

Part 3

Financial statements



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Department of Water and Energy

To Members of the New South Wales Parliament

I have audited the accompanying financial report of Department of Water and Energy (the Department), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense, cash flow statement, program statement - expenses and revenues, and summary of compliance with financial directives for the period 27 April to 30 June 2007, and a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Department as of 30 June 2007, and of its financial performance and its cash flows for the period 27 April to 30 June 2007 in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 45E of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

Department Head's Responsibility for the Financial Report

The Department Head is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

- about the future viability of the Department,
- that it has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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



M T Spriggins
Director, Financial Audit Services

21 November 2007
SYDNEY



NSW Government

Department of Water & Energy

Financial Report for the Period Ended 30 June 2007

Pursuant to Section 45F of the Public Finance and Audit Act 1983, I state that:

- a) The accompanying financial report has been prepared in accordance with:
 - Applicable Australian Accounting Standards;
 - The Public Finance and Audit Act 1983;
 - The Public Finance and Audit Regulation 2005; and
 - The Treasurer's directions including the Financial Reporting Code for Budget Dependent General Government Sector Agencies.
- b) The report exhibits a true and fair view of the financial position and transactions of the Department.
- c) There are no circumstances which would render any particulars included in the financial report to be misleading or inaccurate.

A handwritten signature in black ink, appearing to read 'Mark Duffy', is written over the printed name.

Mark Duffy
Director-General

14 November 2007

**Department of Water and Energy
Operating Statement
for the period 27 April to 30 June 2007**

	Notes	2007 \$'000
Expenses excluding losses		
Operating expenses		
Employee related expenses	2(a)	12,083
Other operating expenses	2(b)	7,463
Depreciation and amortisation expenses	2(c)	230
Grants and subsidies	2(d)	60,266
Finance costs	2(e)	<u>45</u>
Total Expenses excluding losses		<u>80,087</u>
Less:		
Revenue		
Rendering of services	3(a)	8,204
Investment revenue	3(b)	1,498
Grants and contributions	3(c)	3,965
Other revenue	3(d)	<u>1,451</u>
Total Revenue		<u>15,118</u>
Gain / (loss) on disposal	4	(34)
Share of operating result of Joint Ventures accounted for under the equity accounting method		<u>(5,647)</u>
Net Cost of Services	25	<u>(70,650)</u>
Government Contributions		
Recurrent appropriations	5	72,707
Capital appropriations	5	1,977
Acceptance by the Crown Entity of employee benefits and other liabilities	6	<u>1,741</u>
Total Government Contributions		<u>76,425</u>
SURPLUS / (DEFICIT) FOR THE PERIOD		<u>5,775</u>

The accompanying notes form part of these financial statements.

**Department of Water and Energy
Statement of Recognised Income and Expense
for the period 27 April to 30 June 2007**

	2007 \$'000
Net increase/(decrease) in property, plant and equipment asset revaluation reserve	3,979
Available for sale financial assets	
Valuation gains / losses	65
Other net increases / (decreases) in equity due to administrative transfers	<u>764,004</u>
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	<u>768,048</u>
Surplus / (Deficit) for the year	<u>5,775</u>
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	<u>773,823</u>

The accompanying notes form part of these financial statements.

Department of Water and Energy
Balance sheet
as at 30 June 2007

	Notes	2007 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents	9	54,767
Receivables	10	57,517
Financial assets at fair value	11	90
Other financial assets	12	<u>184</u>
Total Current Assets		<u>112,558</u>
Non-Current Assets		
Other financial assets	12	3,494
Property plant and equipment	13	
Land and Buildings	13	20,791
Plant and Equipment	13	3,149
Infrastructure Systems	13	26,072
Intangible assets	14	4,536
Investments accounted for under the equity method	16	<u>651,221</u>
Total Non-Current Assets		<u>709,263</u>
Total Assets		<u>821,821</u>
LIABILITIES		
Current Liabilities		
Payables	17	23,644
Borrowings	18	129
Provisions	19	8,397
Other	20	<u>13,750</u>
Total Current Liabilities		<u>45,920</u>
Non-Current Liabilities		
Borrowings	18	1,555
Provisions	19	<u>523</u>
Total Non-Current Liabilities		<u>2,078</u>
Total Liabilities		<u>47,998</u>
Net Assets		<u>773,823</u>
EQUITY		
Reserves	21	179,503
Accumulated funds	21	<u>594,320</u>
Total Equity		<u>773,823</u>

The accompanying notes form part of these financial statements.

