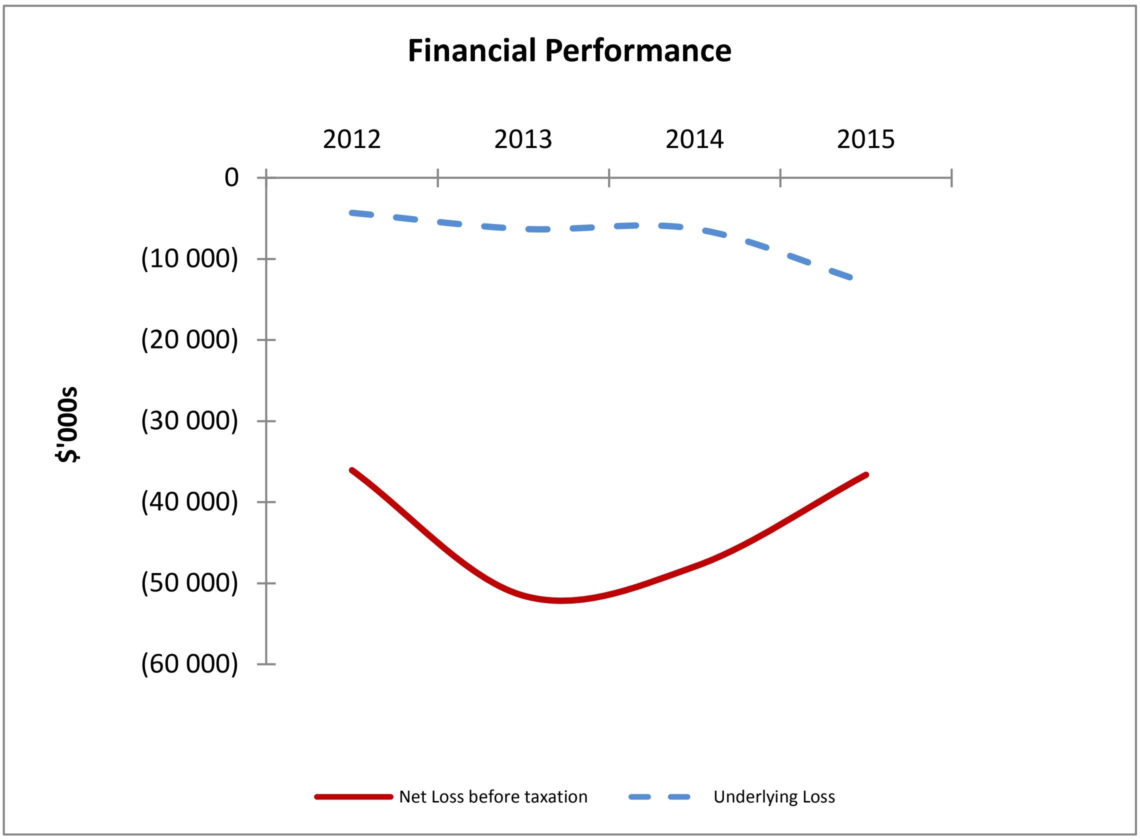
As discussed earlier in Key Developments, capital funding of $119.600m over the next four years for infrastructure asset renewals has been secured.

Based on current levels of profitability, TasRail is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

KEY FINDINGS

The audit was completed satisfactorily with no major items raised with management.

FINANCIAL ANALYSIS



TasRail recorded Underlying Losses each year. The significantly higher Net Losses before Taxation resulted from impairment of below rail assets and asset revaluation decrements.

In 2014-15, TasRail incurred an Underlying Loss of $12.925m, (2013-14, $6.284m). The loss included $16.834m in grant funds received, which represented 33.2% of Total Revenue. Without this State Government support TasRail would not be able to operate.

Key impacts on the Underlying Result were lower freight revenue, substantially increased depreciation while transitioning from refurbished to new rollingstock, and higher maintenance expense from derailments during the year offset in part by operational savings from use of the new rollingstock.

Two mining customers shutting and going into care and maintenance mode in July 2014 decreased freight revenue for 2014-15 by $3.300m compared to the prior year.

The transition from refurbished to new rollingstock reduced maintenance expenses in 2014-15 by $1.300m and the operational efficiency of the new locomotives, combined with lower fuel prices, decreased fuel and oil expense by $2.713m. A reduction in consulting expenditure of $1.043m also resulted as the transition to implement new assets and staffing structures was completed.

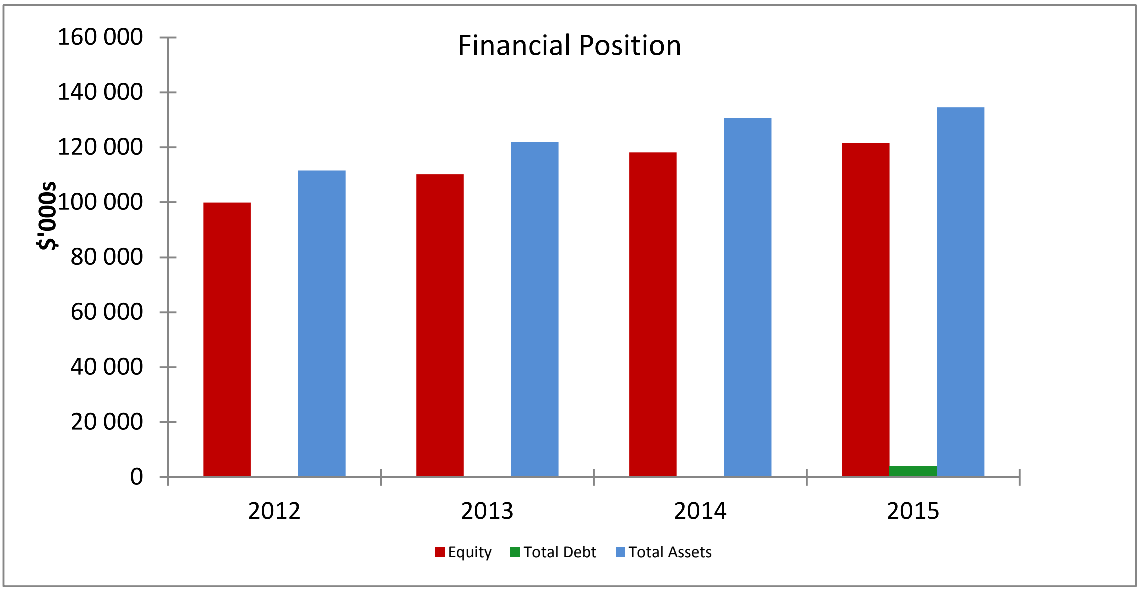
These operational savings were offset by the impact of derailments discussed earlier in Key Developments, $2.425m, and $1.200m higher maintenance on shiploading plant.

Depreciation expense increased by $6.657m due mainly to commencement of depreciation on new rollingstock, $2.335m, and accelerated depreciation for refurbished rollingstock and leasehold improvements, as discussed earlier in Key Developments of $4.013m.

The Net Loss before Taxation of $36.629m ($47.950m) improved due to lower below rail asset impairments, resulting from lower capital expenditure compared to the previous year. Asset revaluation decrements noted in Key Developments offset some of this reduction. TasRail considers below rail assets will generate insignificant cash flows and consequently capital works were impaired to nil. These below rail capital works were funded through equity contributions by the Commonwealth and State Governments.

Average staff numbers reduced by 24 between 2014 and 2015. TasRail restructured a number of departments to align with operational differences arising from implementation of new rollingstock and project completions. Some positions were reduced through resignations or voluntary redundancy agreements and others were removed through job-share arrangements and the cessation of contract and casual staff.

Average staff costs increased during 2014-15. The increase included the one-off impact of redundancy payments of $0.576m. Costs over the period varied with the allocation of staff to capital projects. This was particularly evident at the height of the capital program in 2012-13 when staff numbers included 19 full time equivalent staff working on capital projects with corresponding costs capitalised.



Movement in Equity over the period represented equity funding received, losses after tax, movements in the cash flow hedging reserve and creation of an Asset revaluation reserve in 2015. Equity increased by $3.292m during the year to $121.459m at 30 June 2015 mainly due to:

- equity funding of $29.596m
- Asset revaluation increments of $6.884m, offset by
- loss after tax of $33.531m.

Equity funding of $29.596m consisted of the following:

- Above rail operations – the State Government, through equity retirements from TasNetworks, provided $20.000m as an equity contribution to TasRail in 2014-15 (2013-14, 2012-13 and 2011-12; $20.000m each year). The final instalment of $20.000m for upgrade of above rail network infrastructure, rolling stock and equipment is anticipated to be received in 2015-16 (providing a total of $100.000m in equity funding over a five year period).
- Below rail operations – TasRail received $9.596m (2013-14, $31.679m) in funding from the Commonwealth Government to undertake capital works on upgrading the below rail network. TasRail will continue to record significant below rail losses into the future arising from annual impairment of this type of capital expenditure.

During 2013-14 TasRail established a facility to provide short-term borrowings to manage its capital expenditure program. At 30 June 2015 it had outstanding borrowings of $4.000m. Finance costs of $0.404m were incurred during the year.

Total Assets increased by $3.863m in 2014-15 with the main movements being:

- increased Property, plant and equipment of $9.658m. Payments totalling $39.379m included new rollingstock, $23.749m, and below rail upgrades, $12.595m. These additions were offset by depreciation, $12.864m, and impairments, $15.427m
- lower Cash balance of $8.318m from a strategy to minimise bridging finance and associated finance expense
- higher receivables of $1.666m related mainly to three major customers being $1.557m greater than the same time last year, a combination of increased freight volumes and extension of some payment terms during 2015.

TasRail's Debt collection ratio increased during 2015. This was as a result of lower freight revenue as discussed earlier in Financial Performance combined with increased receivables at year end.

TasRail did not make any returns to its Shareholders due to losses incurred since it commenced operating.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s	$'000s
Revenue from freight services	31 721	34 425	32 575	30 509
Grant income	16 834	16 569	16 288	18 775
Other revenue	2 077	3 428	3 248	5 379
Total Revenue	**50 632**	**54 422**	**52 111**	**54 663**
Finance costs	404	0	0	0
Depreciation and amortisation expense	12 864	6 207	5 676	5 063
Salary and wages	27 734	28 495	25 037	23 492
Maintenance and consumables	9 391	7 495	9 454	13 404
Fuel and oil	3 862	6 575	6 219	5 446
Administration	3 272	3 642	3 609	5 665
Property & Lease	3 025	3 124	2 961	0
Other expenses	3 005	5 168	5 456	5 908
Total Expenses	**63 557**	**60 706**	**58 412**	**58 978**
Underlying Loss Before Taxation	**(12 925)**	**(6 284)**	**(6 301)**	**(4 315)**
Other Accounting Adjustments:				
Asset revaluation decrement	(8 277)	0	0	0
Impairment expense	(15 427)	(41 666)	(45 233)	(31 750)
Net Loss before Taxation	**(36 629)**	**(47 950)**	**(51 534)**	**(36 065)**
Taxation equivalent benefit (expense)*	3 098	(932)	1 240	(229)
Net Loss after Taxation	**(33 531)**	**(48 882)**	**(50 294)**	**(36 294)**
Other Comprehensive Income				
Items that will not be reclassified to profit & Loss				
Asset revaluation increment	9 835	0	0	0
Tax on item that will not be reclassified to profit & Loss	(2 951)	0	0	0
Cash flow hedge reserve	490	(3 107)	4 132	(765)
Tax on other comprehensive income*	(147)	932	(1 240)	229
Total Comprehensive Income (Expense)	**343**	**(2 175)**	**2 892**	**(536)**
Total Comprehensive Loss	**(26 304)**	**(51 057)**	**(47 402)**	**(36 830)**

* *TasRail did not record tax assets and liabilities as it is not generating profits. The Tax entries noted offset to nil and are included to show the tax effect on the asset revaluation increment and cash flow hedge reserve.*

