



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

OFFICE OF THE PROTECTIVE COMMISSIONER - COMMON FUND

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Office of the Protective Commissioner - Common Fund:

- (a) presents fairly the Common Fund's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Protective Commissioner's Role

The financial report is the responsibility of the Protective Commissioner. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

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

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

- evaluated the accounting policies and significant accounting estimates used by the Protective Commissioner in preparing the financial report, and

- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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



A-Oyetunji CPA
Director, Financial Audit Services

SYDNEY
11 February 2005

OFFICE OF THE PROTECTIVE COMMISSIONER

FINANCIAL STATEMENTS FOR
YEAR ENDED 30 JUNE 2004



**STATEMENT IN ACCORDANCE WITH SECTION 41C PUBLIC
FINANCE AND AUDIT ACT, 1983**

Pursuant to Section 41C (IB) of the *Public Finance and Audit Act*, 1983 I declare that in my opinion:

The financial statements for the Trust Funds-Common Fund and note thereon exhibit a true and fair view of the financial position and transactions for the year ended 30 June 2004;

The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act*, 1983 and the Public Finance and Audit Regulation 2000 and the Treasurer's Directions;
and

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



Ken Gabb

PROTECTIVE COMMISSIONER & PUBLIC GUARDIAN

TRUST FUNDS -COMMON FUND

STATEMENT OF FINANCIAL PERFORMANCE for the financial year ended 30 June 2004

	<i>Notes</i>	2004 \$'000	2003 \$'000
REVENUE FROM ORDINARY ACTIVITIES			
Investment Income	3	60,960	70,317
Unrealised change in the net value of investments	4	45,989	
Other Income		-	67
Total Revenue from Ordinary Activities		106,949	70,384
EXPENSES FROM ORDINARY ACTIVITIES			
Management Fees	5	15,701	2,180
Unrealised change in the net value of investments	4		25,937
Prudent Person Implementation Costs			11
Realised Loss on Sale of Investments	1 (d)(iii)	3,010	
Section 55 Contribution to Administration Fund	2(e)	3,386	10,583
Other Expenses from Ordinary Activities	6	587	700
Total Expenses from Ordinary Activities		22,684	39,411
Net Profit from Ordinary Activities		84,265	30,973
<i>DISTRIBUTION OF NET PROFIT FROM ORDINARY ACTIVITIES</i>			
Net Profit from Ordinary Activities		84,265	30,973
Net Transfer (to)/from Equity	7	(45,633)	25,336
Net Amount available for Distribution		38,632	56,309
Distribution Paid, Payable and Reinvested	8	56,435	57,058
Transferred to Undistributed Income		(17,803)	(749)

TRUST FUNDS -COMMON FUND

STATEMENT OF FINANCIAL POSITION as at 30 June 2004

	<i>Notes</i>	2004 \$'000	2003 \$'000
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ASSETS			
Cash	9	48,040	68,287
Receivables	10	14,589	8,528
Investments	JJ	1,149,432	1,053,669
Total Assets		1,212,061	1,130,484
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LIABILITIES			
Payables	12	5,605	330
Total Liabilities		5,605	330
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NET ASSETS		1,206,456	1,130,154
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EQUITY			
Estates under Management	13(a)	1,191,427	1,124,713
Reserves	13(b)	15,029	5,441
TOTAL EQUITY		1,206,456	1,130,154

