

Commonwealth of Australia

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

CIRCULATED BY

SENATOR THE HONOURABLE MATHIAS CORMANN
MINISTER FOR FINANCE
OF THE COMMONWEALTH OF AUSTRALIA
DECEMBER 2016

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PREFACE

I am pleased to present the Consolidated Financial Statements (CFS) for the Australian Government for the financial year ended 30 June 2016. The CFS presents the whole of government and general government sector (GGS) financial reports. It consolidates the audited accounts of 179 entities across the public sector.

The CFS has been prepared in accordance with the regulations of the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act) and applicable Australian Accounting Standards (AAS), including the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). The CFS shows the results of the Australian Government's financial performance and cash flows for the year ended 30 June 2016 and the Australian Government's financial position as at 30 June 2016.

The Preface and the Commentary should be read in light of the information and explanations provided in the CFS.

Fiscal balance

The Australian Government's fiscal balance for the year ended 30 June 2016 was a deficit of \$47.3 billion. For the year ended 30 June 2015, the Australian Government reported a fiscal balance deficit of \$46.8 billion.

The Australian Government's taxation revenue increased by \$13.5 billion (3.8 per cent) in 2015-16, reflecting an increase in taxes from individuals, customs duty and sales, partially offset by a decrease in company tax and excise duty. Non-taxation revenue increased by \$1.5 billion (4.8 per cent).

The Australian Government's expenses increased by \$13.4 billion (3.1 per cent) in 2015-16. This was mainly driven by a \$10.2 billion increase in gross operating expenses and a \$2.7 billion increase in current and capital transfers.

In addition, the Australian Government's total net acquisition of non-financial assets increased by \$2.2 billion.

Balance sheet

The Australian Government's net worth was negative \$414.0 billion at 30 June 2016. As at 30 June 2015, the Australian Government's net worth was negative \$299.8 billion.

The Australian Government's financial assets increased by \$40.9 billion (10.6 per cent) for the year ended 30 June 2016. Total non-financial assets increased by \$11.3 billion (7.3 per cent).

The Australian Government's liabilities increased by \$166.5 billion (19.8 per cent) to \$1,008.2 billion. Interest bearing liabilities increased by \$91.9 billion (20.2 per cent), most notably a \$76.7 billion increase in the market value of Australian Government Securities.

Cash flow

The Australian Government recorded a cash deficit of \$43.6 billion for the year ended 30 June 2016 from operating activities and investing activities in non-financial assets. The closing cash position was \$5.7 billion.

Contingent liabilities, contingent assets and risks

Contingent liabilities and contingent assets for the Australian Government are not disclosed in the balance sheet but are set out in detail in Note 11A of the CFS. Analysis of interest rate, foreign currency, credit and other risks that could potentially impact on the Australian Government's financial position is included in Note 11B of the CFS.

Final Budget Outcome

Under the *Charter of Budget Honesty Act 1998* (the Charter), the Australian Government is also required to publicly release and table a Final Budget Outcome (FBO) report no later than three months after the end of the financial year. The FBO for the 2015-16 financial year was released by the Treasurer and I on 30 September 2016. Under the Charter, the FBO must be based on external reporting standards; including AAS and the concepts and classifications set out in Government Finance Statistics (GFS), with any departures from those standards to be documented.

I would like to thank the many Australian Government employees whose efforts have contributed to the completion of the CFS.

A handwritten signature in black ink, appearing to be 'M Cormann', written in a cursive style.

Senator the Hon Mathias Cormann
Minister for Finance

**COMMENTARY ON THE
CONSOLIDATED FINANCIAL STATEMENTS**

INTRODUCTION

The 2015-16 Consolidated Financial Statements (CFS) for the Australian Government present the whole of government and general government sector (GGS) financial reports and are prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049). They are required by section 48 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The CFS include the consolidated results for all Australian Government controlled entities as well as disaggregated information on the sectors of government (GGS, public non-financial corporations (PNFC) and public financial corporations (PFC)).¹ Unless explicitly stated, the financial results reported in this commentary comprise consolidated amounts for the Australian Government as a whole, inclusive of the GGS, and PNFC and PFC sectors.²

The GGS results in the CFS materially align with the 2015-16 Final Budget Outcome, with the exception of the different measurement basis used for specialist military equipment, and advances paid to the International Development Association and Asian Development Fund.³

AT A GLANCE

Table 1: Financial results for the year ended 30 June 2016⁴

	2015-16 \$b	2014-15 \$b	Change \$b	Change %
Revenue	402.5	387.5	15.1	3.9
Expenses	442.0	428.7	13.4	3.1
Net capital investment	7.8	5.6	2.2	39.2
Fiscal balance^(a)	(47.3)	(46.8)	(0.5)	1.1
Per cent of GDP	2.9	2.9		0.0
Total assets	594.2	541.9	52.3	9.6
Total liabilities	1,008.2	841.8	166.5	19.8
Net worth^(b)	(414.0)	(299.8)	(114.2)	38.1
Per cent of GDP	25.1	18.6		6.5
Operating activities	(27.8)	(24.9)	(3.0)	12.0
Investing activities in non-financial assets	(15.7)	(12.7)	(3.0)	23.6
Cash surplus/(deficit)	(43.6)	(37.6)	(6.0)	15.9

(a) Fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment.

(b) Net worth is calculated as total assets minus total liabilities.

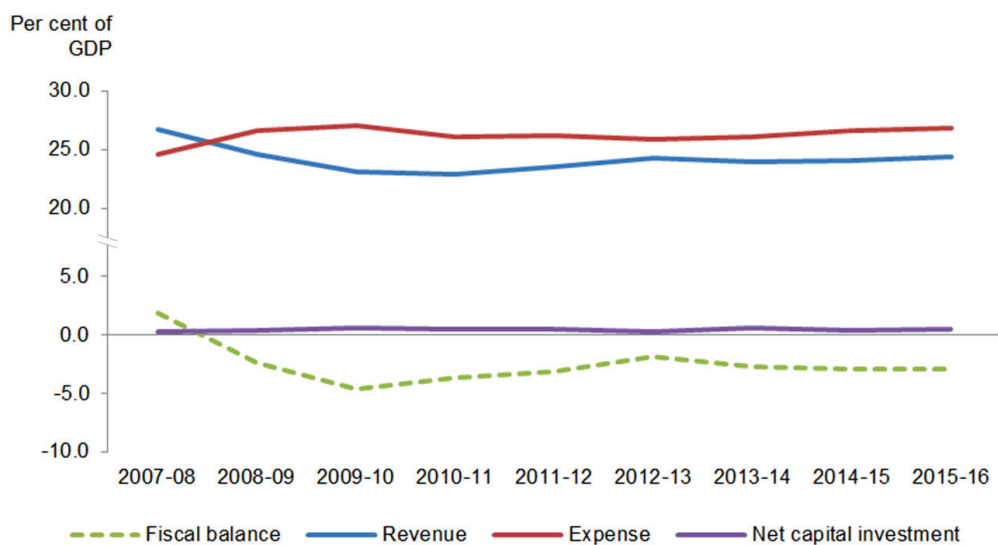
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- 1 The institutional structure of the public sector is explained in Note 1 of the 2015-16 CFS. Note 15 of the 2015-16 CFS provides the list of Australian Government controlled reporting entities, including their sectoral classification.
 - 2 The balances and movements detailed in the commentary have been rounded to the nearest tenth of a billion. Discrepancies between totals and sums of components are due to rounding.
 - 3 These differences are explained in Note 1 of the CFS.
 - 4 The 2014-15 comparatives include adjustments for tax and loan fee items, and non-financial assets now measured at fair value. Refer to Note 1.5 of the 2015-16 CFS for further information.