Statement of Financial Position

	2015 $'000s	2014 $'000s	2013 $'000s	2012 $'000s
Cash	1 087	9 405	40 237	41 852
Receivables	5 868	4 202	4 773	4 503
Inventories	9 492	9 637	5 074	6 515
Assets classified as held for sale	512	0	0	0
Other Assets	714	256	3 177	95
Total Current Assets	**17 673**	**23 500**	**53 261**	**52 965**
Payables	4 386	7 561	6 787	6 266
Employee benefits	4 146	4 485	4 296	4 012
Borrowings	4 000	0	0	
Other liabilities	0	0	0	212
Total Current Liabilities	**12 532**	**12 046**	**11 083**	**10 490**
Net Working Capital	**5 141**	**11 454**	**42 178**	**42 475**
Other Assets	35	3	189	42
Property, plant and equipment	116 902	107 244	68 419	58 614
Total Non-Current Assets	**116 937**	**107 247**	**68 608**	**58 656**
Employee benefits	619	534	541	473
Other liabilities	0	0	0	691
Total Non-Current Liabilities	**619**	**534**	**541**	**1 164**
Net Assets	**121 459**	**118 167**	**110 245**	**99 967**
Capital	320 929	291 333	232 354	174 674
Accumulated losses	(206 878)	(173 347)	(124 465)	(74 171)
Asset revaluation reserve	6 884	0	0	0
Other Reserves	524	181	2 356	(536)
Total Equity	**121 459**	**118 167**	**110 245**	**99 967**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	35 446	40 933	37 464	39 157
Grants from operating activities	16 834	16 569	16 288	18 775
Payments to suppliers and employees	(54 782)	(61 511)	(53 685)	(57 277)
Finance costs	(404)	0	0	0
Interest received	111	752	1 274	2 349
Cash From (Used in) Operations	**(2 795)**	**(3 257)**	**1 341**	**3 004**
Proceeds from sale of plant and equipment	260	243	78	46
Payments for property, plant and equipment	(39 379)	(86 797)	(60 714)	(53 711)
Cash Used in Investing Activities	**(39 119)**	**(86 554)**	**(60 636)**	**(53 665)**
Proceeds from borrowings	24 000	0	0	0
Repayment of borrowings	(20 000)	0	0	0
Proceeds from equity contributions	29 596	58 979	57 680	54 745
Cash From Financing Activities	**33 596**	**58 979**	**57 680**	**54 745**
Net Increase (Decrease) in Cash	**(8 318)**	**(30 832)**	**(1 615)**	**4 084**
Cash at the beginning of the year	9 405	40 237	41 852	37 768
Cash at End of the Year	**1 087**	**9 405**	**40 237**	**41 852**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Operating Loss ($'000s)		(12 925)	(6 284)	(6 301)	(4 315)
EBIT ($'000s)		(12 521)	(6 284)	(6 301)	(4 315)
Operating margin	>1.0	0.80	0.90	0.89	0.93
Return on assets		(10.3%)	(5.3%)	(5.7%)	(4.3%)
Return on equity		(22.0%)	(44.7%)	(45.1%)	(40.5%)
Financial Management					
Debt to equity		3.3%	n/a	n/a	n/a
Debt to total assets		3.0%	n/a	n/a	n/a
Interest cover - EBIT	>2	31	n/a	n/a	n/a
Current ratio	>1	1.41	1.95	4.81	5.05
Debt collection	30 days	60	35	44	40
Creditor turnover	30 days	19	18	21	20
Returns to Government*		0	0	0	0
Asset Management					
Total capital expenditure/depreciation		306%	1 398%	1 070%	1 061%
Other Information					
Average staff numbers (FTEs)		254	278	266	229
Average staff costs ($'000s) **		110	102	93	101
Average employee benefits ($'000s)		19	18	18	20

** No dividends or tax equivalent payments have been made.*

*** Average Staff costs exclude capitalised wages, which can affect the comparison of costs over the period.*

TASRACING PTY LTD (Tasracing)

OVERALL CONCLUSION

The audit was completed on time and an unqualified audit opinion issued on 7 August 2015.

In prior years we had noted that a structural funding gap cast doubts over Tasracing's sustainability. On 23 July 2015, the Minister for Racing announced a package of measures to resolve the Company's structural funding gap issues. We agreed with management's assessment that Tasracing could continue to report its financial statments on the basis that it is a going concern and financially sustainable in light of this announcement. This in turn led to reversal of prior asset impairments.

SNAPSHOT

- Tasracing recorded a slightly lower Underlying Loss of $0.512m this year. Net Loss before Tax amounted to $1.215m and Comprehensive Loss, $1.224m.
- The asset impairment recorded in prior years was fully reversed in 2014-15. The impairment reversal was $2.232m.
- Tasracing remained heavily dependent on Government funding in 2014-15, with $30.239m in grants provided and further financial support by way of an equity injection of $0.582m.
- Net Assets totalled $39.994m at 30 June 2015.
- Tasracing paid no dividends or income tax equivalents.

A key development this year was the Minister for Racing, on 23 July 2015, announcing a package of measures to resolve the Company's structural funding gap. In light of this announcement, there was a re-assessment of Tasracing's ability to continue as a going concern and its long-term sustainability. This re-assessment resulted in the full reversal of the impairment of leasehold improvements in prior years.

Major variations between the 2014-15 and 2013-14 financial years were:

- increased Racefield fees revenue, $1.040m, due to higher wagering turnover and changes to the fee structure
- higher Employee benefits expense of $0.374m due to general wage increases and additional contract labour costs
- increased Prize money, benefits and incentives, $0.364m, mainly attributable to higher stakes payments
- higher Cash and cash equivalents at year-end of $0.600m primarily due to positive Cash generated from operations
- higher Employee benefits provisions, $1.043m, from recognition of additional superannuation obligations, $0.700m, and higher provision for annual and long service leave, $0.174m.

Audit findings included the need for independent review of a payroll control checklist and excessive employee annual and long service leave balances. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no key issues identified.

INTRODUCTION

Tasracing was established by the *Racing (Tasracing Pty Ltd) Act 2009* and is governed by the *Racing Regulation Amendment Act 2008*. The principal Act is the *Racing Regulation Act 2004*.

Its principal activity is the governance, administration and provision of financial services for racing in Tasmania.

The Tasracing board consists of seven Directors. The responsible minister is the Minister for Racing.

Tasracing's shares are held by the Treasurer and the Minister for Racing on behalf of the State of Tasmania.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Assets were reviewed for impairment on an annual basis. The recoverable amount of leasehold assets was calculated and recognised using a projected future income streams valuation methodology with details disclosed in the notes of the financial report.	We verified that Tasracing had procedures in place for assessing impairment which operated as designed and examined: • management's assessment of external and internal factors that affected impairment • the calculation of recoverable amount included significant assumptions, the cash flow model and underlying data the calculation of the amount of the impairment reversal disclosures.
Given the nature of Tasracing's operations and financial situation, the entity managed significant cash and debt balances on a daily basis.	We performed detailed testing over bank reconciliations and borrowings and: • verified balances by obtaining external confirmations • re-performed bank reconciliations • verified disclosures. • verified loan balances by obtaining external confirmations • tested the classification of borrowings.
Tasracing recorded a superannuation liability related to its RBF Contributory Scheme members. The liability was determined by an independent actuary. The liability requires detailed disclosure in the annual financial statements.	We engaged a specialist to undertake a peer review of work completed by the State Actuary who were engaged by the Department of Treasury and Finance to value the liability. Our expert concluded that assumptions and methodology used by the State Actuary comply with accounting standards and relevant valuation framework. We also audited the superannuation note disclosure in the financial statements.
Taxation liabilities and disclosures were determined at year-end based upon the financial transactions and balances of Tasracing.	We reviewed the 2014-15 tax calculation and assessed Tasracing's compliance with tax legislation and accounting standards.
Racefield fees were based on data provided by a third party.	We tested a number of racefield fee transactions and: • verified the calculation of the fees to the "Racefield information publication fees variation notice of 2014" • agreed calculations with recipient created tax invoices.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 7 August 2015 and an unqualified audit report was issued on the same day.

KEY FINDINGS

Two findings were raised during the audit. One was a moderate risk finding that found a payroll control checklist had no evidence of independent review. The other was a low risk finding that noted excessive employee annual and long service leave balances. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no key issues outstanding.

KEY DEVELOPMENTS

Financial Sustainability

Financial sustainability continued to be a critical concern for Tasracing in 2014-15. The 2015-19 Corporate plan identified a funding gap of $3.000m to $5.000m with the size and extent of the gap dependent upon the volatility and risk around key financial drivers such as workers compensation costs and racefield fee income. There was a risk that Tasracing may have to significantly impair its leasehold assets and ultimately not have sufficient cash to pay its debts as and when they fell due.

On 23 July 2015, the Minister for Racing announced a package of measures to resolve the Company's structural funding gap issues. The package of measures announced included amendments to the Funding Deed to:

- remove the requirement to maintain stakes in "real terms" each year
- allow flexibility to roll over any unallocated prize money into future years
- improve capacity to access capital.

In addition, the announcement included a $0.250m annual allocation from unclaimed monies from wagering winnings and the continuation of borrowing support.

We evaluated management's assessment of Tasracing's ability to continue as a going concern and its sustainability in light of this announcement. We tested the recoverable amount calculations for the reversal of past impairments. We agreed with management's assessments and verified the total reversal of previous impairments.

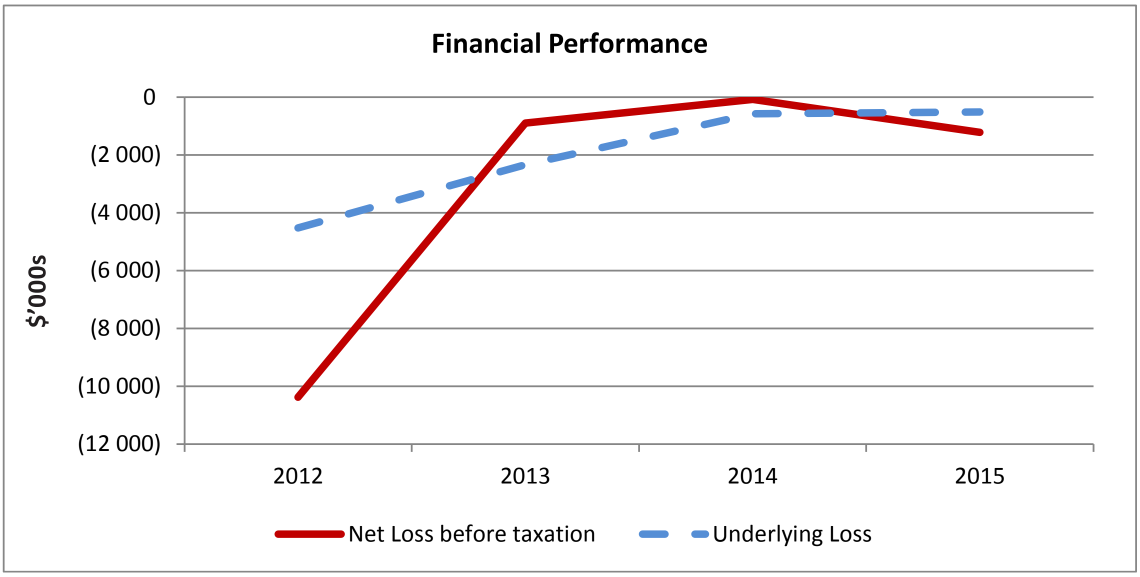
Strategic Asset Management System (SAMIS)

Tasracing implemented SAMIS in the 2013-14 financial year; which included a financial accounting application due for implementation in 2014-15. However, accounting functionality implementation was delayed to 2015-16. This meant that the asset register continued to be based upon spreadsheets.

Workplace Health and Safety Claim

As a result of an incident involving a jockey on King Island during 2014-15, a $0.500m workplace health and safety claim was made. The insurance arrangement required the Company to pay a minimum annual deposit of $0.600m to the insurer. The first instalment was paid at the end of April 2015. We concluded that the event had a minimal impact on the cash flow and did not affect the Company's current sustainability.