**Department of Water and Energy
Cash Flow Statement
for the period 27 April to 30 June 2007**

	Notes	2007 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments		
Employee related		(9,317)
Grants and subsidies		(53,683)
Finance costs		(45)
Other		(12,117)
Total Payments		<u>(75,162)</u>
Receipts		
Rendering of services		14,555
Interest received		595
Grants and contributions		3,775
Other		450
Total Receipts		<u>19,375</u>
Cash Flows From Government		
Recurrent appropriation	5	74,512
Capital appropriation	5	1,977
Cash reimbursements from the Crown Entity		-
Net Cash Flows From Government		<u>76,489</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	25	<u>20,702</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments accounted for under the equity method		(6,583)
Purchases of Plant and Equipment and Infrastructure Systems		(308)
NET CASH FLOWS FROM INVESTING ACTIVITIES		<u>(6,891)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings and advances		1,931
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>1,931</u>
NET INCREASE (DECREASE) IN CASH		
Cash transferred in (out) as a result of administrative restructuring	22	15,742
		<u>39,025</u>
CLOSING CASH AND CASH EQUIVALENTS	9	<u>54,767</u>

The accompanying notes form part of these financial statements.

**Department of Water and Energy
Summary of Compliance with Financial Directives
for the period 27 April to 30 June 2007**

	2007			
	Recurrent Appropriation \$'000	Expenditure / Net Claim on Consolidated Fund \$'000	Capital Appropriation \$'000	Expenditure / Net Claim on Consolidated Fund \$'000
Consolidated				
ORIGINAL BUDGET APPROPRIATION / EXPENDITURE				
• Appropriation Act	-	-	-	-
• s24 PF&AA - transfers of functions between departments	228,561	78,307	6,505	1,990
	<u>228,561</u>	<u>78,307</u>	<u>6,505</u>	<u>1,990</u>
OTHER APPROPRIATIONS / EXPENDITURE				
• Section 22 - expenditure for certain works and services	2,250	2,250	-	-
Total Appropriations / Expenditure / Net Claim on Consolidated Fund (includes transfer payments)	<u>230,811</u>	<u>80,557</u>	<u>6,505</u>	<u>1,990</u>
Amount draw down against Appropriation		<u>83,593</u>		<u>2,955</u>
Liability to Consolidated Fund*		<u>(3,036)</u>		<u>(965)</u>

The Summary of Compliance is based on the assumption that Consolidated Fund monies are spent first (except where otherwise identified or prescribed).

The "Liability to Consolidated Fund" represents the difference between the "Amount drawn against Appropriation" and the "Total Expenditure / Net Claim" on Consolidated Fund".

**Department of Water and Energy
Notes to the financial statements
for the period 27 April to 30 June 2007**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Reporting entity*

The Department of Water and Energy, as a reporting entity, incorporates the activities of the Energy Corporation of NSW and the Water Administration Ministerial Corporation.

The Department is a NSW government department and is a not-for-profit entity (as profit is not its principal objective). The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

The Department was established on 27 April 2007 in accordance with the Public Sector Employment and Management (General) Order 2007 under the Public Sector Employment and Management Act 2002. This is therefore the first financial report of the Department and as such there are no comparative figures.

The Department delivers the Government's policy and reform agenda for the water and energy sectors in New South Wales and provides policy, legislative, regulatory and management advice in relation to water and energy matters to the Government.

This financial report for the year ended 30 June 2007 has been authorised for issue by the Director-General on 14 November 2007.

(b) *Basis of Preparation*

The Department's financial statements are a general purpose financial report which has been prepared in accordance with:

- applicable Australian Accounting Standards (which include Australian equivalents to International Financial Reporting Standard (AIFRS));
- the requirements of the *Public Finance and Audit Act* and Regulation; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer.

Property, plant and equipment, investment property, assets (or disposal groups) held for sale and financial assets held for trading and available for sale are measured at fair value. Other financial statements items are prepared in accordance with the historical cost convention

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

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

(c) *Statement of Compliance*

The financial statements and notes comply with Australian Accounting Standards, which include AIFRS.

(d) *Administered Activities*

The Department administers, but does not control, certain activities on behalf of the Crown Entity in relation to Pipeline Licences under the Pipelines Act 1967. It is accountable for the transactions relating to those administered activities but does not have the discretion, for example, to deploy the resources for the achievement of the agency's own objectives.

Transactions and balances relating to the administered activities are not recognised as the agency's revenues, expenses, assets and liabilities, but are disclosed in the accompanying schedules as "Administered Revenues", "Administered Expenses", "Administered Assets" and "Administered Liabilities".

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

(e) *Income Recognition*

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

**Department of Water and Energy
Notes to the financial statements
for the year ended Saturday, 30 June 2007**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) *Income Recognition (cont'd)*

(i) Parliamentary Appropriations and Contributions

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

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

The liability is disclosed in Note 20 as part of 'Current liabilities - Other'. The amount will be repaid and the liability will be extinguished next financial year. Any liability in respect of transfer payments is disclosed in Note 26 "Administered assets and liabilities".

(ii) Rendering of Services

Revenue is recognised when the service is provided or by reference to the stage of completion (based on labour hours incurred to date).