Operating Statement (Fiscal Balance)

Table 2: Operating statement

	2015-16 \$b	2014-15 \$b	Change \$b	Change %
Revenue	402.5	387.5	15.1	3.9
Per cent of GDP	24.4	24.1		0.3
Expenses	442.0	428.7	13.4	3.1
Per cent of GDP	26.8	26.6		0.2
Net capital investment	7.8	5.6	2.2	39.2
Per cent of GDP	0.5	0.3		0.1
Fiscal balance	(47.3)	(46.8)	(0.5)	1.1
Per cent of GDP	2.9	2.9		0.0

Chart 1: Operating statement (per cent of GDP) since 2007-08



Balance Sheet (net worth)

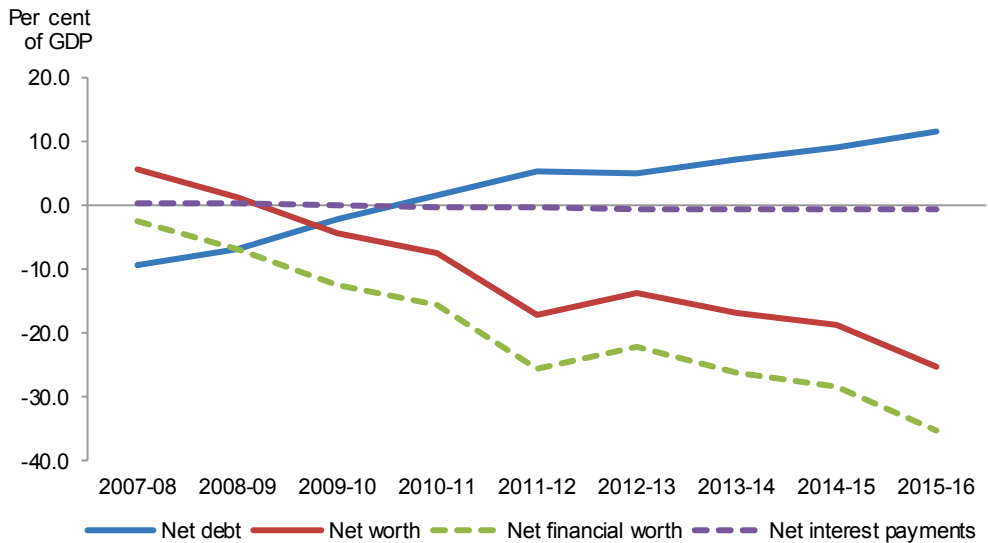
Table 3: Balance sheet

	2015-16 \$b	2014-15 \$b	Change \$b	Change %
Financial assets	426.8	385.9	40.9	10.6
Non-financial assets	167.4	156.0	11.3	7.3
Total assets	594.2	541.9	52.3	9.6
Total liabilities	1,008.2	841.8	166.5	19.8
Net worth	(414.0)	(299.8)	(114.2)	38.1
Per cent of GDP	25.1	18.6		6.5
Net financial worth^(a)	(581.4)	(455.9)	(125.5)	27.5
Per cent of GDP	35.2	28.3		6.9
Net debt^(b)	191.5	145.3	46.2	31.8
Per cent of GDP	11.6	9.0		2.6
Net interest payments	(10.8)	(9.9)	(0.9)	8.8
Per cent of GDP	0.7	0.6		0.1

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Net debt equals the sum of the deposits held, government securities, loans and other borrowing, minus the sum of the cash and deposits, advances paid and investments, loans and placements.

Chart 2: Balance sheet (per cent of GDP) since 2007-08



DISCUSSION AND ANALYSIS

Fiscal balance

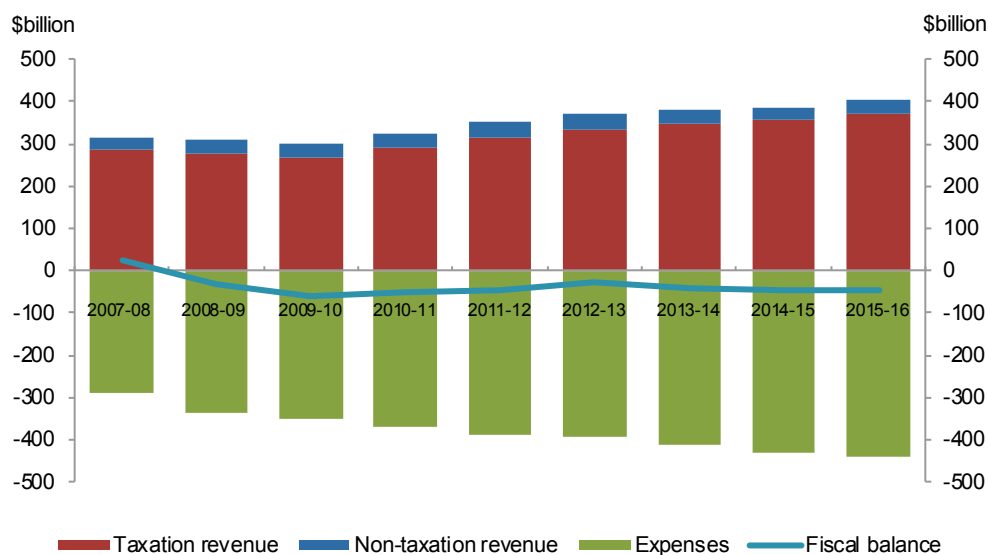
The Australian Government's fiscal balance was a deficit of \$47.3 billion for the year ended 30 June 2016, an increase of \$0.5 billion (1.1 per cent) against the 30 June 2015 result.

Table 4: Operating statement

	2015-16 \$b	2014-15 \$b	Change \$b	Change %
Revenue	402.5	387.5	15.1	3.9
Expenses	442.0	428.7	13.4	3.1
Net operating balance	(39.5)	(41.2)	1.7	4.1
Less Net acquisitions of non-financial assets	7.8	5.6	2.2	39.2
Fiscal balance	(47.3)	(46.8)	(0.5)	1.1

Chart 3 below shows the composition of the Australian Government's fiscal balance since 2007-08.

Chart 3: Operating statement since 2007-08



Revenue

The Australian Government's revenue increased by \$15.1 billion (3.9 per cent) in 2015-16 to \$402.5 billion.

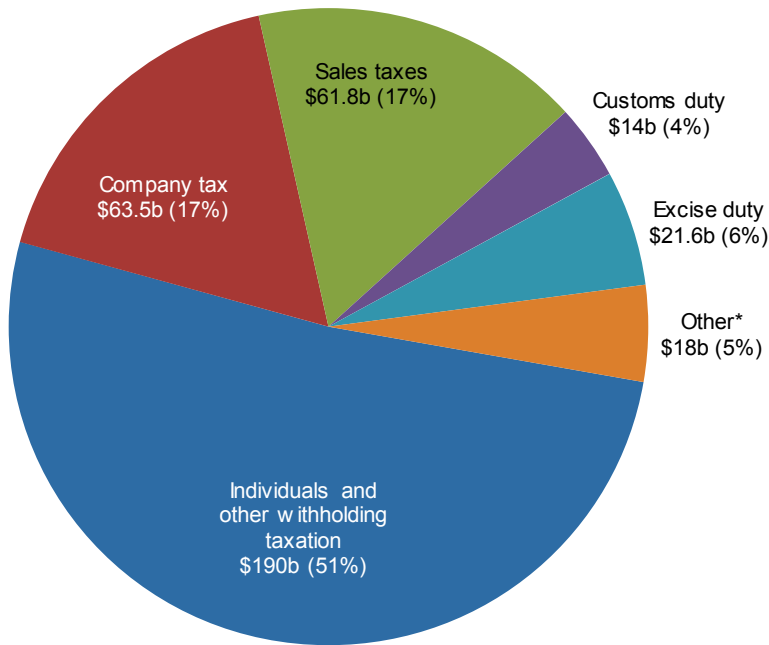
Table 5: Revenue

	2015-16 \$b	2014-15 \$b	Change \$b	Change %
Taxation revenue	368.9	355.4	13.5	3.8
Non-taxation revenue	33.6	32.0	1.5	4.8
Total revenue	402.5	387.5	15.1	3.9

Taxation revenue

The Australian Government's total taxation revenue for the year ended 30 June 2016 was \$368.9 billion. The composition of taxation revenue is shown in Chart 4 below.