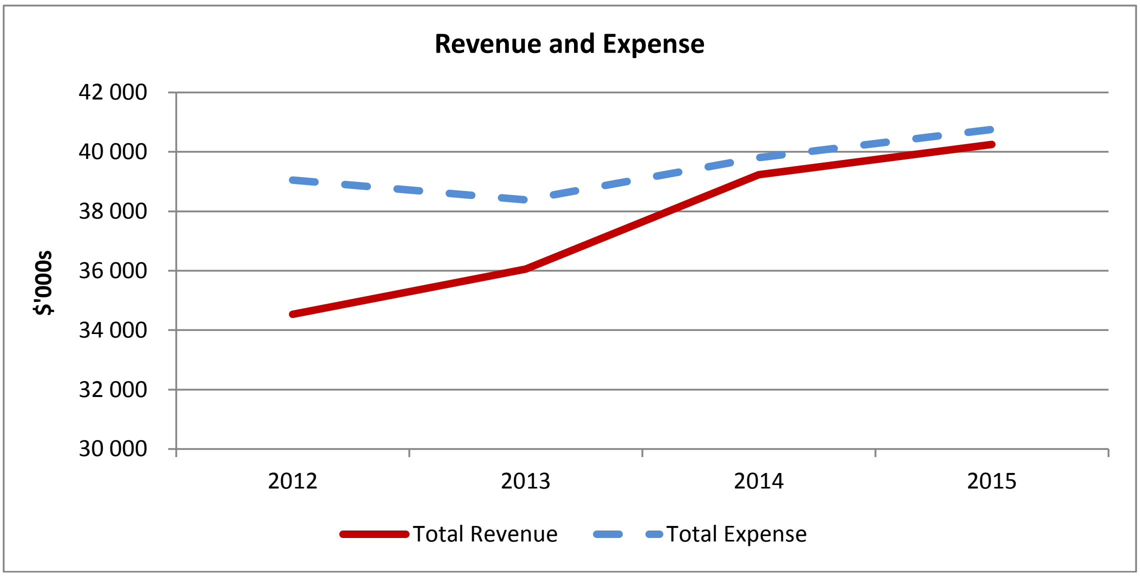
FINANCIAL ANALYSIS



Underlying Loss reduced slightly in 2014-15 to $0.512m (2013-14, $0.573m) due to costs increases exceeding revenues, as detailed in the Revenue and Expense graph below.

Net Loss before Tax increased from $0.075m in 2013-14 to $1.215m in 2014-15. This was due mainly to obsolete Property, plant and equipment written off, $1.793m, provision for retrospective superannuation costs, $0.700m, offset partly by impairment reversal, $2.232m.

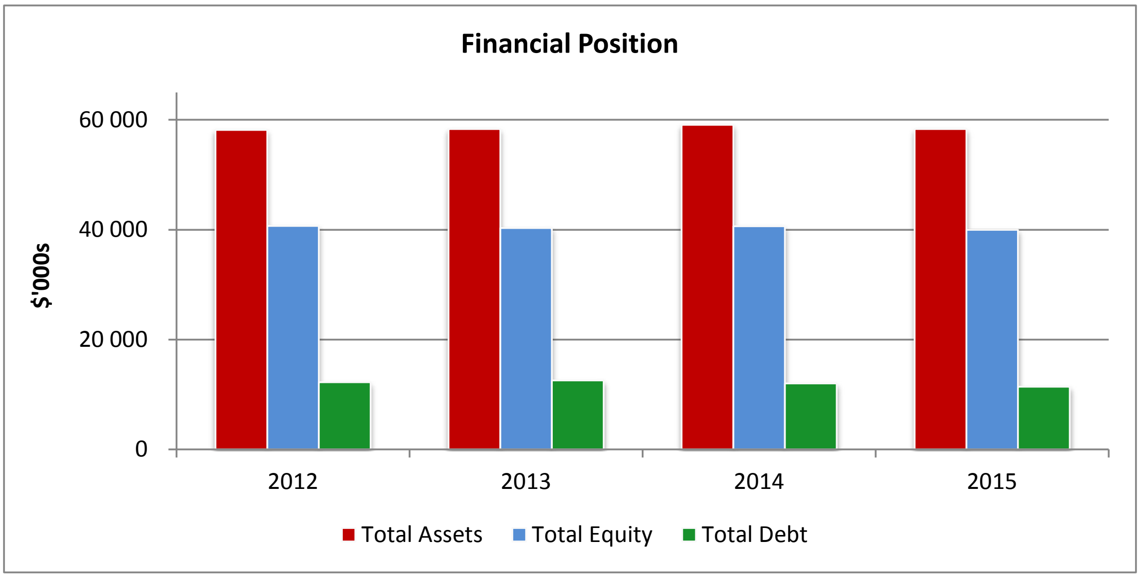
In prior years the net result was heavily impacted upon by impairment adjustments related to leasehold improvements as well as Finance and leasing costs. The significant loss in 2011-12 included impairments of $5.706m, which were fully reversed in the subsequent three years.



Over the past three years, management took steps to reduce the gap between revenue and expenses to achieve a break-even result in order to ensure Tasracing's long-term sustainability. The graph indicates that the gap between revenue and expenses narrowed but not enough to achieve break-even. The Minister's 23 July 2015 announcement of a package of measures to resolve the Company's structural funding gap were aimed at it achieving break-even results in the future.

A $1.009m increase in Tasracing's revenue in 2014-15 was mainly due to higher Revenue from Racefield fees of $1.040m. This improvement was due to a combination of higher charge rates and increased turnover resulting from internationally televised races.

Total Expenses increased by $0.948m due to higher Employee benefit expense of $0.374m, arising from general wage increases and additional contract labour costs and Prizemoney, benefits and incentives of $0.364m mainly for additional stake money.



Over the four year period under review, Total Assets and Total Equity remained constant.

Tasracing's largest asset class Property, plant and equipment, which represented 82.5% of Total Assets at 30 June 2015, consisted mainly of leasehold improvements. Over the past three years capital expenditure was at very low levels, resulting in the Investment gap ratio being well below bench mark. Given the constraints of the former business model, management minimised capital expenditure to conserve cash flows by only funding essential capital and maintenance projects.

In 2015, capital expenditure amounted to $1.676m, which was mainly for the Elwick Racecourse Irrigation Project. Other movements in Property, plant and equipment for the year included:

- the impairment reversal of $2.232m mentioned previously in this Chapter
- depreciation charge of $3.619m
- write-off of obsolete Property, plant and equipment, $1.793m, following an asset stocktake.

Total Equity included a capital injection from shareholders of $0.582m. The State Government had also provided loan support to Tasracing for principal and interest payments on TASCORP borrowings as a sustainability assistance package for three years commencing 1 July 2012.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Revenue from Government	30 239	30 169	29 223	28 698
Racefield fees	8 085	7 045	5 130	4 709
Other income	1 919	2 020	1 698	1 124
Total Revenue	**40 243**	**39 234**	**36 051**	**34 531**
Employee benefits expense	6 032	5 658	5 433	5 513
Prizemoney, benefits and incentives	23 539	23 175	23 016	23 488
Depreciation and amortisation expense	3 619	3 663	2 896	2 902
Raceday and racing expenses	5 397	5 350	5 242	5 329
Other expenses	2 168	1 961	1 800	1 821
Total Expenses	**40 755**	**39 807**	**38 387**	**39 053**
Underlying Profit (Loss)	**(512)**	**(573)**	**(2 336)**	**(4 522)**
Impairment reversal/(expense)	2 232	1 002	2 472	(5 706)
Expenses for obsolete property plant & equipment	(1 793)	0	(672)	0
Interest income	680	681	724	925
Finance and leasing costs	(1 035)	(1 107)	(1 004)	(957)
Interest cost on defined benefit superannuation plan	(87)	(78)	(82)	(119)
Retrospective superannuation costs	(700)	0	0	0
Net Loss before Tax	**(1 215)**	**(75)**	**(898)**	**(10 379)**
Income tax expense	0	0	0	0
Net Loss after Tax	**(1 215)**	**(75)**	**(898)**	**(10 379)**
Other comprehensive income	(9)	(177)	363	0
Total Comprehensive Profit (Loss)	**(1 224)**	**(252)**	**(535)**	**(10 379)**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	8 564	7 964	5 421	4 235
Trade and other receivables	1 076	1 233	1 002	1 839
Prepayments	296	660	661	397
Total Current Assets	**9 936**	**9 857**	**7 084**	**6 471**
Trade and other payables	1 446	2 686	2 144	1 294
Borrowings	615	583	553	0
Other financial liabilities	136	126	149	686
Employee benefits	2 436	1 393	1 174	1 053
Total Current Liabilities	**4 633**	**4 788**	**4 020**	**3 033**
Net Working Capital	**5 303**	**5 069**	**3 064**	**3 438**
Property, plant and equipment	47 655	49 101	51 064	51 732
Intangibles	68	126	189	0
Other financial assets	56	40	0	0
Total Non-Current Assets	**47 779**	**49 267**	**51 253**	**51 732**
Borrowings	10 827	11 442	12 025	12 247
Employee benefits	2 261	2 259	1 958	2 194
Total Non-Current Liabilities	**13 088**	**13 701**	**13 983**	**14 441**
Net Assets	**39 994**	**40 635**	**40 334**	**40 729**
Contributed equity	56 419	55 836	55 283	55 142
Accumulated losses	(16 425)	(15 201)	(14 949)	(14 413)
Total Equity	**39 994**	**40 635**	**40 334**	**40 729**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts	39 198	39 762	39 100	35 866
Payments to suppliers and employees	(36 638)	(36 200)	(37 586)	(37 307)
Interest received	693	674	727	1 462
Interest and other costs of finance	(951)	(984)	(907)	(852)
Cash (used in) from operations	**2 302**	**3 252**	**1 334**	**(831)**
Payments for property, plant and equipment	(1676)	(634)	(620)	(7 218)
Cash (used in) investing activities	**(1 676)**	**(634)**	**(620)**	**(7 218)**
Repayment of Borrowings	(583)	(553)	(142)	(134)
New borrowings raised	0	0	472	7 518
Loan	(25)	(75)	0	0
Equity Contribution	583	553	142	0
Cash from financing activities	**(25)**	**(75)**	**472**	**7 384**
Net increase (decrease) in cash	**601**	**2 543**	**1 186**	**(665)**
Cash at the beginning of the year	7 963	5 421	4 235	4 900
Cash at end of the year	**8 564**	**7 964**	**5 421**	**4 235**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Net Profit (Loss) ($'000s)		(1 215)	(75)	(898)	(10 379)
EBIT ($'000s)		(512)	(573)	(2 336)	(4 522)
EBITDA ($'000s)		3 107	3 090	560	(1 620)
Operating margin	>1.0	0.99	0.99	0.94	0.88
Financial Management					
Current ratio	>1	2.14	2.06	1.76	2.13
Debt collection	30 days	35	32	35	16
Creditor turnover	30 days	9	13	9	8
Asset Mangement					
Investment gap %	100%	46%	17%	21%	249%
Other Information					
Average staff numbers (FTEs)		65	66	67	65
Average staff costs ($'000s)		89	86	82	86
Average leave balance per FTE ($'000s)		14	13	11	11

TT-LINE COMPANY PTY LTD (TT-LINE)

OVERALL CONCLUSION

The audit was completed satisfactorily and on time with no items outstanding. An unqualified audit opinion was issued on 11 August 2015.

TT-Line continued to produce strong underlying results and was in a sound financial position at 30 June 2015, enabling the Company to fund major refurbishments to its vessels from cash reserves. Its Net Assets totalled $276.577m which included Cash and deposits of $90.200m.

SNAPSHOT

- TT-Line recorded an Underlying Profit of $17.492m for 2014-15 (average Underlying Profit for four years to 30 June 2015 was $17.345m).
- Its Net Profit after Tax was $1.155m (2013-14, $10.383m). Net Profit can be variable because of ship valuation adjustments.
- Cash and deposits totalled $90.200m, an increase of $8.872m, and at 30 June 2015 TT-Line was debt free. The increase in cash was lower than prior years due to funds spent on the refurbishment of passenger areas on Spirit of Tasmania I and II this financial year.
- At 30 June 2015, Total Equity was $276.577m.

The audit was completed satisfactorily and on time with no items outstanding.

Key developments in the year included:

- presentation of the Company's new business case to Cabinet in December 2014, which incorporated a new pricing objective aimed at increasing the number of visitors to Tasmania carried on the Spirit of Tasmania ferries
- the commencement, in February 2015, of a comprehensive refurbishment of all passenger areas on both Spirit of Tasmania I and II at a budgeted capital cost of $31.100m, of which $20.100m was expensed in 2014-15. The refurbishment was funded from current cash reserves.