(iii) Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

(f) *Employee Benefits and other provisions*

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

Liabilities for salaries and wages (including non-monetary benefits), annual leave and paid sick leave that fall due wholly within 12 months of the reporting date are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave that is not expected to be taken within twelve months is measured at present value in accordance with AASB 119 *Employee Benefits*.

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

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

(ii) Long Service Leave and Superannuation

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

Long service leave is measured at present value in accordance with AASB 119 *Employee Benefits*. This is based on the application of certain factors (specified in NSWTC 07/04) to employees with 5 or more years of service, using current rates of pay. These factors were determined based on an actuarial review to approximate present value.

Department of Water and Energy
Notes to the financial statements
for the year ended Saturday, 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) *Employee Benefits and other provisions (cont'd)*

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

(iii) *Other Provisions*

Other provisions exist when: the agency has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

(g) *Borrowing costs*

Borrowing costs are recognised as expenses in the period in which they are incurred, in accordance with Treasury's mandate to general government sector agencies.

(h) *Insurance*

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

(i) *Accounting for the Goods and Services Tax (GST)*

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

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

(j) *Acquisitions of Assets*

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Department. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition (see also assets transferred as a result of an administrative restructure - Note (z)).

Fair value means the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

(k) *Capitalisation Thresholds*

Property, plant and equipment and intangible assets costing \$5,000 and above individually (or forming part of a network costing more than \$5,000) are capitalised.

(l) *Revaluation of Property, Plant and Equipment*

Physical non-current assets are valued in accordance with the "Valuation of Physical Non-Current Assets at Fair Value" Policy and Guidelines Paper (TPP 07-1). This policy adopts fair value in accordance with AASB 116 Property, Plant and Equipment and AASB 140 Investment Property. Information on investment property is separately discussed at Note 1

Property, plant and equipment is measured on an existing use basis, where there are no feasible alternative uses in the existing natural, legal, financial and socio-political environment. However, in the limited circumstances where there are feasible alternative uses, assets are valued at their highest and best use.

**Department of Water and Energy
Notes to the financial statements
for the year ended Saturday, 30 June 2007**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) *Impairment of Property, Plant and Equipment*

As a not-for-profit entity with no cash generating units, the Department is effectively exempted from AASB 136 Impairment of Assets and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

(n) *Depreciation of Property, Plant and Equipment*

Depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the Department.

All material separately identifiable components of assets are depreciated over their shorter useful lives.

Normal useful lives for depreciable assets are as follows:

Depreciation Rates	Useful life (in years)
Property	
Building, including leasehold improvements	-
Plant & Equipment	
Computer equipment and software	25
Plant and equipment	20

(o) *Restoration Cost*

The estimated cost of dismantling and removing an asset and restoring the site is included in the cost of an asset, to the extent it is recognised as a liability.

(p) *Maintenance*

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

(q) *Leased Assets*

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

Where a non-current asset is acquired by means of a finance lease, the asset is recognised at its fair value at the commencement of the lease term. The corresponding liability is established at the same amount. Lease payments are allocated between the principal component and the interest expense.

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

Department of Water and Energy
Notes to the financial statements
for the year ended Saturday, 30 June 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) *Intangible Assets*

The Department recognises intangible assets only if it is probable that future economic benefits will flow to the agency and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

The useful lives of intangible assets are assessed to be finite.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the agency's intangible assets, the assets are carried at cost less any accumulated amortisation.

The Department's intangible assets are amortised using the straight line method over a period of 4 years.

(s) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the Operating Statement when impaired, derecognised or through the amortisation process.

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

(t) *Investments*

Investments are initially recognised at fair value plus, in the case of investments not at fair value through profit and loss, transaction costs. The Department determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this at each financial year end.

Fair value through profit or loss - The Department subsequently measures investments classified as "held for trading" or designated "at fair value through profit or loss" at fair value. Financial assets are classified as "held for trading" if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading. Gains or losses on these assets are recognised in the Operating Statement.

Held to maturity investments - Non-derivative financial assets with fixed or determinable payments and fixed maturity that the agency has the positive intention and ability to hold to maturity are classified as "held to maturity". These investments are measured at amortised cost using the effective interest method. Changes are recognised in the Operating Statement when impaired, derecognised or through the amortisation process.

Available for sale investments - Any residual investments that do not fall into any other category are accounted for as available for sale investments and measured at fair value directly in equity until disposed or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the Operating Statement. However, interest calculated using the effective interest method and dividends are recognised in the Operating Statement.

Purchases or sales of investments under contract that require delivery of the asset within the timeframe established by convention or regulation are recognised on the trade date i.e. the date the entity commits itself to purchase or sell the asset.

The fair value of investments that are traded at fair value in an active market is determined by reference to quoted current bid prices at the close of business on the balance sheet date.