TRUST FUNDS -COMMON FUND

STATEMENT OF CASH FLOWS for the financial year ended 30 June 2004

		2004 \$'000 Inflows / (Outflows)	2003 \$'000 Inflows / (Outflows)
	<i>Notes</i>		
Cash Flows from Operating Activities			
Interest received		44,391	48,383
Fees and Commissions Paid		(14,896)	(2,074)
Payments to Administration Fund under Section 55 of the <i>Protected Estates Act 1983</i>		(3,386)	(10,583)
Other Expenses Paid		(203)	(672)
Other Income Received			5,754
Net Cash Provided by Operating Activities	14	25,906	40,808
Cash Flows from Investing Activities		(3,748,373)	(4,199,925)
Payments for purchase of Securities			
Proceeds from sale of Securities		3,697,379	4,180,721
Net Cash Provided by Investing Activities		(50,994)	(19,204)
Cash Flows from Financing Activities		497,264	679,679
Receipts from Estates Under Management			
Disbursements to Estates under Management		(492,423)	(676,193)
Net Cash used in Financing Activities		4,841	3,486
Net Increase/(Decrease) in Cash Held		(20,247)	25,090
Cash at Beginning of the Financial Year	9	68,287	43,197
Cash at End of the Financial Year	9	48,040	68,287

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

1. Summary of Significant Accounting Policies

(a) The Reporting Entity

The reporting entity comprises the Common Fund, which consists of the following investment funds:

- Access Fund
- Australian Cash Fund
- Australian Cash Plus Fund
- Australian Fixed Interest Fund
- Australian Shares Fund
- Australian Listed Property Securities Fund
- International Shares Fund
- International Bonds Fund

With the exception of the Access Fund, all Funds are Managed Investment Funds. Whilst the Access Fund has similar properties to a Managed Fund, it is also used as a working account to manage the day to day affairs of the Office of the Protective Commissioner's Clients.

(b) Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, the requirements of the *Public Finance & Audit Act* 1983, Regulations, Urgent Issues Group Consensus Views, and other authoritative standards of the Australian Accounting Standard Board.

The financial report has been prepared on the basis of historical cost accounting and except where stated does not take into account changing money values. Fund investments are stated at market value. Cost is based on the fair value of the consideration given in exchange for assets.

(c) Investments

Investments are valued at the net market value as at the reporting date. All market valuations are adjusted for an allowance for selling cost, where applicable, to determine the net market value.

The market value at reporting date is as quoted by BNP Paribas Securities Services, the Office of the Protective Commissioner's Master Custodian.

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

(d) Investment Income

(i) Income Recognition

Investment income is recognised either in the period in which control of a right to receive consideration for the provision of or investment in assets has been attained.

(ii) Unrealised change in the net value of investments

The Unrealised Capital Gains/ (Losses) Reserve represents unrealised gains and losses due to the change in net market value of investments. These gains and losses have been recognised in the Statement of Financial Performance in either the current or previous period, and have not been distributed to unit holders. Once the gains and losses have been realised these items are transferred out of the reserve and distributed to unit holders.

(iii) Realised Gains and Losses on Sale

Realised gains and losses on sale are recognised as revenue respectively in the Statement of Financial Performance.

Prior to 30 April 2004, when the Investment activities of the Access, Australian Cash, Australian Cash Plus and Australian Fixed Interest Fund were not outsourced (refer note 2(c)), realised capital losses were not distributed but were retained to be an offset against any realised capital gains. If realised capital gains exceeded realised capital losses the excess was distributed.

Under the " Average Costing" accounting policy of BNP Paribas Securities Services, which applied from 1 May 2004 capital losses are offset against coupon/ interest streams on a total price basis.

(e) Distributions

In accordance with the provisions of the *Protected Estates Act* 1983, with the exception of ii) below, the Funds fully distribute their distributable income to clients by way of cash or reinvestment into the Funds. The distributions are payable as follows:

December & June

- Access Fund
- Australian Listed Properties -
Australian Shares
- International Shares

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

June, September, December & March -

Australian Cash Fund

- Australian Cash Plus Fund
- Australian Fixed Interest Fund
- International Bonds

(f) ApplicationsjRedemptions

Applications received for units in the Funds are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Funds are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemptions prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(g) Transfer to/from Funds

Non-distributable income is transferred directly to reserves. Reserves are comprised of the Unrealised Capital Gains/ (Losses) Reserve, the Unallocated Investment Income Reserve and Section 54 (1)(b) Reserve Fund.