Other main financial impacts this year included:

- Higher Underlying Profit of $17.492m ($11.642m) primarily due to increased freight volumes and passenger numbers. TT-Line generated its highest Sales revenue on record in 2014-15 of $205.468m.
- Lower Net Profit after Taxation of $1.155m ($10.383m), primarily due to a before tax downward ship valuation adjustment of $15.709m (increase of $3.204m in 2013-14) which means that the refurbishment cost of $20.100m did not, according to the independent valuer, add to the market value of the ships. This is not to say however, that the investment in refurbishment will, or will not, improve passenger numbers.
- Decrement to the Cash flow hedging reserve of $6.248m, based on a pre-taxation market movement of $8.927m in the value of bunker fuel and foreign currency forward exchange hedge contracts as at 30 June 2015. This primarily reflected the expectation that future bunker fuel prices will be below the prices in the hedge agreements.

INTRODUCTION

TT-Line was established under the *TT Line Arrangements Act 1993*. Its core business is the provision of passenger, vehicle and freight services between Devonport and Melbourne.

These services are operated with two ships, Spirit of Tasmania I and Spirit of Tasmania II (Spirits I and II).

TT-Line is a Company limited by shares and is registered under the *Corporations Act 2001*. The shareholders are the Minister for Infrastructure, being the Responsible Minister, and the Treasurer who hold the shares on behalf of the State of Tasmania.

The Board consists of seven non-executive directors, appointed by Government, and the Chief Executive Officer. The previous Chief Executive Officer resigned effective 1 July 2014, with the current Chief Executive Officer appointed on 3 November 2014.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Spirits I and II were valued on the basis of market values. As the prevailing market for these types of vessels is predominantly in Europe, the valuation was provided in Euros.	We tested the ship revaluation including verification to supporting documentation and assessment of key assumptions and related disclosure. We discussed the valuation and how it was determined with the external valuers.
The calculation of depreciation for the ships included an estimation of useful lives and residual values, which involved a degree of subjectivity. TT-Line maintained a useful life of 30 years for each ship following a review of the Vessel Depreciation Policy. The residual value of each ship was 10% of the 1998 build cost.	We reviewed the depreciation policy in light of AASB 116 Property, Plant and Equipment. In addition, we examined the ships' residual values including verification to supporting documentation and assessment of key assumptions.
The Company had entered into bunker fuel hedge agreements to address the financial impact of volatility in the prevailing market price of bunker fuel. As financial instruments, the agreements had a market valuation, which needed to be determined for financial reporting purposes.	We assessed compliance with AASB 139 *Financial Instruments: Recognition and Measurements* and AASB 7 *Financial Instruments: Disclosure*. In addition, we verified contract valuations at 30 June and reviewed financial report disclosure, particularly increased disclosures under AASB 13 *Fair Value Measurement*.
TT-Line had significant cash and investment balances.	We documented and assessed controls over cash transactions. All material bank accounts and investments were verified to external confirmations.
The Department of Treasury and Finance revised Guidelines for Director and Executive Remuneration December 2014. Treasury provided a template which required disclosure of the Company's director and executive remuneration in the notes to the financial statements.	We audited the remuneration disclosure included in the financial statements in accordance with the *Department of Treasury and Finance Guidelines*.

Description of Area	Audit Approach
Employees are employed under three enterprise bargaining agreements and one award. TT-Line held material leave entitlement balances (annual and long service leave), which are calculated using accounting estimates and assumptions. TT-Line also recorded a superannuation liability relating to Retirement Benefit Fund (RBF) members. The liability was determined by an independent actuary.	We reviewed and tested key controls over payroll and the accuracy of payroll calculations. We reviewed and tested the calculation of leave entitlement balances to supporting evidence and the accounting estimates and assumptions applied by the Company. An independent expert was engaged by our Office to review the assumptions made by the State Actuary in valuing the State's superannuation liabilities managed by the RBF Board. It is our policy to appoint our own independent expert every three years. Our expert concluded that assumptions and methodology used by the State Actuary complied with accounting standards, legislation and the relevant valuation framework.
Significant revenue was processed through the Company's reservation system. The majority of these transactions were processed through internet bookings. A system or accounting error could have a material impact on the financial statements, including revenue received in advance. We also verified revenue in advance of $15.421m.	We reviewed and tested key controls over the revenue system. In addition, we reviewed the calculation and reconciliation of prepaid bookings for propriety of deferral at 30 June. We relied upon work undertaken by the Company's internal auditor on the reservation system. The objectives considered included: • process controls to support completeness, accuracy and integrity of booking transactions originating on-line and processed through the reservation system • relevant transaction level information flows within the reservation system and the interface with the general ledger • the design and effectiveness of selected application controls in regard to the reservation system.
A comprehensive refurbishment of passenger areas on Spirit of Tasmania I and II was commenced in February 2015. At 30 June 2015, the balance of refurbishment works of $20.100m was written off as part of the annual valuation of the vessels.	Our assessment of the accounting treatment included a review of Board minutes and discussions with the Board and management. In addition, we discussed the valuation of the vessels with the external valuer. We reviewed the capitalisation and subsequent write-off of costs.
Forward contract A turnkey contract was signed by the Company for the vessel refurbishment, with a forward contract entered into to offset volatility in exchange rates, with the contract being in GBP.	We reviewed the effectiveness of the forward contract and its accounting and disclosure.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

The Board signed the financial statements on 11 August 2015 and an unqualified audit report was issued on the same date.

KEY FINDINGS

The audit was completed satisfactorily and on time with no items outstanding.

KEY DEVELOPMENTS

New Business Case

The Company presented a business case to its shareholders in November 2014, in line with anticipated changes to its Statement of Expectations.

Approved changes saw the Company *"...incorporate a new pricing objective, namely to ensure TT-Line would set prices, fees and charges which are aimed at increasing the number of visitors to Tasmania carried on the Spirit of Tasmania ferries."*

Key recommendations included:

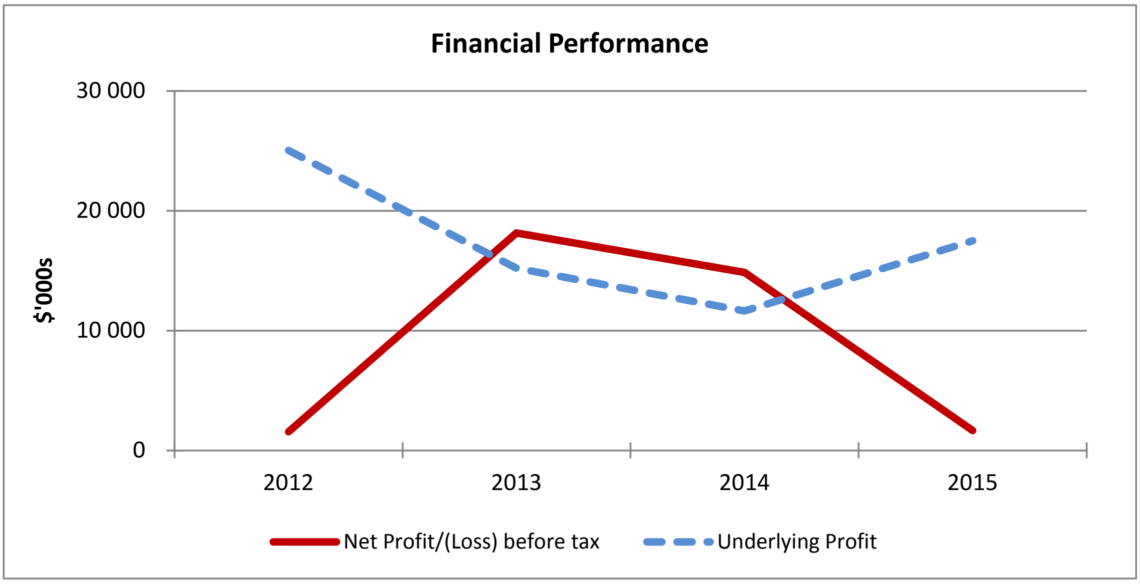
- the Company undertake a comprehensive refurbishment of all passenger areas on both Spirit of Tasmania I and II at a capital cost of approximately $31.100m, funded from current cash reserves
- add more day sailings to provide additional capacity for passengers, aimed at increasing passenger numbers by 43 500 by 2019-20
- lower average passenger fares by 14.8% in real terms over four years
- maintain its current freight service.

The future replacement of vessels will not be possible without Government funding. Replacement vessels are likely to be required during the period 2023-28 at a total estimated cost of $600m (at current prices).

Vessel Refurbishment

The refurbishment of all passenger areas on both Spirit of Tasmania I and II commenced in February 2015. At 30 June 2015, the Company expended $20.100m in work in progress, which was written off as part of the annual valuation of the vessels. The Board considered the refurbishment costs would not result in a significant increase in the future market value of the vessels. Approximately $11.000m is still to be spent on refurbishment works in 2015-16.

FINANCIAL ANALYSIS

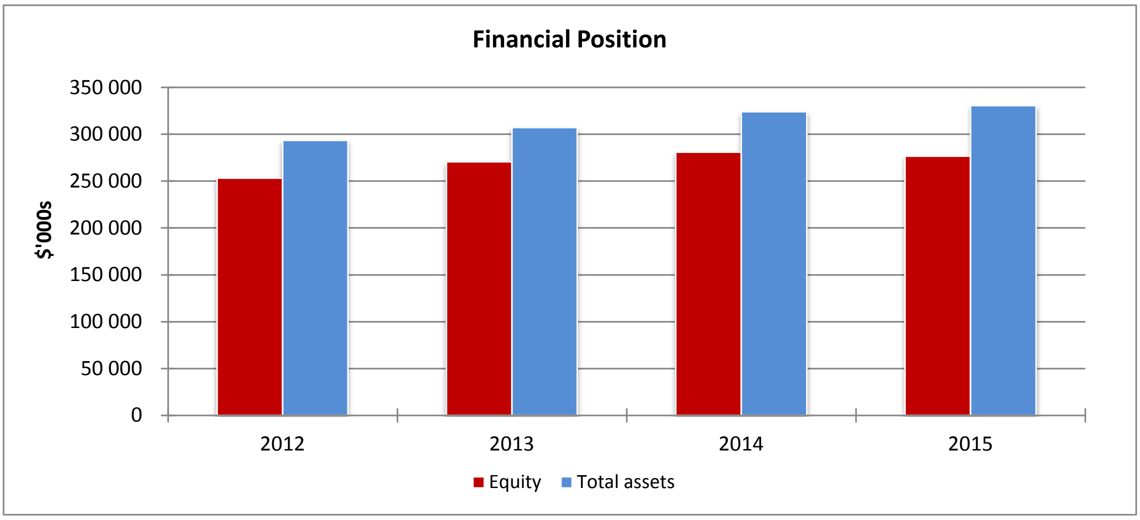


TT-Line continued to record Underlying Profits, with the Net Profit varying due to valuation adjustments related mainly to the annual valuation of its ships.

Over the four year period, TT-Line generated $69.380m through underlying business operations, which peaked in 2012 at $25.037m. Underlying Profit in 2014-15 of $17.492m was an increase of $5.850m on the prior year which was driven by record Sales revenue of $205.468m generated primarily from increased freight volumes and passenger numbers.

In comparison, TT-Line's Net Profit before Tax for the four years totalled $36.226m. The small profits in 2012 and 2015 were affected by vessel revaluation decrements of $23.483m and $15.709m, respectively. The decrement in 2014-15 consisted of the write-off of capital works (including general additions, dry dock expenditure and vessel refurbishment) of $29.236m, a revaluation decrement due to a movement in the exchange rate of $0.581m, offset by the write back of depreciation of $14.108m.

In addition to the revaluation of the vessels, TT-Line recorded revaluation decrements relating to the Edgewater Hotel in 2012-13 and 2014-15 of $1.511m and $0.111m, respectively. Prior to 2012-13 the Hotel was recorded at cost. Independent valuations were obtained in both years.



Total Assets and Equity gradually increased over the period under review.

However, TT-Line's Equity decreased by $4.287m to $276.577m as at 30 June 2015 due to the Net Profit after Tax of $1.155m, an after tax actuarial gain on its superannuation liability of $0.806m, offset by a decrement to the Cash flow hedging reserve of $6.248m.