(u) *Impairment of financial assets*

All financial assets, except those measured at fair value through profit and loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due.

For financial assets carried at amortised cost, the amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the Operating Statement.

**Department of Water and Energy
Notes to the financial statements
for the year ended Saturday, 30 June 2007**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) *Impairment of financial assets (cont'd)*

When an available for sale financial asset is impaired, the amount of the cumulative loss is removed from equity and recognised in the Operating Statement, based on the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in the Operating Statement.

Any reversals of impairment losses are reversed through the Operating Statement, where there is objective evidence, except reversals of impairment losses on an investment in an equity instrument classified as "available for sale" must be made through the reserve. Reversals of impairment losses of financial assets carried at amortised cost cannot result in a carrying amount that exceeds what the carrying amount would have been had there not been an impairment loss.

(v) *De-recognition of financial assets and financial liabilities*

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire; or if the agency transfers the financial asset:

- where substantially all the risks and rewards have been transferred; or
- where the agency has not transferred substantially all the risks and rewards, if the entity has not retained control.

Where the Department has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the agency's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

(w) *Non-current Assets (or disposal group) Held For Sale*

The Department has certain non-current assets (or disposal groups) classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets (or disposal groups) held for sale are recognised at the lower of carrying amount and fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

The assets the Department has classified within this group are not separately shown by note as they are fully depreciated.

(x) *Investments in Joint Venture*

The Department's investment in joint ventures, the Murray-Darling Basin Commission and the Dumaresq-Barwon Border Rivers Commission is accounted for using the equity method. Under this method, the Department's share of the joint venture's accumulated results is recognised as revenue or expense in the Operating Statement, and its share of movements in reserves is recognised in the Department's reserves. Contributions made by the Department to the joint ventures are charged directly to the investment.

(y) *Other Assets*

Other assets are recognised on cost basis.

(z) *Equity Transfers*

The transfer of net assets between agencies as a result of an administrative restructure, transfers of programs / functions and parts thereof between NSW public sector agencies are designated as a contribution by Policy and Guidelines Paper (TPP 06-7) and are recognised as an adjustment to "Accumulated Funds". This treatment is consistent with Interpretation 1038 "Contributions by Owners Made to Wholly Owned Public Sector Entities".

Transfers arising from an administrative restructure between government departments are recognised at the amount at which the asset was recognised by the transferor government department immediately prior to the restructure. In most instances this will approximate fair value. All other equity transfers are recognised at fair value.

**Department of Water and Energy
Notes to the financial statements
for the year ended Saturday, 30 June 2007**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(aa) *Payables*

These amounts represent liabilities for goods and services provided to the agency and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(ab) *Borrowings*

Loans are not held for trading or designated at fair value through profit or loss and are recognised at amortised cost using the effective interest method. Gains or losses are recognised in the Operating Statement on de-recognition.

(ac) *Budgeted Amounts*

In accordance with Section 45EA of the Public Finance and Audit Act 1983, the Treasurer has exempted the Department from compliance with the specific requirement to disclose the Budget figures for this financial year only.

The exemption was granted on the basis that the Department was formed after the Treasurer tabled the NSW 2006-07 Budget Papers in Parliament, and as such the NSW 2006-07 Budget Papers do not contain a budget for this Department.

(ad) *New Australian Accounting Standards issued but not effective*

At reporting date, a number of Australian Accounting Standards adopted by the Australian Accounting Standards Board have been issued but are not yet operative and have not been early adopted by the Department. NSW Treasury mandate precludes early adoption of these accounting standards.

The Department has reviewed the new accounting standards and at this stage does not anticipate any impact on the figures reported in this financial report.

2 EXPENSES EXCLUDING LOSSES

	2007 \$'000
(a) Employee related expenses	
Salaries and wages (including recreation leave)	8,384
Superannuation - defined benefit plans	1,293
Superannuation - defined contribution plans	971
Long service leave	412
Workers compensation insurance	163
Payroll tax and fringe benefit tax	860
	12,083