(h) Payables

Trade payables and other accounts payable are recognised when the Funds become obliged to make future payments resulting from the purchase of securities and services.

(i) Readiness to Adopt IFRS

(1) Action by Master Custodian

BNP Paribas Securities Services, the Office of the Protective Commissioner's Master Custodian has commenced transitioning their accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources and engaged expert consultants to determine the key areas that will be impacted by the transition to IFRS.

As a result of these procedures, BNP Paribas Securities Services will address each of the areas identified. Priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the BNP Paribas Securities Services prepare their first fully IFRS compliant financial report for the year ending 30 June 2006.

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

Set out below are the key areas where accounting policies will change and may have an impact on the financial report. At this stage, BNP Paribas Securities Services have not been able to reliably quantify the impacts on the financial report.

- Financial assets will be classified as "trading securities" and will continue to be recognised in the Statement of Financial Position at fair value, with changes in fair value during the period recognised in the Statement of Financial Performance.
- Fair value of financial assets will be measured at "bid" price and will exclude disposal costs.
- Due to unit holders' right to an immediate redemption of their investment, Unit holders' Funds will no longer be classified as an equity instrument, and will be classed as debt. This will result in a reclassification of Unit holders' Funds into liabilities.
- There may be a need to change the method of accounting for derivative financial instruments and hedging activities.

(2) Action by the Office of the Protective Commissioner

The Office of the Protective Commissioner is managing the transition to the new standards by allocating internal resources to analyse the Pending Standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result, the Office of the Protective Commissioner has taken the following steps to manage the transition to the new standards:

- A Working Party was established by the Attorney General's Department in April 2004 to oversight the transition. The working party on which the Office of the Protective Commissioner is represented comprises all senior finance officers and is chaired by the Director, Financial Services; Attorney General's Department.
- The Working Party has held preliminary meetings to review the Pending Standards and Treasury Analysis papers to identify any potential impacts; and
- An Implementation Strategy has been prepared to address any initial reporting requirements and compliance issues from NSW Treasury.

Several meetings are planned during 2004 to further review and assess the following phases of the Implementation Strategy:

- any Australian equivalent of International Reporting Standards (AIFRS) impact on the 2005 opening balance sheet; • any further submissions from NSW Treasury; • any issues arising from the 2004 year end process;

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

- any changes impacting upon monthly reporting and staff training; and
- the draft 2005 opening balance sheets before submission to NSW Treasury by 15 December 2004. Further meetings in early 2005 will review and confirm the final 2005 opening balance sheets under AIFRS for submission to NSW Treasury by 31 March 2005.

Instructions for the 2005 year end will be issued in March/April 2005 and will include AIFRS impact issues. Pro-forma financial statements will be prepared as at 30 April 2005, showing the 2004 comparatives restated under AIFRS, for audit review.

NSW Treasury is assisting the transition by developing policies, including mandates of options; presenting seminars; providing a website with up-to-date information on any new developments; and establishing an International Accounting Standards (IAS) Agency Reference panel to facilitate a collaborative approach to manage the change.

2. Individually Significant Items

(a) Change in Accounting Policies

In prior years the financial statements of the Trust Fund-Common Fund were prepared as Special Purpose financial reports. In 2003-04 they have been prepared as general purpose financial reports to comply as far as is practicable to the format of Managed Investment schemes.

Due to the change in accounting policy in some instances comparative figures for previous years are not available.

(b) Implementation of New Fee Structure

The Office of the Protective Commissioner introduced a new fee structure on 1 October 2003. The new fee structure is designed to replace The Protective Commissioner's dependency, for a large part of its funding, on contributions from the Common Fund under the provisions of Section 55 of the *Protective Estate's Act 1983*.

The new fee structure replaced a range of fees with Management Fee and Investment Fees, whilst retaining the Protective Commissioner's power to recover additional costs incurred by the Office of the Protective Commissioner, where applicable.