The Company had entered into bunker fuel and foreign currency forward exchange hedge agreements to address the financial impact of volatility in the prevailing market price of bunker fuel and to address the risk of movements in the Australian dollar with international contracts. The decrease in the Cash flow hedging reserve was primarily due to a $6.530m increase in the fuel hedge derivative liability at 30 June 2015. This primarily reflected the expectation that future bunker fuel prices will be below the prices in the hedge agreements. As financial instruments, the agreements had a market valuation, which needed to be determined for financial reporting purposes. However, TT-Line intend to hold the hedge agreements until maturity.

The increase in Total Assets over the period under review of $37.143m was due to:

- higher cash and deposit balances of $46.509m. The increase in cash reflected the repayment of borrowings in 2010-11 and the subsequent build-up of cash reserves to fund current vessels' refurbishment and future replacement
- lower deferred tax balances of $10.133m due mostly to the utilisation of tax losses carried forward and timing differences between tax and accounting asset balances.

TT-Line does not make any returns to its Shareholders. Dividends were foregone by the Shareholders to allow TT-Line to generate cash reserves to assist in financing future vessel replacement and/or refurbishment.

Reconciliation of movements in values of the vessels

	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Net value at beginning of year	180 023	182 226	180 243	207 817
Additions	21 278	580	1 353	1 207
Major cyclical maintenance	7 957	7 225	5 295	4 862
Depreciation	(14 107)	(13 212)	(9 121)	(10 160)
Net revaluation increment (decrement)	(15 709)	3 204	4 456	(23 483)
Net value at end of year	**179 442**	**180 023**	**182 226**	**180 243**
Value of vessels in Euros	124 000	124 000	130 000	148 000
Exchange rate	0.6910	0.6888	0.7027	0.8088
Vessel valuation	179 442	180 023	185 001	182 988
Less selling costs of 1.5%	0	0	(2 775)	(2 745)
Vessel valuation (less selling cost)	**179 442**	**180 023**	**182 226**	**180 243**

The value of each vessel in Euros remained steady at €62.000m. Due to a change in the prevailing exchange rate at balance date, the value of each vessel in Australian dollars decreased from $90.012m to $89.721m. The major cyclical maintenance costs were incurred when the vessels were dry docked. The additions in 2014-15 of $21.278m included refurbishment costs of $20.100m. As noted previously, the Board considered the refurbishment costs would not result in a significant increase in the future market value of the vessels. This is not to say however, that the investment in refurbishment will, or will not, improve passenger numbers.

From 2013-14, the vessel valuation was no longer adjusted for selling costs based on the requirements of the new accounting standard AASB 13 *Fair Value Measurement*.

Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Total Sales Revenue	**205 468**	**196 965**	**186 769**	**185 392**
Total Cost of Sales	(116 146)	(115 601)	(110 566)	(104 245)
Gross Profit	**89 322**	**81 364**	**76 203**	**81 147**
Investment revenue	2 930	2 323	2 120	1 385
Other gains and (losses)	27	5	4	9
Total Other Revenue	**2 957**	**2 328**	**2 124**	**1 394**
Depreciation and amortisation	(16 388)	(15 279)	(11 167)	(11 999)
Other operating costs	(58 069)	(56 466)	(51 669)	(45 197)
Finance costs	(330)	(305)	(282)	(308)
Total Other Expenses	**(74 787)**	**(72 050)**	**(63 118)**	**(57 504)**
Total Costs	**(190 933)**	**(187 651)**	**(173 684)**	**(161 749)**
Underlying Profit	**17 492**	**11 642**	**15 209**	**25 037**
Other Accounting Adjustments:				
Ship valuation adjustment	(15 709)	3 204	4 456	(23 483)
Edgewater valuation adjustment	(111)	0	(1 511)	0
Net Profit (Loss) before Taxation	**1 672**	**14 846**	**18 154**	**1 554**
Income tax benefit (expense)	(517)	(4 463)	(5 470)	(451)
Net Profit	**1 155**	**10 383**	**12 684**	**1 103**
Other Comprehensive Income - Net of Taxation				
Superannuation actuarial gain (loss)	806	(423)	960	(1 529)
Hedging reserve	(6 248)	404	3 761	(2 353)
Total Comprehensive Profit (Loss)	**(4 287)**	**10 364**	**17 405**	**(2 779)**

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	**$'000s**	**$'000s**	**$'000s**
Cash and deposits	90 200	81 328	59 021	43 691
Receivables	15 987	17 271	16 864	15 520
Inventories	2 736	3 277	3 208	2 151
Fuel hedges – derivative asset	376	1 317	1 435	70
Prepaid expenses and other	3 238	1 873	1 211	1 336
Total Current Assets	**112 537**	**105 066**	**81 739**	**62 768**
Payables	11 546	10 282	8 920	10 864
Provisions	12 686	11 905	9 600	7 131
Revenue received in advance	15 421	12 560	10 709	9 833
Fuel hedges – derivative liability	4 677	21	40	1 239
Total Current Liabilities	**44 330**	**34 768**	**29 269**	**29 067**
Net Working Capital	**68 207**	**70 298**	**52 470**	**33 701**
Property, plant and equipment and intangibles	13 956	14 495	15 124	16 675
Ships at fair value	179 442	180 023	182 226	180 243
Deferred tax asset (net of deferred tax liability)	23 705	21 889	26 344	33 838
Fuel hedges – derivative asset	1 072	2 528	1 861	45
Total Non-Current Assets	**218 175**	**218 935**	**225 555**	**230 801**
Provisions	7 924	8 362	7 510	10 397
Fuel hedges – derivative liability	1 881	7	15	1 010
Total Non-Current Liabilities	**9 805**	**8 369**	**7 525**	**11 407**
Net Assets	**276 577**	**280 864**	**270 500**	**253 095**
Capital	328 981	328 981	328 981	328 981
Hedging reserve	(3 576)	2 672	2 268	(1 493)
Accumulated losses	(60 749)	(60 749)	(60 749)	(74 393)
Profits reserve	11 921	9 960	0	0
Total Equity	**276 577**	**280 864**	**270 500**	**253 095**

Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Receipts from customers	245 737	234 103	220 109	214 075
Payments to suppliers and employees	(208 278)	(204 687)	(198 347)	(180 250)
Interest received	2 473	2 128	2 217	1 351
Finance costs	0	0	0	0
Cash from Operations	**39 932**	**31 544**	**23 979**	**35 176**
Payments for property, plant and equipment	(31 185)	(9 413)	(8 807)	(7 792)
Proceeds from sale of property, plant and equipment	125	176	158	123
Cash from (used in) Investing Activities	**(31 060)**	**(9 237)**	**(8 649)**	**(7 669)**
Net Increase (Decrease) in Cash	**8 872**	**22 307**	**15 330**	**27 507**
Cash at the beginning of the year	81 328	59 021	43 691	16 184
Cash at End of the Year	**90 200**	**81 328**	**59 021**	**43 691**

Financial Analysis

	Bench Mark	2014-15	2013-14	2012-13	2011-12
Financial Performance					
Net profit ($'000s)		1 155	10 383	12 684	1 103
Underlying profit ($'000s)		17 492	11 642	15 209	25 037
EBIT ($'000s)		14 892	9 624	13 371	23 960
Operating margin	>1.0	1.09	1.06	1.09	1.15
Return on assets		4.5%	3.0%	4.5%	8.2%
Return on equity		0.4%	3.8%	4.8%	0.4%
Financial Management					
Interest cover – EBIT	>2	-	-	-	-
Current ratio	>1	2.54	3.02	2.79	2.16
Debt collection	30 days	24	29	29	27
Creditor turnover	30 days	30	24	22	28
Other Information					
Average staff numbers (FTEs)		463	457	470	464
Average staff costs ($'000s)		106	103	96	90
Average leave balance per FTE ($'000s)		27	25	21	21

AUDIT SUMMARY - PUBLIC NON-FINANCIAL CORPORATIONS (PNFC) OTHER THAN GOVERNMENT BUSINESSES

BACKGROUND

Both Macquarie Point Development Corporation (Corporation) and Private Forests Tasmania (PFT) are defined as PNFCs, but, unlike other Government Business Enterprises and State Owned Companies included in this Report, are not subject to the provisions of the *Government Business Enterprises Act 1995*, or the *Corporations Act 2001*.

Both entities are funded predominantly by grants and are reliant on Government for their on-going viability.

KEY OUTCOMES FROM AUDITS

Audits of the financial statements of the two PNFCs were completed with unqualified audit opinions issued in each case.

Both audits were completed satisfactorily with no major items outstanding.

However, we noted that PFT was operating without a Board quorum. There are currently only three Directors and the quorum for meetings is four. As a result, the Board finds itself in the position where it cannot make decisions. Advice from PFT indicated this matter has been referred to the Minister for resolution.

In both cases, financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.

FINANCIAL ANALYSIS

Macquarie Point Development Corporation

The Australian Government, in 2012-13, provided a one-off $50.000m grant to support the remediation of the Macquarie Point rail yards site and the redevelopment of the Brooke Street Pier.

From 2014-15 the Corporation recorded a Net Deficit, $0.570m. Interest income was its only significant source of revenue. Net Assets at 30 June 2015 totalled $45.426m, mainly represented by cash and deposits.

The Corporation took responsibility for site operations (excluding the area associated with Boral's concrete batching plant) in September 2014, when it entered into a lease with the Minister for Infrastructure.

In February 2015, the Brook Street Pier was officially opened. The Corporation had provided $5.000m in funding to support the redevelopment of the Pier, $1.750m of which was paid this year.

A Master Plan for the site was finalised and released for consultation on 16 June 2015.

Private Forests Tasmania

PFT recorded a Net Surplus of $0.142m in 2014-15 (2013-14, $0.250m), an improvement on losses in the two prior years. The surpluses were a result of higher cash flows from government appropriation, private forest levies and cost saving measures implemented over the past three years. At 30 June 2015 PFT had Net Assets of $0.840m.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2015 were:

Entity	Responsible Minister
Macquarie Point Development Corporation	Minister for State Growth
Private Forests Tasmania	Minister for Resources

MACQUARIE POINT DEVELOPMENT CORPORATION (The Corporation)

OVERALL CONCLUSION

The audit was completed on time with no major items raised with management and an unqualified audit opinion was issued on 8 September 2015.

The Corporation operated at a net deficit of $0.570m with interest revenue, currently its only source of income, insufficient to meet all costs. This result is unsurprising and expected bearing in mind the stage of its development. During the course of the year funds were spent on site development which were capitalised as inventories - Work in Progress Land Improvements, which totalled $2.263m at 30 June. At this date the Corporation's net assets were $45.426m which include cash of $41.825m to be used to meet operating costs and invest in site remediation and development.

During 2014-15 the Corporation's commitments to the Brooke Street Pier were completed and the Macquarie Point Strategic Framework and Master-plan 2015-2030 was finalised and released for consultation on 16 June 2015.

SNAPSHOT

- The Corporation recorded a Net Deficit, $0.570m. Interest income was its only significant source of revenue.
- Net Assets at 30 June totalled $45.426m, mainly represented by cash and deposits.
- The Corporation's cash position of $41.825m will reduce as it undertakes remediation works at the Macquarie Point site.
- The Corporation commenced operating in March 2013 but only took responsibility for site operations (excluding the area associated with Boral's concrete batching plant) in September 2014, when it entered into a lease with the Minister for Infrastructure.
- In addition to redeveloping the Macquarie Point property, the initial $50.000m funding provided to the Corporation included $5.000m towards construction of the Brook Street Pier which was officially opened in February 2015. Funding was provided as follows:
    - an initial instalment of $0.178m in 2012.13
    - a further instalment totalling $3.072m in 2013-14 and
    - a final instalment of $1.750m this year.
- A master-plan for the site was finalised and released for consultation on 16 June 2015.
- There was a voluntary change in accounting policy regarding the treatment of capitalised remediation and redevelopment expenditure. This was previously reported as Property, plant and equipment but has been re-classified as Inventories – Work in Progress Land Improvements. We supported this change.

The audit was completed satisfactorily with no items outstanding.

INTRODUCTION

The Corporation was established by the *Macquarie Point Development Corporation Act 2012 (Act)*, which received Royal Assent on 11 December 2012.