**Department of Water and Energy
Notes to the financial statements
for the period 27 April to 30 June 2007**

2 EXPENSES EXCLUDING LOSSES (cont'd)

	2007 \$'000
(b) Other operating expenses	
Auditor's remuneration - audit or review of the financial reports	161
Other administration	1,031
Computer costs	314
Consultants and contractors	1,143
Fees for services rendered	2,626
Insurance - public liability	24
Minor equipment purchases	534
Motor vehicle leasing costs	250
Postage and telephone	88
Printing	4
Stores, stationery and materials	23
Training (staff development)	26
Travel	364
Bad and doubtful debts	279
Contract payments relating to the CTWSS	97
Energy rebate scheme administration costs	106
Maintenance expenses	393
	7,463
<i>* Reconciliation - Total maintenance</i>	
Maintenance expense - contracted labour and other (non-employee related), as above	393
Total maintenance expenses included in Note 2(a) + 2(b)	393
(c) Depreciation and amortisation expenses	
Depreciation	
Land and Buildings	21
Plant and Equipment	91
Infrastructure Systems	36
Total Depreciation	148
Amortisation of intangible assets	
Leasehold improvements	24
Computer Software	58
Total Amortisation	230
(d) Grants and subsidies	
Alternative funding subsidy	188
Country Towns Water Supply and Sewerage	11,500
Life support rebates	448
Solar rebates	375
Pensioner energy rebates	12,667
Energy Accounts payment assistance	1,289
Other	9,479
Water & Sewerage Assistance to Sydney Water	21,423
Water & Sewerage Assistance to Hunter Water	2,697
Subsidy - Dams Safety Committee	200
	60,266
(e) Finance costs	
Interest	45
	45

Department of Water and Energy
Notes to the financial statements
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3 REVENUES

	2007 \$'000
(a) Rendering of services	
Fees for services	5,114
Pipeline search fees	44
Income from water operations	3,045
Renewable Energy services	1
	8,204
(b) Investment revenue	
Interest	1,330
Sustainable Energy Research Development Fund SERDF	168
	1,498
(c) Grants and contributions	
Contributions to CTWSS	1,679
Australian Greenhouse Office contributions	2,321
Other	(35)
	3,965
(d) Other revenue	
Other	(189)
Recoveries	1,640
	1,451

4 GAIN / (LOSS) ON DISPOSAL**Gain / (loss) on disposal of plant and equipment**

Proceeds from disposal	-
Written down value of assets disposed	(34)
Net gain / (loss) on disposal of plant and equipment	(34)

5 APPROPRIATIONS**Recurrent appropriations**

Total recurrent drawdowns from Treasury (per Summary of Compliance)	83,593
Less: Liability to Consolidated Fund (per Summary of Compliance)	3,036
	80,557

Comprising:

Recurrent appropriations (per Operating Statement)	72,707
Transfer payments	7,850
	80,557

**Department of Water and Energy
Notes to the financial statements
for the period 27 April to 30 June 2007**

5 APPROPRIATIONS (cont'd)

	2007 \$'000
Capital appropriations	
Total capital drawdowns from Treasury (per Summary of Compliance)	2,942
Less: Liability to Consolidated Fund (per Summary of Compliance)	<u>965</u>
	<u>1,977</u>
Comprising:	
Capital appropriations (per Operating Statement)	<u>1,977</u>
	<u>1,977</u>

6 ACCEPTANCE BY THE CROWN ENTITY OF EMPLOYEE BENEFITS AND OTHER LIABILITIES

The following liabilities and / or expenses have been assumed by the Crown Entity or other government agencies:

Superannuation	1,280
Long Service Leave	433
Payroll tax	<u>28</u>
	<u>1,741</u>

7 TRANSFER PAYMENTS

Contribution to State Water	<u>7,850</u>
	<u>7,850</u>

8 PROGRAMS / ACTIVITIES OF THE DEPARTMENT

(a) Program 1 - Water and Energy Policy and Program Delivery - Urban Water

Objective: To promote the affordable, efficient, safe and reliable supply and use of urban water.

(b) Program 2 - Water and Energy Policy and Program Delivery - Rural Water

Objective: To promote the sustainable allocation of rural water resources among industry, utilities, communities and the environment.

(c) Program 3 - Water and Energy Policy and Program Delivery - Energy

Objective: To promote the affordable, efficient, safe and reliable supply and use of energy.

The majority of functions of the former Department of Energy, Utilities and Sustainability, water-related functions of the former Department of Natural Resources and the Metropolitan Water Directorate from the former NSW Cabinet Office were transferred to the Department of Water and Energy (DWE) effective from 27 April 2007 following the revised administrative arrangements outlined in the Public Sector Employment and Management (General) Order 2007.

Expenses and revenues attributed to DWE and reported in the Operating Statement relate to the period 27 April 2007 to 30 June 2007. Expenses and revenues relating to the respective components of the former Departments for the period from 1 July 2006 to 26 April 2007 and which could be attributed to DWE are shown for comparative purposes.