(c) Full Outsourcing of the Investments of the Common Fund

In May 2004 the Office of the Protective Commissioner fully outsourced all Investment Funds. At the same time the Office of the Protective Commissioner changed from FIFO to Average Costing for investments.

The full outsourcing of the Common Fund was made at the wishes of the NSW Government so that risk could be managed externally. The Master Custody Agreement with BNP Paribas Securities Services and the Investment Management Agreement with State Street Global Advisors were signed on 8 March 2004.

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

The Master Custodian function was sourced to BNP Paribas Securities Services as at 30 April 2004, with the Fund Manager State Street Global Advisors taking operational control of the discrete investment funds on 10 May 2004.

(d) Management Fees

(i) Fund Managers' Fee

The Memorandum of Understanding with NSW Treasury Corporation, and State Street Global Advisors (as Fund Manager) was concluded on the 30 April 2004. On the 1st May 2004, an Investment Management Agreement with State Street Global advisors commenced. Under this agreement State Street Global Advisors took over the Management of the Discrete Investment Funds. (i.e. Access, Australian Cash, Australian Cash Plus and Australian Fixed Interest Funds). State Street Global Advisors invoices the Office of the Protective Commissioner directly for the Management of these Funds.

(ii) NSW Treasury Corporation Fee

Under the Memorandum of Understanding with NSW Treasury Corporation which was concluded on the 30 April 2004. The management fee is calculated on the net asset value of the Funds, assessed and payable on a monthly basis by State Street Global Advisors.

(iii) Master Custodian's Fee

From 1 May 2004, BNP Paribas Securities Services was appointed as the Master Custodian for all of the Investment Funds comprising the Common Fund. BNP Paribas Securities Services invoices the Office of the Protective Commissioner directly for the Management of these Funds.

(iv) Management Fee (Clients)

The Office of the Protective Commissioner charges a percentage value of the total value of chargeable assets in a client's estate for the financial management of that estate. Fees are calculated daily and charged monthly. The fee for the 2003-04 varied between 1.1 and 2.1 % dependent upon when the Client came under the Office of the Protective Commissioner's Management.

These fees are transferred to the Administration Fund to meet the cost of exercising the functions of the Office of the Protective Commissioner, including the operation of the Common Fund.

(v) Rebated Management Fee

State Street Global Advisors fees are charged at retail rates. OPC receives a rebated fee which effectively reduces the retail fee to a wholesale rate charge.

(e) Transfers under Section 55 of the Protected Estates Act 1983

Section 55 (1)(c) of the *Protected Estates Act* 1983 enables transfers of money from investment funds to be made towards meeting the cost of exercising the functions of the Office of the Protective Commissioner.

Section 55 (2) of the Protected Estates Act 1983 limits the transfers

in anyone financial year to the budget approved by the Director-General of the Attorney General Department of NSW. In 2003-04 transfers totalled \$3.386M (\$10.583M in 2002-03).

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

3. Investment Income

	2004	2003
	\$'000	\$'000
Dividends	11,262	7,967
Interest Income	49,698	62,350
Total	60,960	70,317

4. Unrealised Change in the net value of investments

	2004	2003
	\$'000	\$'000
Access Fund	1,854	(19)
Australian Cash Fund	1,160	(7)
Australian Cash Plus Fund	1,685	(322)
Australian Fixed Interest Fund	(954)	1,583
Australian Listed Property Securities Fund	2,120	99
Australian Share Fund	27,104	(15,250)
International Bond Fund	(575)	941
International Share Fund	13,595	(12,962)
Total	45,989	(25,937)

5. Management Fees

	2004	2003
	\$'000	\$'000
Investment Fund Fee	4,113	
Scheme Administration Management Fee	11,240	2,066
Custodian's Fee	209	
Treasury Corp Fee	139	114
Total	15,701	2,180

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND
FINANCIAL STATEMENTS for the year ended 30 June 2004