Chart 4: Composition of taxation revenue



* Other includes Superannuation funds (\$6.8 billion), Other indirect taxation (\$5.8 billion), Fringe benefits tax (\$4.5 billion) and Resource rent taxes (\$0.9 billion).

Taxation revenue increased by \$13.5 billion (3.8 per cent) to \$368.9 billion. The key changes were:

- an increase of \$9.2 billion (5.1 per cent) in **individuals and other withholding taxation**. The growth in individuals and other withholding taxation is broadly consistent with the moderate growth in the labour market, as well as growth in individuals' incomes and capital gains;

- an increase of \$4.1 billion (7.1 per cent) in **sales taxes**, with the main contributor being a \$4.0 billion increase in goods and services tax (GST), consistent with growth in consumption subject to GST;
- a decrease of \$1.5 billion (2.4 per cent) in **company tax**. This was due to weaker profitability in non-finance industries; and
- a decrease in **excise duty** of \$2.1 billion (8.7 per cent) and an increase in **customs duty** of \$3.2 billion (29.1 per cent), is largely due to a shift from domestic tobacco production to imported tobacco products.

Refer to Note 3A of the 2015-16 CFS for further information.

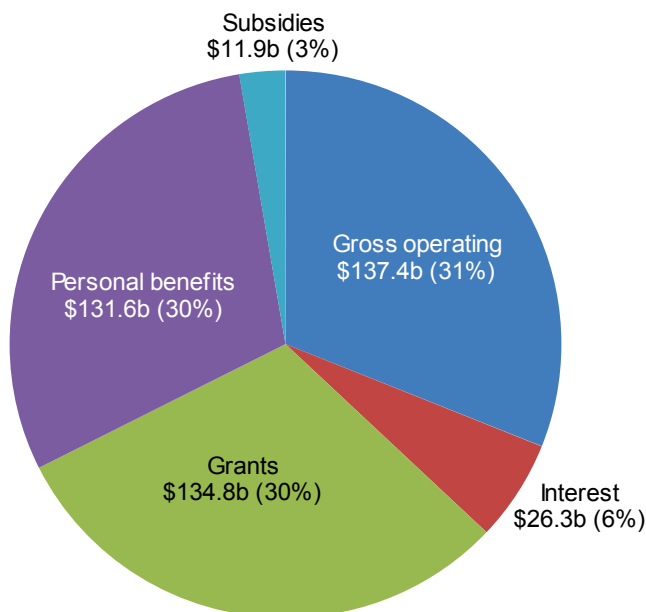
Non-taxation revenue

The Australian Government's total non-taxation revenue for the year ended 30 June 2016 was \$33.6 billion. For more information, refer to Notes 3B-D of the 2015-16 CFS.

Expenses

The Australian Government's total expenses for the year ended 30 June 2016 were \$442.0 billion. The composition of expenses is shown in Chart 5 below.

Chart 5: Composition of expenses



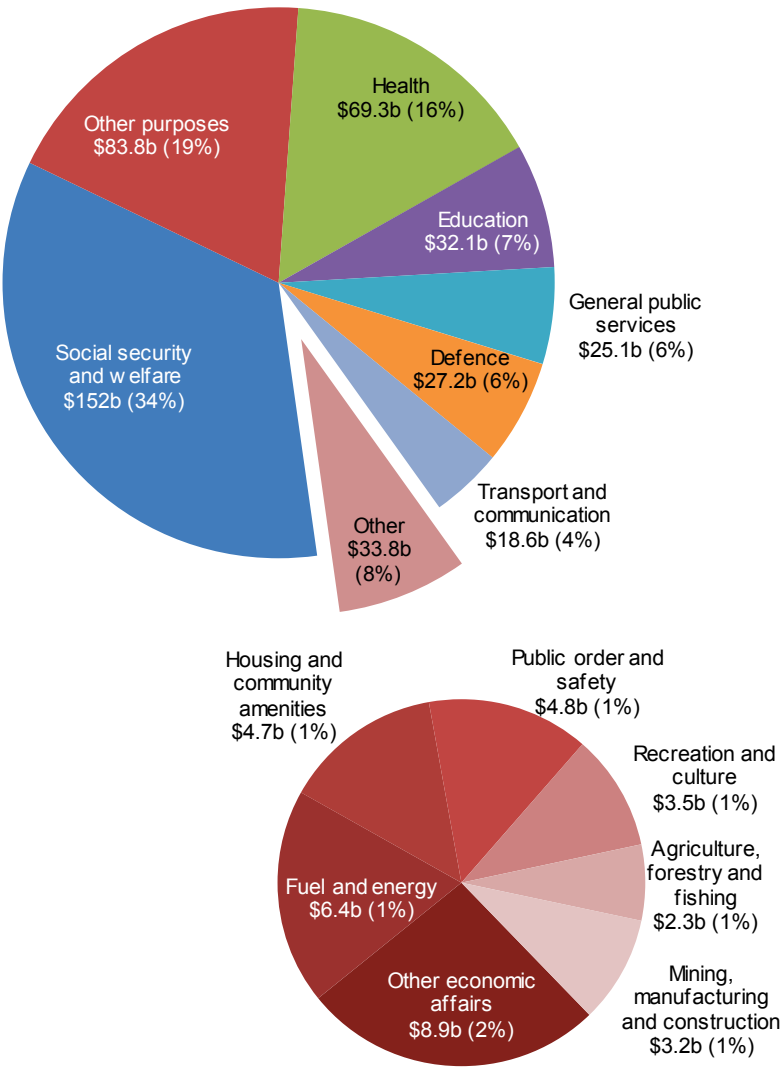
The Australian Government's total expenses increased by \$13.4 billion (3.1 per cent) in comparison to 2014-15. The key changes were:

- an increase in **gross operating** expenses of \$10.2 billion (8.0 per cent). This was driven by an increase of \$6.5 billion in the supply of goods and services expense, mainly due to:
 - an increase in benefits to households in goods and services (\$3.8 billion) primarily relating to Pharmaceutical Benefits and Services (\$1.7 billion), Medical Services and Benefits (\$1.1 billion) and Assistance to the Aged (\$0.9 billion);
 - an increase in the supply of goods and services for the Defence function (\$1.7 billion);
- an increase of \$1.8 billion in **personal benefits** expense, primarily relating to Income Support for Seniors; and
- an increase of \$1.4 billion in **grants**. The primary contributors to the increase included:

- an increase of \$4.0 billion in grants to state and territory governments, primarily for General Revenue Assistance (\$2.6 billion) and Assistance to the States for Healthcare Services (\$1.7 billion); partially offset by
- a decrease of \$1.8 billion in grants through state and territory governments, primarily due to Local Government Financial Assistance Grants brought forward in June 2015.

Chart 6 below provides a presentation of total expenses based on how the Australian Government allocated resources across the range of policy areas. The chart highlights the relative cost of each function for 2015-16.

Chart 6: Total expenses by function



Refer to Note 4 of the 2015-16 CFS for further information on expenses.