It is responsible for overseeing remediation and redevelopment works on the Macquarie Point site and to provide funding assistance to redevelop the Brooke Street Pier. In 2012-13 $50.000m was provided to the Corporation for these purposes of which $5.000m was for the Brooke Street Pier

The Board of the Corporation has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Risk management policies are established to identify and analyse risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Board has identified a range of issues related to the possible contamination of the Macquarie Point site as a result of industrial activity that occurred over many years. The Corporation has developed a master-plan for the site and will be seeking expressions of interest from potential developers and investors in 2015-16.

The Corporation engaged with the community to develop a framework for development of a site that has the potential to significantly shape Hobart's future landscape.

The Board currently consists of five directors, one of whom is the Chief Executive Officer. The Chief Executive Officer was appointed in March 2013 in accordance with the *State Service Act 2000.*

The Responsible Minister is the Minister for State Growth.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 28 August 2015. Following amendments to the statements, a re-signed version was received on 7 September 2015. An unqualified audit report was issued on 8 September 2015.

KEY FINDINGS, DEVELOPMENTS AND RISKS

There were no key findings or areas of audit attention.

Key developments included:

- The Corporation took responsibility for site operations (excluding the area associated with Boral's concrete batching plant) in September 2014, when it entered into a lease with the Minister for Infrastructure. Title over Macquarie Point is held by the Crown and is expected to be transferred to the Corporation in the next financial year.
- There was a voluntary change in accounting policy regarding the treatment of capitalised remediation and redevelopment expenditure, which was previously reported as Property, plant and equipment. Such expenditure was reviewed and re-classified as Inventories – Work in Progress Land Improvements. These Inventories will be expensed as cost of sales when revenue from land sales is recognised. The effect of this change had no impact on the comparative net result or Net Assets.
- Finalisation of the master-plan, which was released on 16 June 2015. The Strategic Framework and Master-plan 2015-16 outlines the conceptual approach developed by the Corporation's master planning team and has since been used to prepare the necessary site development plan.
- Implementation of a new accounting system on 1 July 2014. The Corporation, in previous financial years, relied upon the Department of Justice (the Department) for accounting infrastructure support, which is now not needed. The Department still provides human resources support.
- The Corporation, TasWater and the Tasmanian Government signed a tripartite Memorandum of Understanding on 15 June 2015 committing to decommission the Waste Water Treatment Plant that sits on the northern border of the Macquarie Point site. The Corporation committed up to $5.000m for TasWater to immediately commence investigation, planning, scoping, cost estimation and engineering design works to decommission the plant and relocate it to another site.

- In February 2015, the Brook Street Pier was officially opened. The Corporation had provided funding of $5.000m to support the redevelopment of infrastructure at the Pier. In 2014-15 a final instalment of $1.750m was paid.
- Contributions to the Brooke Street Pier were non-interest bearing and not repayable unless default provisions of the agreement are triggered. The Corporation holds security over assets to support these obligations. Repayments are 'subsidised' in the sense that repayments are waived annually. The contribution is repayable, less waived amounts, over 48 years. As a result of these provisions, funding of $4.666m was recorded as contributions with no asset recorded.

Key risks included:

- Consideration was given to account for the Brooke Street Pier contribution as a receivable, reduced annually by amounts waived. However, we concurred with management's position that the transaction was, in substance, a contribution with details provided by way of note disclosure
- the fact that, at 30 June 2015, the Corporation did not have total control of the site land. We anticipate that, as and when the Corporation gains greater access to the site, it will commence site works resulting in the recognition of assets in the Statement of Financial Position
- interest revenue will not be sufficient to cover operating expenses in the short-term. The Corporation expects to obtain revenue from sub-leases and future land sales. We continued to monitor the Corporation's cash flow and its obligations.

The audit was completed satisfactorily with no items outstanding.

Statement of Comprehensive Income

	2014-15	2013-14	4 March to 30 June 2013
	$'000s	$'000s	$'000s
Grants	0	0	50 130
Sale of goods and services	9	0	0
Interest	1 422	1 600	1 611
Total Revenue	**1 431**	**1 600**	**51 741**
Employee benefits	814	913	605
Depreciation	182	19	0
Supplies and consumables	680	329	326
Grants and subsidies	0	156	178
Contributions provided	0	4 666	0
Macquarie Point project	300	0	0
Other expenses	25	141	12
Total Expenses	**2 001**	**6 224**	**1 121**
Net Surplus (Deficit)	**(570)**	**(4 624)**	**50 620**
Comprehensive Result	**(570)**	**(4 624)**	**50 620**

The Corporation recorded a deficit $0.570m. Interest income is currently its only significant source of revenue.

The Australian Government, in 2012-13, provided a one-off $50.000m grant to support the remediation of the Macquarie Point rail-yards site and the redevelopment of the Brooke Street Pier. The funds were invested with interest income used to fund the Corporation's operations.

The decrease in Employee benefits in 2014-15 reflected higher capitalisation of employee costs associated with site remediation. As the project passes the pre-feasibility stage further costs will be capitalised.

Supplies and consumables and Macquarie Point project costs were higher mainly due to increased activities at the site such as project consultations, repairs and maintenance and the development of the Master-plan.

Total funding of the Brooke Street Pier redevelopment was $4.822m which was fully expended and recognised in the previous year

Statement of Financial Position

	2014-15	2013-14	4 March to 30 June 2013
	$'000s	$'000s	$'000s
Financial Assets			
Cash and deposits	41 825	46 585	50 581
Receivables	543	(2)	19
Non-financial Assets			
Inventories	2 263	314	137
Property, plant and equipment	902	762	0
Intangibles	314	415	0
Other assets	34	17	19
Total Assets	**45 881**	**48 091**	**50 756**
Liabilities			
Payables	153	1 772	10
Employee benefits	302	323	125
Other liabilities	0	0	1
Total Liabilities	**455**	**2 095**	**136**
Net Assets	**45 426**	**45 996**	**50 620**
Accumulated Funds	8 458	4 855	1 879
Reserves			
Brooke St Pier Project	0	0	4 822
Macquarie Point Project	36 968	41 141	43 919
Total Equity	**45 426**	**45 996**	**50 620**

The decrease in cash, $4.760m, was mainly due to:

- payment of the final instalment of $1.750m for the Brooke Street Pier
- expenditure for land improvements such as infrastructure and remediation, $1.949m
- draw-downs to fund operational expenditure.

The Corporation's current cash position of $41.825m will reduce as it undertakes remediation and other works on the site.

Receivables, $0.543m, consisted of an interest accrual and a tax refund of $0.314m and $0.229m, respectively.

Inventories totalled $2.263m, which consisted of remediation and infrastructure expenditure capitalised and treated as work in progress land improvements. This included costs associated with surveying and assessing the site's composition, identification of contamination, remediation and establishing underground utility services costs. These Inventories will be expensed as cost of sales when revenue from land sales is recognised.

The Payables amount, $1.750m, in the previous year related to the final instalment for the Brooke Street Pier development.

Reserve balances reflected remaining grant funds at year-end with the Brooke Street Pier Reserve fully exhausted. The Macquarie Point Reserve allows for remediation costs. As with many historical rail-yard and industrial sites, parts of the area are heavily contaminated, requiring significant remediation works before any future development can be considered.

Statement of Cash Flows

	2014-15	2013-14	4 March to 30 June 2013
	$'000s Inflows (Outflows)	**$'000s** Inflows (Outflows)	**$'000s** Inflows (Outflows)
Cash flows from operating activities			
Grants - project revenue	0	0	5 000
Grants and subsidies	0	(156)	(178)
Contributions provided	(1 750)	(2 916)	0
Net cash from (used by) Brooke Street Pier Project	**(1 750)**	**(3 072)**	**4 822**
Grants - project revenue	0	0	45 111
Sale of goods and services	9	0	0
GST receipts	34	238	0
Interest received	1 108	1 600	1 611
Employee benefits	(800)	(723)	(480)
GST Payments	(298)	(213)	0
Supplies and consumables	(566)	(325)	(338)
Other cash payments	(325)	(137)	(8)
Net cash from (used by) Macquarie Point Project	**(838)**	**440**	**45 896**
Net cash from (used by) operating activities	**(2 588)**	**(2 632)**	**50 718**
Cash flows from investing activities			
Payment for acquisitions of non-financial assets	(2 172)	(1 364)	(137)
Net cash from (used by) investing activities	**(2 172)**	**(1 364)**	**(137)**
Net increase (decrease) in cash held and cash equivalents	**(4 760)**	**(3 996)**	**50 581**
Cash and deposits at the beginning of the reporting period	46 585	50 581	0
Cash and deposits at end of the reporting period	**41 825**	**46 585**	**50 581**

Reasons for the movements in cash flows were detailed in the commentary below the Statement of Comprehensive Income and Statement of Financial Position.

PRIVATE FORESTS TASMANIA (PFT)

OVERALL CONCLUSION

The audit was completed satisfactorily, and on time and with no items outstanding and an unqualified audit opinion issued on 23 September 2015.

Savings strategies began to address sustainability and ensured PFT operated as a going concern at balance date. As a result, PFT recorded Net Surpluses in the past two financial years, a turnaround from previous Net Deficits. Reduced staff numbers and payroll costs were a main reason for the improved results.

Cash and equity balances increased as a result of the Net Surpluses.

The current Board, which consists of three Directors, results in PFT operating without the necessary quorum. This matter has been referred to the Minister for resolution.

SNAPSHOT

- PFT is funded primarily by Tasmanian government appropriation, and aims to operate on a break even basis.
- It recorded a Net Surplus of $0.142m (2013-14; $0.250m).
- The surplus was a result of higher cash flows from private forest levies and cost saving measures implemented over the past three years.
- Net Assets totalled $0.840m at 30 June 2015.

Key findings included that PFT is operating without a Board quorum. There are currently only three Directors and the quorum for meetings is four. Advice from PFT indicated this matter has been referred to the Minister for resolution.

The audit was completed satisfactorily, on time and with no other items outstanding.

INTRODUCTION

PFT was established as a statutory authority on 1 July 1994 under the *Private Forests Act 1994* (the Act). Its primary functions are to develop and advocate strategic and policy advice to the Minister and forestry partners, to work in partnership with growers, managers, investors and industry to sustainably develop and manage Tasmania's private forests and to initiate extended or new market opportunities.

The Board of Directors currently consists of two members appointed by the Responsible Minister, and the Chief Executive Officer. At the time of preparing this Chapter, there were three board vacancies.

The Responsible Minister is the Minister for Resources.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2015, and an unqualified audit opinion was issued on 23 September 2015.

KEY FINDINGS, DEVELOPMENTS AND RISKS

PFT continued to implement measures to address its financial viability. These included:

- staff numbers reduced by a further 0.8 full time equivalent (FTE), after a reduction of one FTE in the prior year, bringing the total FTE to 7.6 at 30 June 2015
- Board vacancies remained unfilled
- a regional office was closed, with two offices remaining
- improvement in the forestry industry resulted in higher revenue from statutory fees over the last two years.