6. Other Expenses

	2004	2003
	\$'00	\$'00
Minor Expenses	0	0
Bank Charges	2	115
Current Year's Expenditure Reserve Bad	156	187
Debts Expense	361	392
Fees Deferred	46	
Austraclear	14	6
Total	587	700

7. Net Transfer (to)/from Equity

	2004	2003
	\$'000	\$'000
Transfer from S54(1)(b) Reserve Fund	10,312	378
Transfers to Unrealised Gains/(Losses)	(45,989)	25,937
Transfers to S55(1)(b) Reserve Fund	(9,956)	(979)
Total	(45,633)	25,336

8. Distributions Paid

	2004 Units issued		2003 Units issued		2003	2003	Re-investment or	Distributions
	2004	2004	2003	2003				
	\$'000	clunit	Reinvestment of	\$'000	Clunit	Re-investment or	Distributions	
			Distributions			Distributions		
Access Fund	19,370	1.0000		27,252	1.0000			
Australian Cash Fund	11,739	1.0000	3,268,344	3,872	1.0000		1,700,660	
Australian Cash Plus Fund	6,633	0.0622	6,726,058	3,734	0.0600		3,711,716	
Australian Fixed Interest Fund	5,043	0.0688	4,968,746	3,441	0.0577		3,297,046	
Australian Share Fund	7,090	0.0336	7,743,315	14,040	0.0845		17,199,200	
Australian Listed Property Securities Fund	4,118	0.1018	4,147,854	3,168	0.1003		3,330,366	
International Bond Fund	1,039	0.0623	1,062,628	748	0.0434		755,725	
International share Fund	1,403	0.0117	1,760,918	803	0.0085		1,114,851	
Distributions Paid	56,435			57,058				
Total Units			29,677,863				31,109,564	

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

9. Notes to the Statement of Cash Flows

For the purposes of the statement of cash flows, cash includes cash in banks, cash on hand, money market instruments at call and short term deposits. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2004	2003
	\$'000	\$'000
Cash	11,540	7,387
Deposits at Call	36,500	60,900
Total Cash and Cash Equivalents	48,040	68,287

10. Receivables

	2004	2003
	\$'000	\$'000
Interest Receivable	167	238
Accrued Income	13,706	7,849
Section 59 Advances	762	441
Less Provision for Doubtful Debts	(46)	
Total	14,589	8,528

Section 59 of the Protected Estates Act 1983 gives The Protective Commissioner power to make advances from the Common Fund for the purposes of any estate being managed by the Office of the Protective Commissioner. Any amount so advanced bears interest at a rate fixed by the Protective Commissioner. The interest is applied against the assets of the estate for whose purpose the advance is made. Interest is raised quarterly.

An estimate is made for doubtful debts when collection of the full amount is no longer possible.

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND
FINANCIAL STATEMENTS for the year ended 30 June 2004

11. Investments

	2004 \$'000	2003 \$'000
Fixed Interest Securities	793,417	135,461
Bank and Building Society Deposits	2,869	650,373
Units held in Trust	353,146	267,835
Total	1,149,432	1,053,669

12. Payables

	2004 \$'000	2003 \$'000
Accrued Expenses	5,113	21
Other Client Liabilities	492	309
Total	5,605	330

13. Equity

(a) Estates under Management

	2004 \$'000	2003 \$'000
Opening Balance	1,124,713	1,124,347
Payments	(558,126)	(399,737)
Receipts	438,052	108,481
Distributions	37,065	29,815
Applications	255,468	334,848
Redemptions	(174,027)	(44,174)
Unrealised Capital Gains/Losses reserve	(681)	(46,670)
Income reserve fund	-	17,803
Current Year Earnings	68,963	
Closing Balance	1,191,427	1,124,713

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND
FINANCIAL STATEMENTS for the year ended 30 June 2004