Net worth

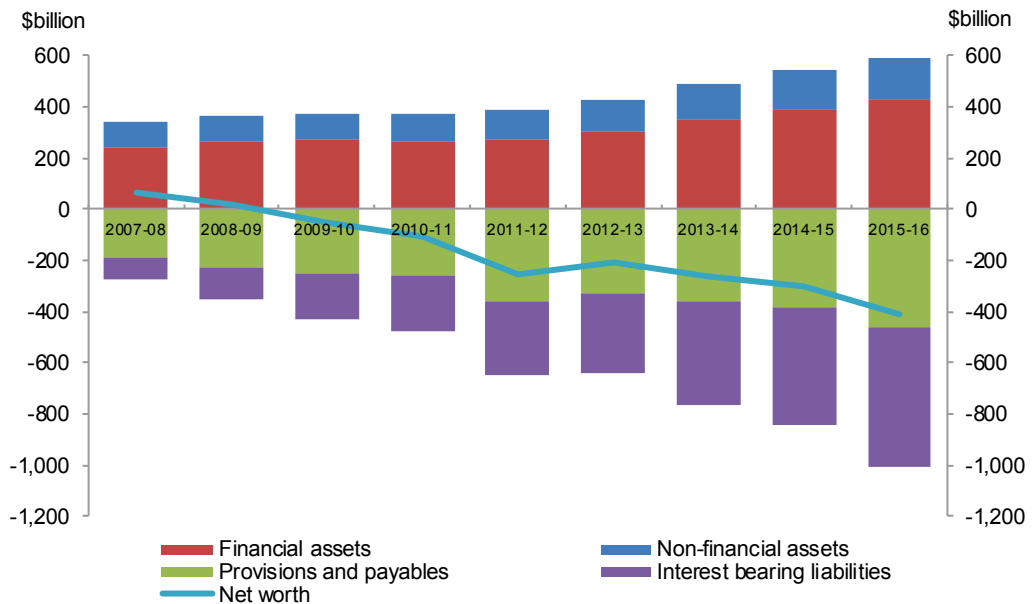
The Australian Government's net worth decreased by \$114.2 billion in 2015-16 to a negative net worth of \$414.0 billion as at 30 June 2016.

Table 6: Balance sheet

	2015-16	2014-15	Change	Change
	\$b	\$b	\$b	%
Financial assets	426.8	385.9	40.9	10.6
Non-financial assets	167.4	156.0	11.3	7.3
Total assets	594.2	541.9	52.3	9.6
Interest bearing liabilities	547.2	455.4	91.9	20.2
Provisions and payables	461.0	386.4	74.6	19.3
Total liabilities	1,008.2	841.8	166.5	19.8
Net worth	(414.0)	(299.8)	(114.2)	38.1

Chart 7 below shows the composition of the Australian Government's financial position since 2007-08.

Chart 7: Balance sheet since 2007-08



Assets

The Australian Government's total assets as at 30 June 2016 were \$594.2 billion. The composition of assets is shown in Chart 8 below.

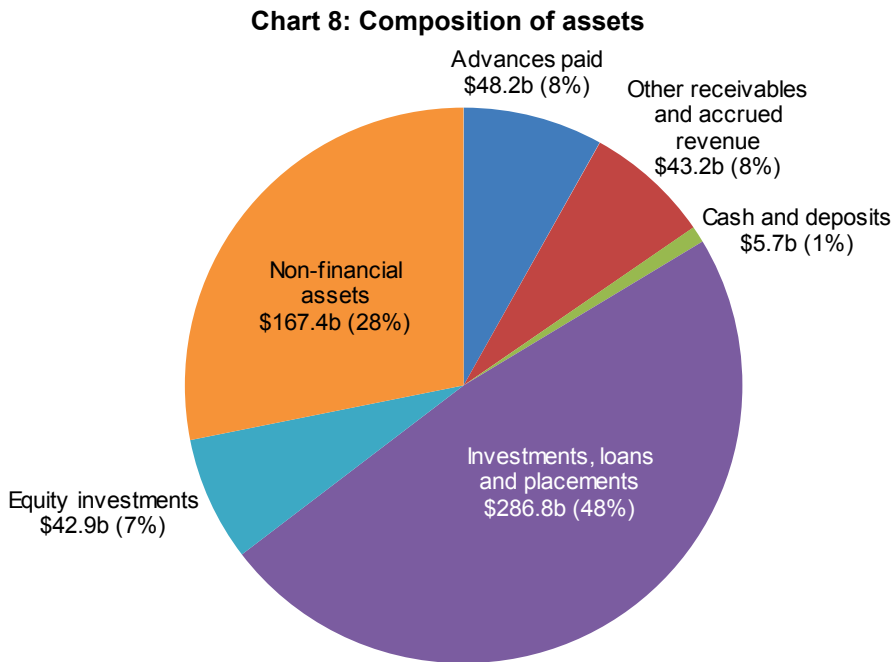


Table 7: Assets

	2015-16 \$b	2014-15 \$b	Change \$b	Change %
Financial assets				
Cash and deposits	5.7	4.8	0.9	18.5
Advances paid	48.2	41.8	6.4	15.4
Other receivables and accrued revenue	43.2	40.8	2.5	6.0
Investments, loans and placements	286.8	252.4	34.4	13.6
Equity investments	42.9	46.2	(3.3)	7.1
Total financial assets	426.8	385.9	40.9	10.6
Non-financial assets	167.4	156.0	11.3	7.3
Total assets	594.2	541.9	52.3	9.6

The Australian Government's total assets increased by \$52.3 billion (9.6 per cent) since 30 June 2015.

The key changes in **financial assets** were:

- an increase of \$34.4 billion in **investments, loans and placements**, which had a number of variances across multiple entities. The largest of these included an increase of \$10.4 billion in non-equity investments held by the Future Fund, a \$9.8 billion increase in Australian dollar securities and foreign exchange holdings

held by the Reserve Bank of Australia and a \$5.4 billion increase to the International Monetary Fund (IMF) quota;

- an increase of \$6.4 billion in **advances paid**, mainly due to the Higher Education Loan Program scheme driven by an increase in loans;
- an increase of \$2.5 billion in **other receivables and accrued revenue**, primarily resulting from decreases to offsetting provision accounts for:
 - provisions for doubtful debts – other taxes (\$1.3 billion), due to increased settlement amounts for high value cases;
 - provisions for credit amendments to tax – other taxes (\$1.2 billion), due to the settlement of a group of large cases in 2015-16, together with a \$0.4 billion restatement to the 2014-15 provision; and
- a decrease of \$3.3 billion in **equity investments**, primarily resulting from a reduction in listed equities and listed managed investment schemes held by the Future Fund.

The key changes in **non-financial assets** between 30 June 2015 and 30 June 2016 included the following:

- an increase of \$5.1 billion for other plant, equipment and infrastructure, primarily driven by an increase of \$4.6 billion in network assets for the rollout of the National Broadband Network;
- an increase of \$4.3 billion for specialist military equipment, primarily as a result of additions; and
- an increase of \$1.2 billion for intangibles, primarily driven by computer software additions by the NBN Co Ltd (\$0.5 billion) and impairment reversals for water assets (\$0.4 billion).

Liabilities

The Australian Government's total liabilities were \$1,008.2 billion as at 30 June 2016. The composition of liabilities is shown in Chart 9 below.

Chart 9: Composition of liabilities

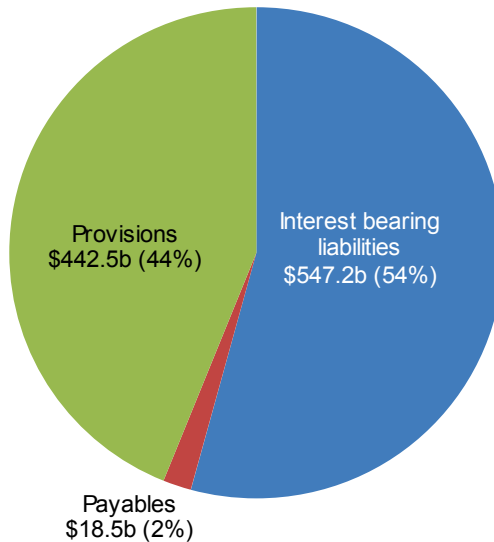


Table 8: Liabilities

	2015-16 \$b	2014-15 \$b	Change \$b	Change %
Interest bearing liabilities	547.2	455.4	91.9	20.2
Provisions and payables	461.0	386.4	74.6	19.3
Total liabilities	1,008.2	841.8	166.5	19.8

The Australian Government's liabilities increased by \$166.5 billion (19.8 per cent) since 30 June 2015.