Department of Water and Energy
Notes to the financial statements
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	Dept of Energy, Utilities and Sustainability (from 1 July 2006 to 26 April 2007)	Dept of Natural Resources (from 1 July 2006 to 26 April 2007)	The Cabinet Office (from 1 July 2006 to 26 April 2007)	Department of Water and Energy (from 27 April to 30 June 2007)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses excluding losses					
Operating expenses					
Employee related	11,375	35,983	897	12,083	60,338
Other operating expenses	13,389	13,089	2,581	7,463	36,522
Depreciation and amortisation	318	38	4	230	590
Grants and Subsidies	173,563	17,566	189	60,266	251,584
Finance costs	0	0	0	45	45
Total expenses excluding losses	<u>198,645</u>	<u>66,676</u>	<u>3,671</u>	<u>80,087</u>	<u>349,079</u>
Retained Revenue					
Sale of goods and services	1,145	26,533	0	8,204	35,882
Investment income	3,397	212	10	1,498	5,117
Grants and contributions	1,246	208	3,299	3,965	8,718
Other revenue	15,966	4,725	0	1,451	22,142
Total Retained Revenue	21,754	31,678	3,309	15,118	71,859
Gain / (loss) on disposal	(33)	0	0	(34)	(67)
Share of operating result of Joint Ventures accounted for under the equity accounting method	0	(16,126)	0	(5,647)	(21,773)
Net Cost of Services	<u>176,924</u>	<u>51,124</u>	<u>362</u>	<u>70,650</u>	<u>299,060</u>

9 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

2007
\$'000

Cash at bank and on hand 54,767
54,767

For the purposes of the Cash Flow Statement, cash and cash equivalents include cash at bank, cash on hand, short term deposits and bank overdraft.

Cash and cash equivalent assets recognised in the balance sheet are reconciled at the end of the financial year to the Cash Flow Statement as follows:

Cash and cash equivalents (per Balance Sheet) 54,767
Closing cash and cash equivalents (per Cash Flow Statement) 54,767

**Department of Water and Energy
Notes to the financial statements
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10 CURRENT ASSETS - RECEIVABLES

	2007 \$'000
Sundry debtors	29,783
Goods and Services Tax recoverable from ATO	4,131
Accrued income	21,886
Interest receivable	2,094
Less: Allowance for Impairment	377
	57,517

11 CURRENT / NON-CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE

Current

Financial assets available for sale

Shares	90
	90

12 CURRENT / NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

Current

Other loans and deposits	50
Backlog sewerage loans	134
	184

Non-current

Other loans and deposits	3,886
Less: Diminution of value of loans and deposits	(1,893)
Backlog sewerage loans	1,501
	3,494

**Department of Water and Energy
Notes to the financial statements
for the period 27 April to 30 June 2007**

13 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings \$'000	Plant and Equipment \$'000	Infrastructure Systems \$'000	Total \$'000
At 30 June 2007				
At Fair Value	21,093	4,575	27,001	52,669
Less: Accumulated depreciation	(302)	(1,426)	(929)	(2,657)
Net carrying amount	<u>20,791</u>	<u>3,149</u>	<u>26,072</u>	<u>50,012</u>

Reconciliation

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

	Land and Buildings \$'000	Plant and Equipment \$'000	Infrastructure Systems \$'000	Total \$'000
Period ended 30 June 2007				
Net carrying amount transferred in at 27 April	20,398	2,856	27,596	50,850
Additions	231	359	-	590
Depreciation expense	(21)	(115)	(36)	(172)
Other	183	49	(1,488)	(1,256)
Net carrying amount at end of period	<u>20,791</u>	<u>3,149</u>	<u>26,072</u>	<u>50,012</u>

Net carrying amount includes \$75,438 in buildings and \$2,702,421 in infrastructure systems for assets in the course of construction.

14 NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Software \$'000
At 30 June 2007	
Cost (gross carrying amount)	5,188
Accumulated amortisation and impairment	<u>(652)</u>
Net carrying amount	<u>4,536</u>
Year ended 30 June 2007	
Net carrying amount transferred in at 27 April	3,996
Additions	633
Amortisation (recognised in depreciation and amortisation)	(58)
Other	<u>(35)</u>
Net carrying amount at end of year	<u>4,536</u>

**Department of Water and Energy
Notes to the financial statements
for the period 27 April to 30 June 2007**

15 RESTRICTED ASSETS

Restricted net assets relate to unspent funds associated with Australian Greenhouse Office Solar Rebate grants, the Sustainable Energy Research Development Fund.

	2007 \$'000
Current	
Australian Greenhouse Office	2,381
Sustainable Energy Research Development Fund	<u>386</u>
	<u>2,767</u>

16 INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Non-current Investments accounted for under the equity method

MDBC asset	614,917
DBBRC asset	<u>36,304</u>
	<u>651,221</u>

(a) Joint venture entity: Murray-Darling Basin Commission 614,917

The Murray-Darling Basin Commission is the executive arm of the Murray-Darling Basin Ministerial Council and is responsible for managing the River Murray and the Menindee Lakes system of the lower Darling River, and for advising the Ministerial Council on the use of the water, land and other environmental resources of the Murray-Darling Basin.