Supporting Schedules to Estates Under Management

(i) Income reserve Account

	2004 \$'000	2003 \$'000
Opening Balance	17,803	18,552
Surplus/(Deficit) from Ordinary Activities	84,265	30,97
Transfer from S54(1)(b) Reserve Fund	10,312	3
Transfers to Unrealised Gains/(Losses)	(45,989)	378
Transfers to S55(1)(b) Reserve Fund	(9,956)	25,937
Distributions Paid	(56,435)	(979)
Undistributed Income at 30 June 2004		(57,058 17,803)

(ii) Unrealised Capital Gains/Losses Reserve Fund

	2004 \$'000	2003 \$'000
Access Fund	1,835	(19)
Australian Cash Fund	1,154	(7)
Australian Fixed Interest Fund	974	1,928
Australian Cash Plus Fund	1,290	(395)
Australian Share Fund	1,263	(25,840)
Australian Listed Property Securities Fund	713	(1,407)
International Share Fund	(7,476)	(21,070)
International Bond Fund	(435)	140
	(681)	(46,670)

(b) Reserves

Section 54 (1)(b) of the Protected Estates Act provides for the establishment of a Reserve Fund.

Monies in the Reserve Fund may be, at the discretion of the Protective Commissioner be applied for the following purposes:

- Costs incurred in protecting investments of the Common Fund and payment of any losses upon realization of any investment.
- Payment of any legal or other costs which cannot be reasonably charged to a particular estate under management.

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND
FINANCIAL STATEMENTS for the year ended 30 June 2004

	2004	2003
	\$'000	\$'000
Balance at the beginning of the year	5,435	4,834
Transfers from Common Fund		565
Transfers from Section 54 (1)(a) Investment Fund	13,493	414
Transfers to: Statement of Financial Performance *	(3,899)	(378)
Balance at End of Year	15,029	5,435

.. This consists of payments of \$250,910 for operating costs associated with the outsourcing of the Common Fund as well as \$3,532,142 for transfers to Australian Cash Plus and Fixed Interest Investment Funds.

In 2004 OPC sought an opinion from an actuarial consultant "Professional Financial Solutions" on the capital adequacy of the Reserve Fund.

This was considered prudent having regard to the extent of the Client Assets external to the Common Fund. Upon their recommendations a transfer of \$9.926 million was made in June 2004.

14. Reconciliation of Net Cash provided by Operating Activities to Net Profit
from Ordinary Activities

	2004	2003
	\$'000	\$'000
Net Profit from Ordinary Activities	84,265	30,973
State Street Distributions Reinvested	(11,584)	(18,670)
(Increase)/Decrease in Receivables Increase/(Decrease)	(6,061)	881
in Payables	5,275	7
Amortisation of Investments		1,680
Unrealised Changes in Net Market Value of Investments	(45,989)	25,937
Net Cash provided by Operating Activities	25,906	40,808

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

15. Financial Instruments

(a) Interest Rate Risk

The following table details the Common *Fund's* exposure to interest rate risk as at 30 June 2004

	Fixed Interest Rate Maturing in				Non- Interest Bearing	Total Carrying Amount as per Statement of Financial Position	Weighted Average Effective Interest Rate.
	Floating Interest Rate	1 Yr or Less	1 to 5 Years	Over 5 Years			
30 June 2004	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
Financial Assets							
Short TellTI Deposits	48,029	-	-	-	-	48,029	5.24
Semi & Local Government Loans	-	-	29,285	79,186	-	108,471	5.68
Bank & Building Society Deposits	10,033	626,209	29,598	21,976	-	687,815	5.55
Advances to Clients	716	-	-	-	-	716	8.25
Units held in Trust	353,146	-	-	-	-	353,146	n/a
Cash at Bank	II	-	-	-	-	11	n/a
Accrued Income	-	-	-	-	13,706	13,706	n/a
Interest Receivable	-	-	-	-	167	167	n/a
Total Financial Assets	411,935	626,209	58,883	101,161	13,873	1,212,061	
Financial Liabilities							
Accounts payable	-	-	-	-	(5,605)	(\$,i05Y	n/a
Estates under Management	-	-	-	-	(1,191,427)	(I,191;427)	n/a
Total Financial Liabilities	-	-	-	-	(1,197,032)	(1,197,032)	
Net Financial Assets/ (Financial Liabilities)	411,935	626,209	58,883	101,161	(1,183,159)	15,021	

The following table details the Common *Fund's* exposure to interest rate risk as at 30 June 2003.