The increase of \$91.9 billion in **interest bearing liabilities** primarily resulted from:

- an increase of \$76.7 billion in the issuance volume and market value of Australian Government Securities held by the AOFM;
- an increase of \$5.6 billion in deposits held, primarily due to an increase in deposits with foreign governments, foreign institutions and international organisations;
- an increase of \$5.0 billion in loans, primarily due to an increase in bills of exchange and promissory notes issued to the IMF; and
- an increase of \$3.9 billion in other interest bearing liabilities, primarily due to increased amounts outstanding under repurchase agreements (\$2.7 billion) and swap principal payables (\$0.7 billion).

The increase in **provisions and payables** of \$74.6 billion primarily resulted from:

- an increase of \$66.4 billion in the superannuation liability predominantly due to a 1.0 percentage point decrease in the long-term government bond rate used to discount expected future superannuation payments;
- an increase of \$4.7 billion in Australian currency (notes) on issue;
- an increase in other provisions of \$2.2 billion, mainly driven by adjustments to the military compensation health care provision (\$1.0 billion) and university superannuation provision (\$0.9 billion) following actuarial revaluations; and
- an increase of \$1.5 billion in other employee liabilities, mainly resulting from adjustment to the provision for military workers' compensation following actuarial revaluation.

Cash flows

Table 9: Cash flow

	2015-16 \$b	2014-15 \$b	Change \$b	Change %
Cash receipts				
Operating activities	395.7	385.8	9.9	2.6
Investing activities in non-financial assets	0.5	2.4	(1.9)	80.4
Financing activities	68.2	60.3	7.9	13.2
Total cash receipts	464.4	448.5	15.9	3.5
Cash payments				
Operating activities	423.5	410.7	(12.8)	3.1
Investing activities in non-financial assets	16.2	15.1	(1.1)	7.2
Investing activities in financial assets	23.8	16.1	(7.7)	47.5
Financing activities	0.0	6.4	6.4	100.0
Total cash payments	463.5	448.3	15.2	3.4
Net cash from discontinued activities	0.0	0.1	(0.1)	100.0
Net movement in cash	0.9	0.3	0.6	189.0
Cash at beginning of the year	4.8	4.5	0.3	6.8
Cash at end of year	5.7	4.8	0.9	18.5
Key fiscal aggregate				
Operating activities	(27.8)	(24.9)	(3.0)	12.0
Investing activities in non-financial assets	(15.7)	(12.7)	(3.0)	23.6
Cash surplus/(deficit)	(43.6)	(37.6)	(6.0)	15.9

The Australian Government's cash balance was \$5.7 billion at 30 June 2016. For the year ended 30 June 2016, the Australian Government recorded a cash deficit of \$43.6 billion, an increase of \$6.0 billion compared to a cash deficit of \$37.6 billion for 2014-15.

Receipts and payments

The following charts provide a detailed break-down of Australian Government receipts and payments for 2015-16, showing the relative composition of each dollar received and paid.

Chart 10: Composition of each dollar of cash received in 2015-16

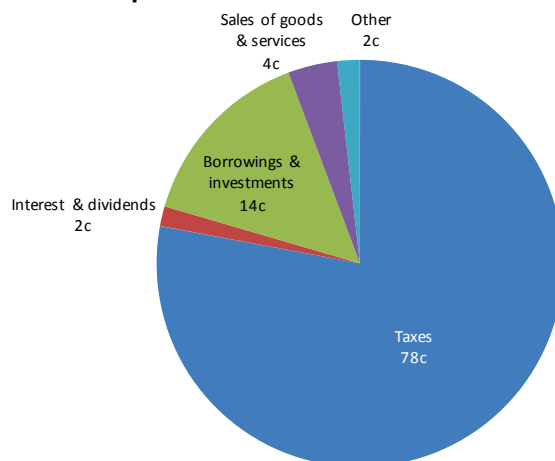


Chart 11: Composition of each dollar of cash paid in 2015-16

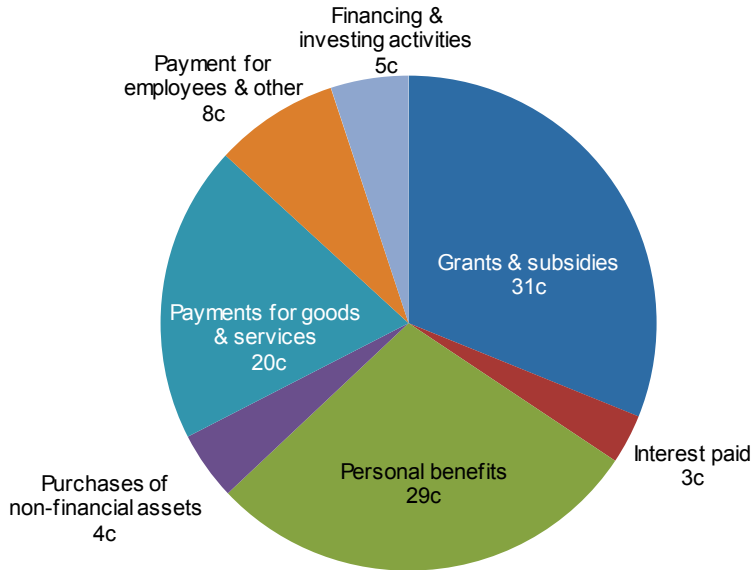
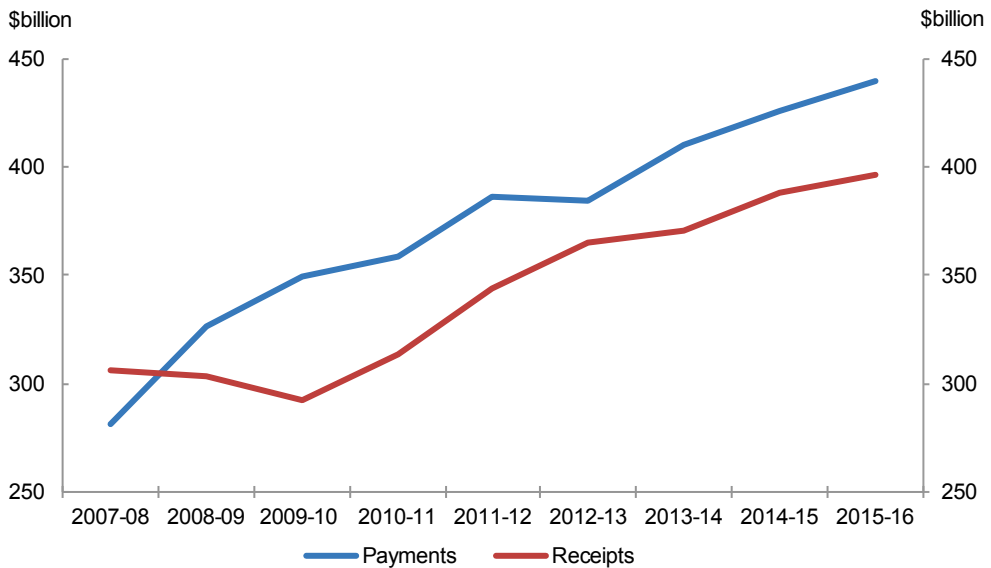


Chart 12 provides the trend of the Australian Government's receipts and payments for operating activities and purchases/sales of non-financial assets since 2007-08.

Chart 12: Receipts and payments – operating and non-financial assets



APPENDIX A

PREVIOUS YEARS

The CFS since 1995-96 are available on the Department of Finance website at: <http://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements>.