Ownership interest:	26.67%
Murray-Darling Basin Commission reporting date:	30 June
	\$'000
Net assets (audited) as at 30 June 2006	2,203,241
Estimated net assets as at 27 April 2007	2,288,587
Net assets (unaudited) as at 30 June 2007	2,305,657

Summarised financial information as at 30 June 2007

Balance Sheet

Assets

Current Assets	
Cash and cash equivalents	535,567
Receivables	8,956
Other assets	824
Non-current Assets	
Infrastructure assets	1,765,078
Property, plant and equipment	9,426
Intangibles	6,576
Investment in joint venture entity	1,040
Other	<u>1,733</u>
	<u>2,329,368</u>

Liabilities

Payables	20,107
Employee provisions	2,323
Non-Interest bearing liabilities	<u>1,281</u>
	<u>23,711</u>

Net Assets

	<u>2,305,657</u>
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Operating Statement for the year ended 30 June 2006

Revenues	131,289
Expenses	<u>110,713</u>
	20,576
Share of operating deficit from joint venture	<u>(3,246)</u>

**Department of Water and Energy
Notes to the financial statements
for the period 27 April to 30 June 2007**

Surplus for the year	17,330
Aggregate asset revaluation increment for the financial year	80,655
Share of Operating surplus (being the period from 27 April 2007 to 30 June 2007) of joint venture	968
Contribution for the period 27 April 2007 to 30 June 2007	(6,583)
Net Result	(5,615)
(b) Joint venture entity: Dumaresq-Barwon Border Rivers Commission	36,304

The Dumaresq-Barwon Borders Rivers Commission is established by the New South Wales-Queensland Border Rivers Agreement and is responsible for sharing the waters of the rivers and streams which either form or intersect the boundary between the two States and the associated groundwater resources. The Commission undertakes the investigation, construction and operation of works to conserve and regulate those waters where considered desirable.

Ownership interest:	50.00%
Dumaresq-Barwon Border Rivers Commission reporting date:	30 June
Dumaresq-Barwon Border Rivers Commission	\$'000
Net assets (audited) as at 30 June 2006	68,271
Estimated net assets as at 27 April 2007	71,885
Net assets (unaudited) as at 30 June 2007	72,608

Summarised financial information as at 30 June 2007

Balance Sheet

Assets

Current Assets	
Cash & cash equivalents	2,053
Receivables	2,316
Non current assets	
Property, plant & equipment	68,699
	73,068

Liabilities

Current liabilities	
Payables	459

Net Assets

72,608

Operating Statement for the year ended 30 June 2006

Revenue	2,315
Expenses	2,705
Loss for the year	390

Aggregate asset revaluation increment for the financial year	4,728
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Share of Operating loss (being the period from 27 April 2007 to 30 June 2007) of joint venture	(32)
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Contribution for the period 27 April 2007 to 30 June 2007	-
Net Result	(32)

**Department of Water and Energy
Notes to the financial statements
for the period 27 April to 30 June 2007**

17 PAYABLES

	2007 \$'000
Accrued salaries, wages and on-costs	51
Creditors	1,825
Accruals	20,899
Other	<u>869</u>
	<u>23,644</u>

18 CURRENT / NON-CURRENT LIABILITIES - BORROWINGS

Current	
Backlog Sewerage Loan	<u>129</u>
	<u>129</u>

Non-current	
Backlog Sewerage Loan	<u>1,555</u>
	<u>1,555</u>

Repayment of Borrowings (excluding finance leases)	
Not later than one year	129
Between one and five years	865
Later than five years	<u>690</u>
Total borrowings at face value (excluding finance leases)	<u>1,684</u>

19 CURRENT / NON-CURRENT LIABILITIES - PROVISIONS

Current	
Employee benefits and related on-costs	
Recreation leave	7,761
Oncosts	<u>636</u>
	<u>8,397</u>
	<u>8,397</u>

Non-current	
Employee benefits and related on-costs	
Oncosts	256

Non-current	
Other	
Restoration costs	<u>267</u>
	<u>267</u>
	<u>523</u>

Department of Water and Energy
Notes to the financial statements
for the period 27 April to 30 June 2007

20 CURRENT / NON-CURRENT LIABILITIES – OTHER

	2007 \$'000
Current	
Liability owing to Consolidated Fund	4,001
Liability to Country Towns Water Supply and Sewerage Scheme	<u>9,749</u>
	<u>13,750</u>

(The Department may not have complied fully with S23 of the Public Finance and Audit Act in respect of this item)

21 CHANGES IN EQUITY

	Accumulated Funds 2007 \$'000	Asset Revaluation Reserve 2007 \$'000	Other Reserves 2007 \$'000	Total Equity 2007 \$'000
Balance at the beginning of the year	-	-	-	-
Changes in equity - transactions with owners as owners				
Increase / (decrease) in net assets from equity transfers	<u>588,545</u>	<u>175,459</u>	-	<u>764,004</u>
Total	588,545	175,459	-	764,004
Changes in equity - other than transactions with owners as owners				
Surplus / (deficit) for the year	5,775	-	-	5,775
Increment / (decrement) on revaluation of NCAs				
Financial assets held for sale	-	-	65	65
Investments accounted for under the equity method	-	<u>3,979</u>	-	<u>3,979</u>
Total	<u>5,775</u>	<u>3,979</u>	<u>65</u>	<u>9,819</u>
Balance at the end of the financial period	<u>594,320</u>	<u>179,438</u>	<u>65</u>	<u>773,823</u>