	Fixed Interest Rate Maturing in				Non- Interest Bearing	Total Carrying Amount as per Statement of Financial Position	Weighted Average Effective Interest Rate.
	Floating Interest Rate	1 Yr or Less	1 to 5 Years	Over 5 Years			
30 June 2003	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
Financial Assets							
Short TellTI Deposits	60,900	-	-	-	-	60,900	4.75
Semi & Local Government Loans	-	5,529	98,851	31,081	-	135,461	4.56
Bank & Building Society Deposits	-	637,039	13,334	-	-	650,373	4.77
Advances to Clients	441	-	-	-	-	441	7.75
Units held in Trust	267,835	-	-	-	-	267,835	n/a
Cash at Bank	7,387	-	-	-	-	7,387	n/a
Accrued Income	-	-	-	-	7,849	7,849	4.22
Interest Receivable	-	-	-	-	238	238	n/a
Total Financial Assets	336,563	642,568	112,185	31,081	8,087	1,130,484	
Financial Liabilities							
Accounts payable	-	-	-	-	(21)	(71)J	n/a
Estates under Management	-	-	-	-	(1,153,895)	(I, 153,825);	n/a
Total Financial Liabilities	-	-	-	-	(1,153,916)	0,153,916),	
Net Financial Asset							

TRUST FUNDS -COMMON FUND

NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND FINANCIAL STATEMENTS for the year ended 30 June 2004

(b) Credit Risk

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

Credit risk by classification of counterparty for the past year for the Common Fund as a whole is as follows:

	Governments \$'000	Banks \$'000	Other \$'000	TOTAL \$'000
30 June 2004				
Financial Assets				
Short Term Deposits	-	48,029	-	48,029
Semi & Local Government Loans	53,292	-	55,179	108,471
Bank & Building Society Deposits	-	580,968	106,847	687,81
Advances to Clients	-	-	716	716
Units held in Trust	-	-	353,146	353,146
Cash at Bank	-	-	11	11
Accrued Income	-	13,706	-	13,706
Interest Receivable	-	167	-	167
Total Financial Assets	53,292	642,870	515,899),212,Q<il.,
30 June 2003				
Financial Assets				
Short Term Deposits	-	60,900	-	60,900
Semi & Local Government Loans	135,461	-	-	13,5;461
Bank & Building Society Deposits	-	650,373	-	650,373
Advances to Clients	-	-	441	441
Units held in Trust	-	-	267,835	267,835 '
Cash at Bank	-	7,387	-	7,387
Accrued Income	2,575	5,255	19	7,849
Interest Receivable	-	-	238	238
Total Financial Assets	138,036	723,915	268,533	1,130,4M.

(c) Market Risk

Market risk is the risk that the value of the Common Fund investment funds will fluctuate as a result of changes in market prices. This risk is managed by ensuring that all activities are transacted in accordance with Mandates, overall investment strategies and within approved limits.

(d) Net Fair Value of Financial Assets and Liabilities

All financial instruments are carried at market value as per note 1 to the financial statements.

TRUST FUNDS -COMMON FUND

**NOTES TO AND FORMING PART OF THE TRUST FUNDS - COMMON FUND
FINANCIAL STATEMENTS for the year ended 30 June 2004**

16. Contingent Assets and Liabilities

The Office of the Protective Commissioner has a potential contingent liability of \$0.203M (\$0.500M 2003) in respect of a number of current and former clients who alleged negligence in respect of the management of their affairs, these claims are covered by the Treasury Managed Fund.

End of Audited Statements