The historical series datasets are available in electronic format at: <http://data.gov.au/dataset/australian-government-consolidated-financial-statements-tables-and-data>.

LINKS TO OTHER PUBLICATIONS

The Australian Government publishes a range of information about its projected and actual financial position. Links to some of these documents are set out below. The information in the following documents has been prepared for different purposes and therefore does not form part of the CFS. Further, the documents listed below are not subject to audit.

2015-16 Final Budget Outcome

The 2015-16 Final Budget Outcome (FBO) was prepared in a manner consistent with the *Charter of Budget Honesty Act 1998* (the Charter). The Charter requires that the Government provide the FBO no later than three months after the end of the financial year. Consistent with these requirements, the FBO encompasses Australian Government GGS fiscal outcomes for the 2015-16 financial year and is based on external reporting standards.

The FBO is available on the Australian Government website at: <http://www.budget.gov.au/2015-16/content/fbo/html/index.htm>.

Australian Government Monthly Financial Statements

The Australian Government GGS Monthly Financial Statements are prepared on a basis consistent with the Budget as required under section 47 of the PGPA Act. The statements are prepared in accordance with AASB 1049.

The Australian Government GGS Monthly Financial Statements are available on the Department of Finance website and the Minister for Finance website at: <http://www.finance.gov.au/publications/commonwealth-monthly-financial-statements>; and <http://www.financeminister.gov.au/media-releases/2016>.

The historical series datasets are available in electronic format at: <http://data.gov.au/dataset/australian-government-general-government-sector-monthly-financial-statements-tables-and-data>.

Budget Strategy and Outlook and Mid-Year Economic and Fiscal Outlook

The *Budget Strategy and Outlook – Budget Paper – 2015-16*, the *Mid-Year Economic and Fiscal Outlook 2015-16* and the *Budget Strategy and Outlook – Budget Paper – 2016-17* have been prepared in accordance with the Charter.

The aforementioned Budget papers are available on the Australian Government website at <http://www.budget.gov.au/>.

Tax Expenditures Statement 2015

The Tax Expenditures Statement (TES) provides details of concessions, benefits, incentives and charges provided through the tax system (tax expenditures) to taxpayers by the Australian Government. Information is published on the Treasury website at:

<http://www.treasury.gov.au/PublicationsAndMedia/Publications/2016/TES-2015>.

**CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING
THE AUSTRALIAN GOVERNMENT (WHOLE OF
GOVERNMENT) AND GENERAL GOVERNMENT SECTOR
FINANCIAL REPORTS**



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

I have audited the accompanying Consolidated Financial Statements for the year ended 30 June 2016, which include the Australian Government (Whole of Government) and the General Government Sector Financial Reports.

The Consolidated Financial Statements comprise the:

- Statement of compliance;
- Australian Government operating statement and Australian Government operating statement by sector – including General Government Sector Financial Report;
- Australian Government balance sheet and Australian Government balance sheet by sector – including General Government Sector Financial Report;
- Australian Government cash flow statement and Australian Government cash flow statement by sector – including General Government Sector Financial Report;
- Australian Government statement of changes in equity (net worth) and General Government Sector statement of changes in equity; and
- Notes to the financial statements comprising a Summary of Significant Accounting Policies and other explanatory information.

Opinion

In my opinion, the Australian Government (Whole of Government) and the General Government Sector Financial Reports, as included in the Consolidated Financial Statements:

- (a) comply with Australian Accounting Standards; and
- (b) present fairly the financial position of the Australian Government and General Government Sector as at 30 June 2016 and their financial performance and cash flows for the year then ended.

Minister's Responsibility for the Financial Statements

The Minister for Finance is responsible under section 48 of the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of Consolidated Financial Statements of the Australian Government that comply with Australian Accounting Standards and is also responsible for such internal control as the Minister for Finance determines is necessary to enable the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

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Auditor's Responsibility

My responsibility is to express an opinion on the Consolidated Financial Statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the 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 about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Consolidated Financial Statements 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 internal control relevant to the preparation and fair presentation of the Consolidated Financial Statements. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Minister of Finance as well as evaluating the overall presentation of the Consolidated Financial Statements.

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

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office

A handwritten signature in black ink, appearing to read 'Grant Hehir', is positioned above the printed name.

Grant Hehir
Auditor-General

Canberra

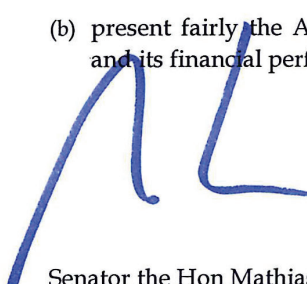
28 November 2016

STATEMENT OF COMPLIANCE

The annual Consolidated Financial Statements of the Australian Government are required by section 48 of the *Public Governance, Performance and Accountability Act 2013*.

In my opinion, the attached annual Consolidated Financial Statements of the Australian Government, which includes the whole of government and general government sector financial statements:

- (a) comply with Australian Accounting Standards; and
- (b) present fairly the Australian Government's financial position as at 30 June 2016 and its financial performance and cash flows for the year then ended.



Senator the Hon Mathias Cormann
Minister for Finance



November 2016

Australian Government operating statement
for the year ended 30 June 2016

	Note	2016 \$m	2015 \$m
Revenue from transactions			
Taxation revenue	3A	368,942	355,436
Sales of goods and services	3B	17,139	16,082
Interest income	3C	4,279	4,499
Dividend income	3C	2,863	3,927
Other	3D	9,299	7,525
Total revenue		402,522	387,469
Expenses from transactions			
<i>Gross operating expenses</i>			
Wages and salaries	4A	22,730	22,282
Superannuation	4A	8,396	7,324
Depreciation and amortisation	4B	9,773	8,131
Supply of goods and services(b)	4C	89,127	82,653
Other operating expenses	4A	7,380	6,838
<i>Total gross operating expenses</i>		<i>137,406</i>	<i>127,228</i>
Superannuation interest expense	4A	9,106	8,999
Interest expense	4D	17,197	16,816
Current transfers			
Current grants	4E	126,064	124,567
Subsidy expenses(a)		11,901	12,454
Personal benefits(b)		131,574	129,736
<i>Total current transfers</i>		<i>269,539</i>	<i>266,757</i>
Capital transfers			
Mutually agreed write-downs	4E	1,193	1,473
Other capital grants	4E	7,589	7,398
<i>Total capital transfers</i>		<i>8,782</i>	<i>8,871</i>
Total expenses	4F	442,030	428,671
Net operating balance		(39,508)	(41,202)
Other economic flows			
Net write-downs of assets (including bad and doubtful debts)	5A	(8,806)	(5,576)
Assets recognised for the first time		283	230
Net gain/(loss) from the sale of assets	5B	6,081	13,433
Net foreign exchange gains/(losses)	5C	2,247	3,808
Net swap interest gains/(losses)	5D	(476)	(935)
Other gains/(losses)	5E	(20,861)	717
Amortisation of non-produced assets		(85)	(121)
Net result from associates and joint ventures		15	27
Operating result from continuing operations		(61,110)	(29,619)
Discontinued operation	2	-	149
Operating result		(61,110)	(29,470)
Other economic flows - Other non-owner movements in equity			
Items that will not be reclassified to operating result			
Revaluation of non-financial assets	9	2,949	10,866
Actuarial revaluations of superannuation		(57,417)	(17,720)
Other economic revaluations		243	224
Items that may be reclassified subsequently to operating result			
Revaluation of equity investments	9	640	383
Comprehensive result - Total change in net worth		(114,695)	(35,717)

(a) Includes a reclassification of \$111 million from suppliers to subsidies in 2014-15 in relation to employment programs.

(b) Payments of direct or indirect personal benefits have been reviewed against the principles contained in the ABS GFS Manual, which has resulted in reclassifications between Current transfers – Personal benefits and Supply of goods and services in 2014-15 of \$559 million.