22 INCREASE / DECREASE IN NET ASSETS FROM EQUITY TRANSFERS

Assets transferred in from the Department of Energy, Utilities and Sustainability		
Cash		33,036
Financial Assets		3,932
Receivables		15,960
Plant and equipment		981
Assets transferred in from the Department of Natural Resources		
Cash		5,415
Receivables		49,525
Plant and equipment		50,023
Intangibles		3,843
Investments accounted for under the equity method		646,308
Assets transferred in from The Cabinet Office		
Cash		574
Receivables		<u>322</u>
Net Assets Transferred		<u>809,919</u>

**Department of Water and Energy
Notes to the financial statements
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Liabilities transferred in from the Department of Energy, Utilities and Sustainability	
Payables	(30,204)
Employee entitlements	(2,235)
Other provisions	(1,652)
Liabilities transferred in from the Department of Natural Resources	
Payables	(5,778)
Employee Entitlements	(5,941)
Liabilities transferred in from The Cabinet Office	
Employee Entitlements	(105)
Net Liabilities Transferred	<u>(45,915)</u>
Total Increase / (Decrease) in Net Assets	<u>764,004</u>

The transfer of Payments for Water and Sewerage Assistance (PWSA) did not result in any change in net assets to the Department.

23 COMMITMENTS FOR EXPENDITURE

**2007
\$'000**

(a) Other Expenditure Commitments

Aggregate other expenditure contracted for at balance date and not provided for:

Not later than one year	45,407
Later than one year and not later than five years	<u>5,500</u>
Total (including GST)	<u>50,907</u>

(b) Operating Lease Commitments

Future non-cancellable operating lease rentals not provided for and payable

Not later than one year	5,140
Later than one year and not later than five years	<u>13,236</u>
Total (including GST)	<u>18,376</u>

Commitments above include input tax credits of \$6,298,446 that are expected to be recovered from the Australian Taxation Office (ATO).

24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Department does not have any contingent liabilities or contingent assets.

Department of Water and Energy
Notes to the financial statements
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25 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES

	2007 \$'000
Net cash used on operating activities	20,702
Cash flows from Government / Appropriations	(76,489)
Acceptance by the Crown Entity of employee benefits and other liabilities	(1,741)
Depreciation	(230)
Decrease / (increase) in provisions and other liabilities	(24,354)
Increase / (decrease) in prepayments and other assets	3,768
Increase / (decrease) in receivables	57,517
Net transfers	-
Decrease / (increase) in payables	(23,644)
Other - adjustment for equity opening balance	(26,145)
Net loss / (gain) on sale of plant and equipment	(34)
Net cost of services	<u>(70,650)</u>

26 ADMINISTERED ASSETS AND LIABILITIES

Administered activities are defined as those activities that are carried out on behalf of the Crown Entity. These monies are excluded from the Financial Statement as the Department cannot use them to achieve its objectives.

Administered Revenue

Pipeline Licences	<u>546</u>
Total Administered Revenue	<u>546</u>

27 FINANCIAL INSTRUMENTS**Cash**

Cash comprises cash on hand and bank balances within the Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate adjusted for a management fee to Treasury. The TCorp Hour Glass cash facility is discussed below

Cash and interest rate risk

Financial instruments	Interest bearing	Non-interest bearing	Total carrying amount	Weighted Average Effective interest Rate
	2007 \$'000	2007 \$'000	2007 \$'000	2007 %
Financial Assets				
Cash	54,766	-	54,766	5.25
Receivables	-	39,369	39,369	
Shares	-	90	90	
Loans	<u>3,678</u>	<u>-</u>	<u>3,678</u>	6.92
Total financial assets	58,444	39,459	97,903	
Financial Liabilities				
Borrowings -				
Backlog Sewerage	1,684	-	1,684	10.05
Accounts Payable	-	23,555	23,555	N.a
Other	<u>-</u>	<u>14,050</u>	<u>14,050</u>	N/a
Total financial liabilities	1,684	37,605	39,289	

**Department of Water and Energy
Notes to the financial statements
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Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment). No interest is earned on trade debtors. The carrying amount approximates net fair value. Sales are made on 30 day terms.

Bank Overdraft

The Department does not have any bank overdraft facility.

Trade Creditors and Accruals

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment. There was no penalty interest paid during the year.

Fair Value

Financial instruments are carried at (amortised) cost.

However, the fair value of the other classes of financial instruments approximates their carrying value.

28 AFTER BALANCE DATE EVENTS

There are no events subsequent to balance date which affect the financial report.

End of audited financial statements.