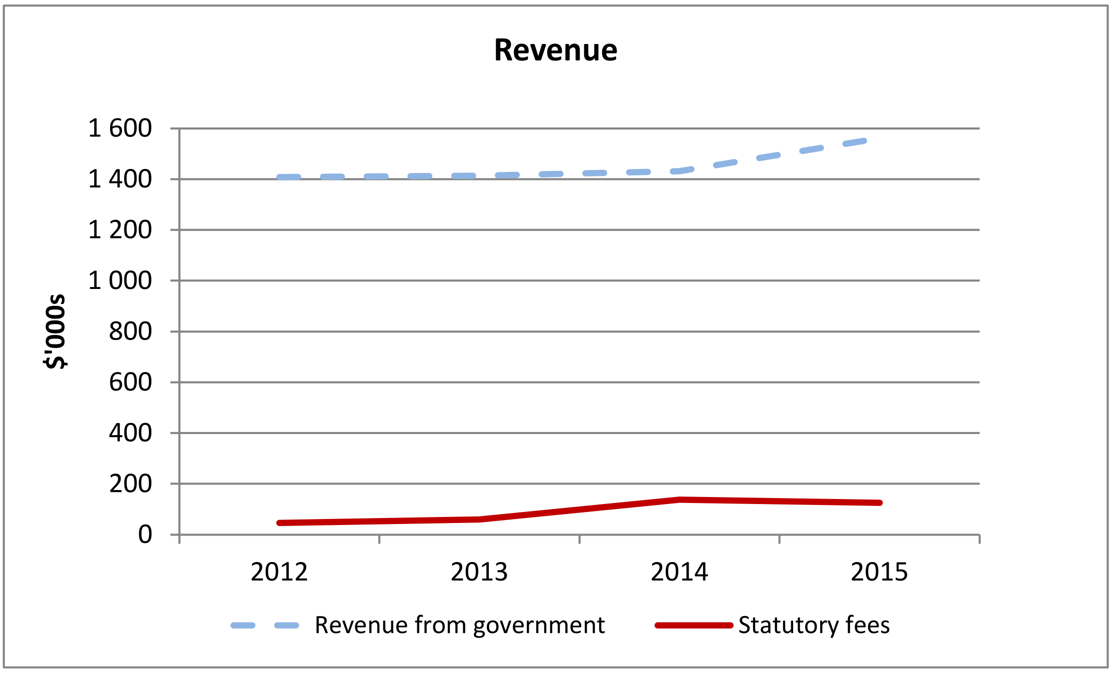
Composition of Board

Since 1 January 2015, the Board operated with only three Directors. The Act, Schedule 8 Section (3)(1), states four directors constitute a quorum at any meeting of the Board. We assessed this in our 2014-15 audit and concluded the Authority was not impacted by the absence of a quorum because the:

- 2014-15 budget was approved on 20 June 2014 at a valid Board meeting, which effectively authorised expenditure in accordance with the budget
- Manager of Finance and Administration had a standing delegated authority from the Board for the "receipt and application of funds"
- Act requires that the financial statements be signed and certified as specified in any direction by the Minister. Two directors meet this requirement.

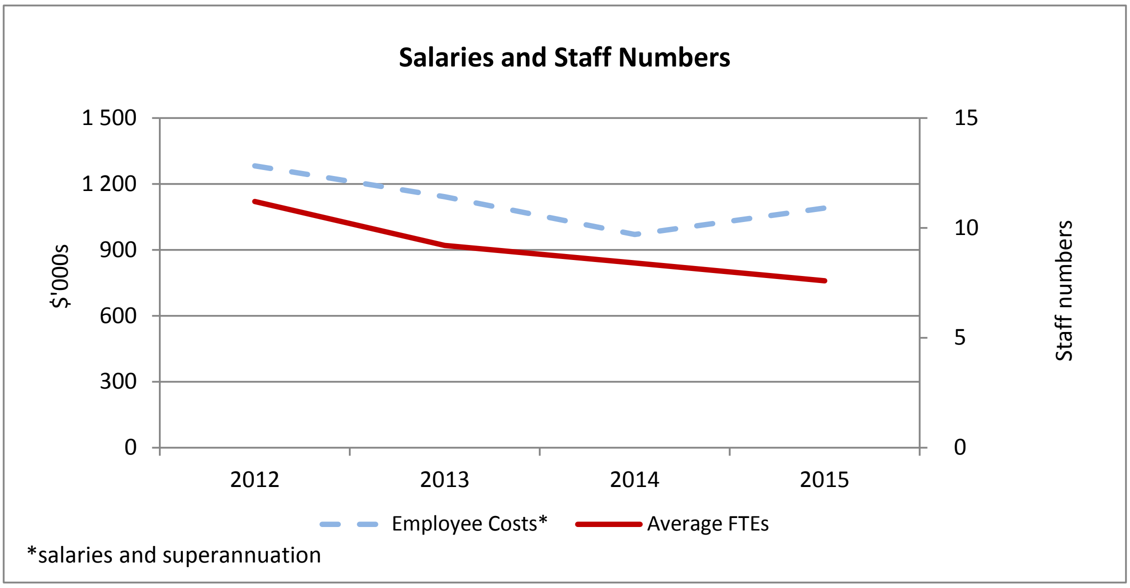
In relation to 2015-16, because decisions of the Board are unlikely to have any legal authority, we are concerned the Authority may be operating without an approved budget rendering some of the standing delegations meaningless. Advice from the Authority's Manager of Finance and Administration indicated this matter has been referred to the Minister for resolution. We will monitor this situation during the course of our 2015-16 audit.

FINANCIAL ANALYSIS

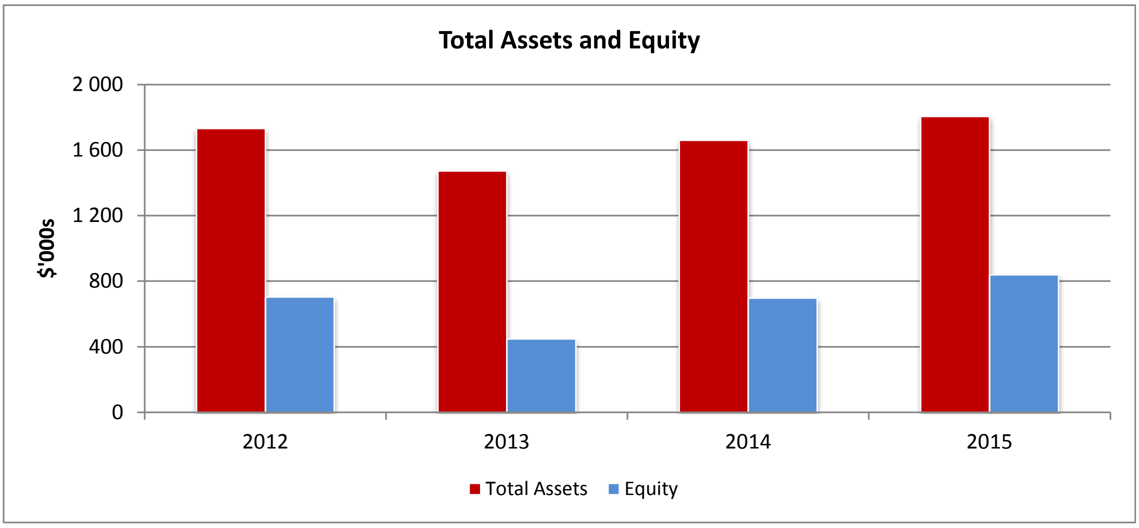


PFT recorded Net Surpluses in the past two financial years, a turnaround from previous Net Deficits.

The above graph highlights PFT's dependency on appropriation revenue which increased this year by 9.0%, representing 87.0% of total revenue. Statutory fees, being the private forest service levy and private timber reserve fees, decreased by 8.0%.



PFT utilised vacancy control, voluntary redundancies and transfers to reduce employee expenses over the last four years. The increase in staff costs in 2014-15 related primarily to a redundancy payment made to an employee, funded through appropriation revenue. The reduction in staff numbers and payroll costs was a significant contributor to improved financial results.



Total Assets and Equity balances increased as a result of the Net Surplus achieved during the current year. Savings strategies began to address sustainability and ensured PFT operated as a going concern at balance date.

Abridged Statements of Comprehensive Income and Financial Position

	2014-15	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s	$'000s
Appropriaton revenue	1 561	1 432	1 414	1 408
Statutory fees	126	137	60	46
Other revenue	108	164	229	126
Total Revenue	**1 795**	**1 733**	**1 703**	**1 580**
Employee expenses	1 099	893	1 375	1 311
Office rental, motor vehicle and travel	197	196	223	224
Consultancies and contractors	93	117	49	80
Other expenses	264	277	313	378
Total Expenses	**1 653**	**1 483**	**1 960**	**1 993**
Net Surplus (Deficit)	**142**	**250**	**(257)**	**(413)**
Comprehensive Surplus (Deficit)	**142**	**250**	**(257)**	**(413)**

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Total Assets	1 806	1 660	1 474	1 733
Total Liabilities	966	962	1 026	1 028
Net Assets	**840**	**698**	**448**	**705**
Total Equity	**840**	**698**	**448**	**705**

APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report titled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising four volumes, satisfies this requirement each year. The volumes are:

Volume 1 – Treasurer's Annual Financial Report, General Government Sector and Other State entities 2014-15

Volume 2 – Government Business 2014-15

Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15

Volume 4 – State entities 31 December 2015, findings related to 2014-15 audits and other matters.

Where relevant, State entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are detailed within that particular section.

FORMAT OF THE FINANCIAL ANALYSIS

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Statement of Financial Position and Statement of Cash Flows supplimented by financial analysis applying the indicators documented in the Financial Performance sections of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's working capital, which is a useful measure of liquidity.

FINANCIAL ANALYSIS

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA ($'000s)		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating Margin	>1.0	Operating Revenue divided by Operating Expenses
Underlying surplus (deficit) ($'000s)		Operating Revenue less Operating Expenses
Operating surplus ratio	>0	Net Operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Management		
Asset consumption ratio	Between 40% and 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total liquid assets less financial liabilities
Net financial liabilities ratio	0 – (50%)	Liquid assets less total liabilities divided by total operating income

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Returns to Government		
CSO funding ($'000s)		Amount of community service obligation funding received from Government
Dividend payout ratio		Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result from Ordinary Activities before Tax
Government guarantee fees ($'000s)		Amount of guarantee fees paid to owners (usually Government)
Income tax paid ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by FTEs
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTEs
Average recreational leave balance	20 days[3]	Actual annual leave provision days due divided by average FTEs
Average staff costs[2] ($'000s)		Total employee expenses (including capitalised employee costs) divided by FTEs
Employee costs[2] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Other Information		
Staff numbers FTEs		Effective full time equivalents

1 *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*

2 *Employee costs include capitalised employee costs, where applicable, plus on-costs.*

3 *May vary in some circumstances because of different award entitlement*

An explanation of most financial performance indicators is provided below:

FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- **Earnings before income tax, depreciation and amortisation (EBITDA)** – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- **Operating margin** – this ratio serves as an overall measure of operating effectiveness.
- **Operating Surplus (Deficit) or Result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating Surplus Ratio** – a positive result indicates a surplus with the larger the surplus the stronger the assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by an entity through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **Return on assets** – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- **Return on equity** – measures the return the entity has made for the shareholders on their investment.
- **Self financing ratio** – this is a measure of an entity's ability to fund the replacement of assets from cash generated from operations.

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.

- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- **Capital Replacement Gap, Asset renewal ratio or Renewal gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing existing non-current assets. (Caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a "considerable" margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

- **Dividend payout ratio** – the amount of dividends relative to the entity's net income.
- **Dividend to equity ratio** – the relative size of an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- **Dividends paid or payable** – payment by the entity to its shareholders (whether paid or declared as a payable).
- **Effective tax rate** – is the actual rate of tax paid on profits.
- **Income tax paid** – tax payments by the entity to the State in the year.
- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days long service leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed ($'000s)** – represents the level of employee costs expensed, ie. included in the Comprehensive Income Statement. This together with the Employee costs capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents.

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

AUDIT FINDING – RISK CATEGORIES

In reporting audit finding to clients, we determine three risk categories. These categories are based on their significance and potential impact on the client.

Risk Category	Client Impact
High	Matters which pose a significant business or financial risk to the entity and/or matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity.
Moderate	Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year and/or matters that may escalate to high risk if not addressed promptly and/or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	Matters that are isolated, non-systemic or procedural in nature and/or matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

APPENDIX 2 - GLOSSARY

Accountability

The responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the State entity.

Adverse Opinion

An adverse opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that mis-statements, individually or in the aggregate, are both material and pervasive to the financial report.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

The period over which an asset is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Asset valuation

The fair value of an asset on a particular date.

Audit Act 2008

An Act of the State of Tasmania that:

- ensures that the State has an Auditor-General with the necessary functions, immunities and independence
- provides for the independent audit of the public sector and related entities.

Auditor's opinion (or Auditor's Report)

Written expression within a specified framework indicating the auditor's overall conclusion on the financial reports based on audit evidence obtained.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds.

Capital expenditure

Amount capitalised to the Statement of Financial Position (also referred to as the balance sheet) for expenditure on or contributions by a State entity to major assets controlled or owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally been commissioned
- capital expansion which extends an existing asset at the same standard to a new group of users.