Australian Government operating statement (continued)
for the year ended 30 June 2016

	Note	2,016 \$m	2,015 \$m
Net operating balance		(39,508)	(41,202)
less Net acquisition of non-financial assets			
Purchases of non-financial assets		17,560	15,623
less Sales of non-financial assets		536	2,497
less Depreciation and amortisation		9,773	8,131
plus Change in inventories		646	588
plus Other movements in non-financial assets		(94)	22
Total net acquisition of non-financial assets		7,803	5,605
Fiscal balance (Net lending/borrowing)		(47,311)	(46,807)

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

Australian Government balance sheet
 as at 30 June 2016

	Note	2016 \$m	2015 \$m
Assets			
Financial assets			
Cash and deposits	10B	5,712	4,822
Advances paid	7A	48,194	41,769
Other receivables and accrued revenue	7A	43,232	40,778
Investments, loans and placements	7B	286,787	252,356
Equity investments	7C	42,912	46,194
<i>Total financial assets</i>		<i>426,837</i>	<i>385,919</i>
Non-financial assets			
Land	7D	11,738	10,953
Buildings	7D	27,779	27,877
Specialist military equipment	7D	56,217	51,889
Other plant, equipment and infrastructure	7D	36,385	31,307
Intangibles	7D	9,831	8,678
Investment property	7D	377	387
Inventories	7E	8,711	8,531
Heritage and cultural assets	7D	11,462	11,332
Other non-financial assets	7F	4,865	5,062
<i>Total non-financial assets</i>		<i>167,365</i>	<i>156,016</i>
Total assets	7G	594,202	541,935
Liabilities			
Interest bearing liabilities			
Deposits held	8A	30,740	25,124
Government securities	8B	480,757	404,044
Loans	8C	14,661	9,707
Other borrowings	8D	6,029	5,336
Other interest bearing liabilities	8E	15,051	11,177
<i>Total interest bearing liabilities</i>		<i>547,238</i>	<i>455,388</i>
Provisions and payables			
Superannuation liability	8F	314,958	248,540
Other employee liabilities	8F	21,558	20,091
Suppliers payable	8G	6,330	5,558
Personal benefits payable	8G	3,820	4,722
Subsidies payable	8G	539	444
Grants payable	8G	2,659	3,239
Australian currency on issue	8G	70,209	65,481
Other payables	8G	5,174	4,780
Other provisions	8G	35,743	33,508
<i>Total provisions and payables</i>		<i>460,990</i>	<i>386,363</i>
Total liabilities		1,008,228	841,751
Net worth			
Accumulated results		(483,947)	(368,230)
Reserves		69,921	68,414
Net worth		(414,026)	(299,816)
Current liabilities		103,411	114,379
Non-current liabilities		904,817	727,372
Total liabilities by maturity		1,008,228	841,751
Current assets		358,271	328,916
Non-current assets		235,931	213,019
Total assets by maturity		594,202	541,935

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

Australian Government cash flow statement
for the year ended 30 June 2016

	Note	2016 \$m	2015 \$m
OPERATING ACTIVITIES			
Operating cash received			
Taxes received		361,964	353,396
Receipts from sales of goods and services		18,073	16,694
Interest receipts		4,377	4,459
Dividend receipts		2,890	3,756
Other receipts		8,393	7,534
Total cash received		395,697	385,839
Operating cash used			
Payments for employees		(31,610)	(29,504)
Payments for goods and services		(90,823)	(84,730)
Grants and subsidies paid		(145,777)	(144,554)
Interest paid		(15,172)	(14,377)
Personal benefits		(133,822)	(131,067)
Other payments		(6,334)	(6,467)
Total cash used		(423,538)	(410,699)
Net cash from discontinued operating activities	2	-	(7)
Net cash flows from operating activities	10A	(27,841)	(24,867)
INVESTING ACTIVITIES			
Investments in non-financial assets			
Sales of non-financial assets		466	2,380
Purchases of non-financial assets		(16,208)	(15,114)
Net cash flows from investments in non-financial assets		(15,742)	(12,734)
Investments in financial assets for policy purposes		(5,694)	(5,190)
Investments in financial assets for liquidity purposes		(18,056)	(10,908)
Net cash from discontinued investing activities	2	-	91
Net cash from investing activities		(39,492)	(28,741)
FINANCING ACTIVITIES			
Financing cash received			
Cash received			
Borrowings		61,404	57,597
Other financing		6,822	2,693
Total cash received		68,226	60,290
Financing cash used			
Other financing		(3)	(6,374)
Total cash used		(3)	(6,374)
Net cash flows from financing activities		68,223	53,916
Net (decrease)/increase in cash held		890	308
Cash at beginning of year		4,822	4,514
Cash at end of year	10B	5,712	4,822
Key fiscal aggregate			
Net cash flows from operating activities		(27,841)	(24,867)
Net cash flows from investments in non-financial assets		(15,742)	(12,734)
Cash surplus/(deficit)		(43,583)	(37,601)
Finance leases and similar arrangements		(693)	(481)
GFS cash surplus/(deficit)		(44,276)	(38,082)

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

Australian Government statement of changes in equity (net worth)

for the year ended 30 June 2016

Australian Government

Item	Reserves							Total Net Worth \$m
	Accumulated results \$m	Asset revaluation reserve(a) \$m	Foreign currency translation reserve(b) \$m	Investments reserve(c) \$m	Statutory funds(d) \$m	Other reserve(e) \$m	Total reserves \$m	
Adjusted opening balance as at 1 July 2014	(320,210)	35,714	(322)	11,123	5,554	4,042	56,111	(264,099)
Comprehensive result - Total change in net worth	(47,153)	11,199	219	9	-	9	11,436	(35,717)
Transfers to/(from)/between reserves	(867)	(47)	(2)	(4,308)	1,570	3,654	867	-
Net worth as at 30 June 2015	(368,230)	46,866	(105)	6,824	7,124	7,705	68,414	(299,816)
Non-material changes in accounting policy and errors	979	(399)	-	99	-	(194)	(494)	485
Adjusted opening balance as at 1 July 2015	(367,251)	46,467	(105)	6,923	7,124	7,511	67,920	(299,331)
Comprehensive result - Total change in net worth	(117,079)	3,536	160	(1,304)	-	(8)	2,384	(114,695)
Transfers to/(from)/between reserves	383	19	-	-	1,390	(1,792)	(383)	-
Net worth as at 30 June 2016	(483,947)	50,022	55	5,619	8,514	5,711	69,921	(414,026)

(a) The asset revaluation reserve includes net revaluation increments and decrements arising from the revaluation of property, plant and equipment.

(b) The foreign currency translation reserve records foreign currency differences arising from the translation of self-sustaining foreign operations.

(c) The investments reserve records the Australian Government's interest in portfolio authorities and companies.

(d) Statutory funds comprise amounts set aside out of operating surpluses under a specific Act or Statute.

(e) Other reserves include amounts set aside out of operating surpluses for purposes other than those detailed above, including general reserves.