Capital grant

Government funding provided to an agency for acquiring capital assets such as buildings, land or equipment.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Combined employee costs

For the purpose of this Report, combined employee costs included wages, salaries, leave entitlements and on-costs, superannuation contributions made on behalf of employees and superannuation liability expenses relating to defined benefits schemes for which the Government is responsible.

Comprehensive result

The overall net result of all items of income and expense recognised for the period. It is the aggregate of net surplus (deficit) or profit (loss) and other movements in equity.

Consolidated financial statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Contributed assets

Assets, usually Property, plant and equipment, contributed to a State entity at no cost or are non-reciprocal.

Contributions from the State

Transactions in which one State entity provides goods, services, assets (or extinguishes a liability) or labour to another State entity without receiving approximately equal value in return. Grants can either be of a current or capital nature.

Control

The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Current asset

An asset that an entity:

- expects to realise or intends to sell or consume in its normal operating cycle
- holds primarily for the purpose of trading
- expects to realise within twelve months after the reporting period or

- is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

Current liability

A liability that an entity:

- expects to settle in its normal operating cycle
- it holds primarily for the purpose of trading
- is due to be settled within twelve months after the reporting period or
- does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

Deficit

Total expenditure exceeds Total Revenue. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a loss.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Disclaimer of Opinion

A disclaimer of opinion is used when it is not possible for the auditor to form an opinion. This may occur in rare circumstances when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected mis-statements, if any, could be both material and pervasive.

Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Employee benefits provision

The liability recognised for employees' accrued service entitlements, including all costs related to employment consisting of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities. Where liabilities exceed assets, this gives rise to negative equity or net liabilities or accumulated deficits.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity, or increase in a liability, during the reporting period.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset

Any asset that is:

- cash
- an equity instrument of another entity
- a contractual right:
    - to receive cash or another financial asset from another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial liability

Any liability that is:

- a contractual obligation:
    - to deliver cash or another financial asset to another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial position

The relationship of the assets, liabilities and equity of an entity, as reported in the Statement of Financial Position (balance sheet).

Financial report

Structured representation of financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's financial performance over a period of time and its economic resources or obligations at a point in time in accordance with a financial reporting framework.

Financial statements

A complete set of financial statements comprises:

- a Statement of Financial Position as at the end of the period
- a Statement of Profit or Loss and Other Comprehensive Income for the period
- a Statement of Changes in Equity for the period
- a Statement of Cash Flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period

- a Statement of Financial Position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective re-statement of items in its financial statements, or when it re-classifies items in its financial statements.

An entity may use titles for the statements other than those used in the relevant accounting standard. For example, an entity may use the title "Statement of Comprehensive Income" instead of "Statement of Profit or Loss and Other Comprehensive Income".

Financial sustainability

An entity's ability to manage financial resources so it can meet its spending commitments both at present and into the future.

Financial year

The period of 12 months for which a financial report is prepared.

For-profit entity

An entity whose principal objective is the generation of profit. A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Future economic benefit

The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows.

General purpose financial report

A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation for the foreseeable future without any intention or necessity to liquidate or otherwise wind up its operations.

Governance

The control arrangements in place at an entity that are used to govern and monitor its activities in order to achieve its strategic and operational goals.

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Independent auditor's report

An expression of the independent auditor's opinion on an entity's financial (and performance) report.

Intangible asset

An identifiable non-monetary asset without physical substance.

Investment

The expenditure of funds intended to result in medium to long-term service and/or financial benefits arising from the development and/or use of infrastructure assets by either the public or private sectors.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Loss

Total expenditure exceeds total revenue. Term is generally applied to results of for-profit entities. Equivalent term in the case of not-for-profit entities is a deficit.

Material

Omissions or mis-statements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.

Modified audit opinion

The Auditing Standards establish three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- the nature of the matter giving rise to the modification, that is, whether the financial report is materially mis-stated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Non-Financial Asset

Physical assets such as land, buildings and infrastructure.

Not-for-profit entity

An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Operating cycle

The time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

Profit

Total revenue exceeds total expenditure. Term is generally applied to results of profit entities. Equivalent term in the case of not-for-profit entities is a surplus.

Property, plant and equipment

Tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Public sector entity

A department; a public hospital; a local government; a statutory body; an entity controlled by one, or more than one department, public hospital, local government or statutory body; or an entity controlled by a public sector entity.

Qualified audit opinion

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that mis-statements, individually or in the aggregate, are material, but not pervasive, to the financial report; or
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected mis-statements, if any, could be material but not pervasive.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Revaluation

Recognising a reassessment or restatement of values for assets or liabilities at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Special purpose financial statements

A financial report intended to only meet the information needs of specific users who are able to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

State entity

A body, whether corporate or unincorporated, that has a public function to exercise on behalf of the State or is wholly owned by the State, as defined under the *Audit Act 2008*, including:

- an agency
- a council
- a Government Business Enterprise
- a State Owned Corporation
- a State authority that is not a Government Business Enterprise
- the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown
- a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the *Local Government Act 1993*
- the Corporation incorporated under section 5 of the *Water and Sewerage Corporation Act 2012*
- a body or authority in respect of which the Treasurer has made a determination under section 32A.

State Owned Corporation

A company incorporated under the Corporations Act which is controlled by:

- the Crown
- a State authority
- another company which is itself controlled by the Crown or a State authority.

Surplus

Total revenue exceeds total expenditure. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a profit.

Unqualified audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian accounting standards.

Also referred to as a **clear audit opinion**.

Value in use (in respect of not-for-profit entities)

Depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits.

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACIPA	Academy of Creative Industries and Performing Arts
ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
AFS	Australian Financial Services
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ARM	Asset Revaluation Model
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BBP	Bell Bay Power Pty Ltd
BHF	Better Housing Futures
CCA	Cradle Coast Authority
CC&SB	Customer Care and Billing System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLAF	Crown Land Administration Fund
CPI	Consumer Price Index
CSO	Community Service Obligation
DBP	Defined Benefit Pension
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DoE	Department of Education
DoJ	Department of Justice
DORC	Depreciated Optimised Replacement Cost
DPAC	Department of Premier and Cabinet
DPEM	Department of Police and Emergency Management
DPIPWE	Department of Primary Industries, Parks, Water and Environment
DRWMA	Dulverton Regional Waste Management Authority
DTF	Department of Treasury and Finance
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EFTSL	Equivalent Full-time Student Load

EOI	Expression of Interest
FCAS	Frequency Control Ancillary Services
FIND	Fines and Infringement Notices Database
FMAA	*Financial Management and Audit Act 1990*
FPM	Financial Procedures Manual
FRFI	*Forestry (Rebuilding the Forest Industry) Act 2014*
FSC	Forest Stewardship Council
FSI	Forest Services International
FTE	Full-time Equivalent
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GGS	General Government Sector
GIF	Group Investment Fund
GMO	Grantham, Mayo and Otterloo
GSP	Gross State Product
GST	Goods and Services Tax
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
HECS-HELP	Higher Education Loan Program
HoA	House of Assembly
HR	Human Resources
IPSASB	International Public Sector Accounting Standards Board
IRR	Inter Regional Revenues
IST	Island Speciality Timbers
IT	Information Technology
KIPC	King Island Ports Corporation
KMP	Key Management Personnel
KPI	Key Performance Indicators
KV	Kilovolt
LGAT	Local Government Association of Tasmania
LGH	Launceston General Hospital
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MAR	Maximum Allowable Revenue
MWh	Megawatt Hour
NCP	National Competition Policy
NDRRA	Natural Disaster Relief and Recovery Arrangements
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
NRAS	National Rent Affordability Scheme
NTDAI	Northern Tasmania Development Association, Inc.
NTER	National Taxation Equivalent Regime

OVG	Office of the Valuer-General
PA	Public Account
PAYG	Pay As You Go
PFC	Public Financial Corporation
PSP	Price and Services Plan
PFT	Private Forests Tasmania
PNFC	Public Non-Financial Corporation
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
PT	Public Trustee
PWC	Price WaterhouseCoopers
RAB	Regulated Asset Base
RBF	Retirement Benefits Fund
RBFB	Retirement Benefits Fund Board
REC	Renewable Energy Certificates
RHH	Royal Hobart Hospital
RIN	Regulatory Information Notices
SBA	Significant Business Activies
SDTF	Special Deposits and Trust Fund
SES	State Emergency Service
SEV	Soil Expectation Value
SFC	State Fire Commission
SFCSS	State Fire Commission Superannuation Scheme
SG	Superannuation Guarantee
SLIMS	Student Lifecycle Information Management and Services
SOC	State Owned Corporation
SPFR	Specific Purpose Financial Reports
STCA	Southern Tasmania Councils Authority
SWS	Southern Waste Solutions
SWSA	Southern Waste Strategy Authority
TAFR	Treasurer's Annual Financial Report
TAHL	Tasmanian Affordable Housing Limited
TAS	Tasmanian Accumulation Scheme
TASCORP	Tasmanian Public Finance Corporation
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TCFA	Tasmanian Community Forest Agreement
TDIA	Tasmanian Dairy Industry Authority
TDR	Tasmania Development and Resources
TDRA	Temporary Debt Repayment Account
TESI	Tasmanian Electricity Supply Industry
TFA	*Tasmanian Forest Agreement Act*
TFIA	Tasmanian Forest Intergovernmental Agreement

TFS	Tasmanian Fire Service
THO	Tasmanian Health Organisation
THO-N	Tasmanian Health Organisation - North
THO-NW	Tasmanian Health Organisation - North West
THO-S	Tasmanian Health Organisation - South
TI	Tasmanian Irrigation Pty Ltd
TIS	Tasmanian Irrigation Schemes Pty Ltd
TRB	Tasmanian Racing Board
TVPS	Tamar Valley Power Station
TUOS	Transmission Use of System
TUU	Tasmanian University Union Incorporated
UPF	Uniform Presentation Framework
UTAS	University of Tasmania
VaR	Value at Risk
VET	Vocational Education and Training
VG	Valuer-General
VoIP	Voice over Internet Protocol
WACC	Weighted Average Cost of Capital
WIF	Water Infrastructure Fund
WIP	Work in Progress

APPENDIX 4 - RECENT PUBLICATIONS

Tabled	Report No.	Title
2014		
May	No 9 of 2013-14	Volume 5 - Other State entities - matters relating to 2012-13 and key performance indicators
May	No 10 of 2013-14	Government Radio Communications
May	No 11 of 2013-14	Compliance with the Alcohol, Tobacco and Other Drugs plan 2008-13
June	No 12 of 2013-14	Quality of Metro services
June	No 13 of 2013-14	Teaching quality in public high schools
2015		
August	No. 1 of 2014-15	Recruitment practices in the State Service
September	No. 2 of 2014-15	Follow up of selected Auditor-General Reports October 2009 to September 2011
September	No. 3 of 2014-15	Motor vehicle fleet management in government departments
November	No. 4 of 2014-15	Volume 3 - Government Businesses 2013-14
November	No. 5 of 2014-15	Volume 2 - General Government and Other State entities 2013-14
December	No. 6 of 2014-15	Volume 1 - Analysis of the Treasurer's Annual financial Report 2013-14
February	No. 7 of 2014-15	Volume 4 - Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14 Part 1: Key points, Joint Authorities, TasWater and other matters
March	No. 8 of 2014-15	Security of information and communications technology (ITC) infrastructure
March	No. 9 of 2014-15	Tasmanian Museum and Art Gallery: Compliance with the National Standards for Australian Museums and Galleries
May	No. 10 of 2014-15	Number of public primary schools
May	No. 11 of 2014-15	Road management in local government
June	No. 12 of 2014-15	Volume 5 - Other State entities - findings relating to 2013-14 audits and other matters
July	No. 1 of 2015-16	Absenteeism in the State Service
September	No. 2 of 2015-16	Capital works programming and management
October	No. 3 of 2015-16	Vehicle fleet usage and management in other state entities
October	No. 4 of 2015-16	Follow up of four reports published since June 2011

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed on the Office's website: www.audit.tas.gov.au

Tasmanian Audit Office

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AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

> 'An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.'

Under the provisions of section 18, the Auditor-General:

'(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).'

Under the provisions of section 19, the Auditor-General:

'(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.'

Standards Applied

Section 31 specifies that:

> 'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

Tasmanian
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