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

SECTOR STATEMENTS

Australian Government operating statement by sector — including General Government Sector Financial Report
for the year ended 30 June 2016

	Note	General Government		Public non-financial corporations		Public financial corporations(a)		Eliminations and netting(b)		Australian Government	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Revenue from transactions											
Taxation revenue	3A	368,937	355,534	-	-	-	-	5	(98)	368,942	355,436
Sales of goods and services	3B	7,619	7,156	9,873	9,840	725	3,257	(1,078)	(4,171)	17,139	16,082
Interest income	3C	2,931	3,145	54	44	2,383	2,271	(1,089)	(961)	4,279	4,499
Dividend income	3C	6,240	6,178	-	-	40	71	(3,417)	(2,322)	2,863	3,927
Other	3D	9,326	7,565	116	103	148	176	(291)	(319)	9,299	7,525
Total revenue		395,053	379,578	10,043	9,987	3,296	5,775	(5,870)	(7,871)	402,522	387,469
Expenses from transactions											
<i>Gross operating expenses</i>											
Wages and salaries	4A	18,675	18,357	3,882	3,764	174	286	(1)	(125)	22,730	22,282
Superannuation	4A	7,854	6,927	482	354	73	66	(13)	(23)	8,396	7,324
Depreciation and amortisation	4B	8,132	6,804	1,596	1,287	44	57	1	(17)	9,773	8,131
Supply of goods and services	4C	84,395	78,633	5,525	5,196	350	2,775	(1,143)	(3,951)	89,127	82,653
Other operating expenses	4A	6,332	5,742	772	852	278	273	(2)	(29)	7,380	6,838
Total gross operating expenses		125,388	116,463	12,257	11,453	919	3,457	(1,158)	(4,145)	137,406	127,228
Superannuation interest expense	4A	9,106	8,999	-	-	-	-	-	-	9,106	8,999
Interest expenses	4D	16,673	16,024	441	420	1,176	1,313	(1,093)	(941)	17,197	16,816
Current transfers											
Current grants	4E	126,135	124,635	-	-	-	-	(71)	(68)	126,064	124,567
Subsidy expenses		12,053	12,617	-	-	-	-	(152)	(163)	11,901	12,454
Personal benefits		131,574	129,736	-	-	-	-	-	-	131,574	129,736
Tax expenses		-	-	55	(66)	2	48	(57)	18	-	-
Total current transfers		269,762	266,988	55	(66)	2	48	(280)	(213)	269,539	266,757
Capital transfers											
Mutually agreed write-downs	4E	1,193	1,473	-	-	-	-	-	-	1,193	1,473
Other capital grants	4E	7,589	7,398	-	-	-	-	-	-	7,589	7,398
Total capital transfers		8,782	8,871	-	-	-	-	-	-	8,782	8,871
Total expenses		429,711	417,345	12,753	11,807	2,097	4,818	(2,531)	(5,299)	442,030	428,671
Net operating balance		(34,658)	(37,767)	(2,710)	(1,820)	1,199	957	(3,339)	(2,572)	(39,508)	(41,202)

(a) Comparatives include Medibank Private Limited (discontinued operation) for the period prior to disposal – refer Note 2.

(b) The eliminations and netting column includes the elimination of inter-sector transactions and the netting off of gains and losses across sectors.

Australian Government operating statement by sector — including General Government Sector Financial Report (continued)
for the year ended 30 June 2016

	Note	General Government		Public non-financial corporations		Public financial corporations(a)		Eliminations and netting(b)		Australian Government	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Other economic flows - included in operating result											
Net write-downs of assets	5A	(8,747)	(5,361)	(61)	(217)	(6)	(7)	8	9	(8,806)	(5,576)
Assets recognised for the first time		283	224	-	5	-	-	-	1	283	230
Net gain/(loss) from the sale of assets	5B	6,222	10,690	14	50	(156)	(73)	1	2,766	6,081	13,433
Net foreign exchange gains/(losses)	5C	429	(2,335)	(3)	2	1,820	6,142	1	(1)	2,247	3,808
Net swap interest gains/(losses)	5D	(508)	(977)	5	8	28	35	(1)	(1)	(476)	(935)
Other gains/(losses)	5E	(20,911)	4,706	31	11	19	42	-	(4,042)	(20,861)	717
Amortisation of non-produced assets		(55)	(58)	(30)	(63)	-	(3)	-	-	(85)	(121)
Net result from associates and joint ventures		15	27	-	-	-	-	-	-	15	27
Operating result		(57,930)	(30,851)	(2,754)	(2,024)	2,904	7,093	(3,330)	(3,837)	(61,110)	(29,619)
Discontinued operation	2	-	-	-	-	-	-	-	149	-	149
Net operating result		(57,930)	(30,851)	(2,754)	(2,024)	2,904	7,093	(3,330)	(3,688)	(61,110)	(29,470)
Other economic flows - through equity											
Will not be reclassified to operating result											
Revaluation of non-financial assets	9	2,866	10,404	37	435	45	29	1	(2)	2,949	10,866
Actuarial revaluations of superannuation		(56,913)	(17,780)	(162)	145	(342)	(85)	-	-	(57,417)	(17,720)
Other economic revaluations		267	(3,873)	75	(234)	-	(1,264)	(99)	5,595	243	224
May be reclassified to operating result											
Revaluation of equity investments	9	(2,970)	3,676	-	-	663	380	2,947	(3,673)	640	383
Comprehensive result		(114,680)	(38,424)	(2,804)	(1,678)	3,270	6,153	(481)	(1,768)	(114,695)	(35,717)
Net operating balance		(34,658)	(37,767)	(2,710)	(1,820)	1,199	957	(3,339)	(2,572)	(39,508)	(41,202)
less Net acquisition of non-financial assets											
Purchases of non-financial assets		11,141	11,337	6,324	4,233	96	53	(1)	-	17,560	15,623
less Sales of non-financial assets		477	2,423	59	75	-	-	-	(1)	536	2,497
less Depreciation and amortisation		8,132	6,804	1,597	1,255	44	57	-	15	9,773	8,131
plus Change in inventories		413	582	20	8	17	(2)	196	-	646	588
plus Other movements in non-financial assets		(95)	14	1	18	-	(11)	-	1	(94)	22
Total net acquisition of non-financial assets		2,850	2,706	4,689	2,929	69	(17)	195	(13)	7,803	5,605
Fiscal balance (Net lending/borrowing)		(37,508)	(40,473)	(7,399)	(4,749)	1,130	974	(3,534)	(2,559)	(47,311)	(46,807)

(a) Comparatives include Medibank Private Limited (discontinued operation) for the period prior to disposal – refer Note 2.

(b) The eliminations and netting column includes the elimination of inter-sector transactions and the netting off of gains and losses across sectors.

Australian Government balance sheet by sector — including General Government Sector Financial Report
as at 30 June 2016

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Assets											
Financial assets											
Cash and deposits	10B	3,638	3,156	2,558	2,042	413	480	(897)	(856)	5,712	4,822
Advances paid	7A	46,898	40,658	11	5	2,244	2,177	(959)	(1,071)	48,194	41,769
Other receivables and accrued revenue	7A	45,043	41,905	1,353	1,272	252	250	(3,416)	(2,649)	43,232	40,778
Investments, loans and placements	7B	149,994	134,271	523	624	168,809	158,175	(32,539)	(40,714)	286,787	252,356
Equity investments	7C	87,230	86,394	2	3	415	401	(44,735)	(40,604)	42,912	46,194
Total financial assets		332,803	306,384	4,447	3,946	172,133	161,483	(82,546)	(85,894)	426,837	385,919
Non-financial assets											
Land	7D	10,620	9,942	956	870	161	143	1	(2)	11,738	10,953
Buildings	7D	25,547	25,639	1,883	1,952	350	287	(1)	(1)	27,779	27,877
Specialist military equipment	7D	56,217	51,889	-	-	-	-	-	-	56,217	51,889
Other plant, equipment and infrastructure	7D	14,281	13,623	21,907	17,507	197	177	-	-	36,385	31,307
Intangibles	7D	7,281	6,544	2,493	2,100	58	36	(1)	(2)	9,831	8,678
Investment property	7D	164	187	213	200	-	-	-	-	377	387
Inventories	7E	8,567	8,415	118	107	26	9	-	-	8,711	8,531
Heritage and cultural assets	7D	11,462	11,332	-	-	-	-	-	-	11,462	11,332
Tax assets		-	-	829	915	5	4	(834)	(919)	-	-
Other non-financial assets	7F	4,638	4,896	276	217	40	37	(89)	(88)	4,865	5,062
Total non-financial assets		138,777	132,467	28,675	23,868	837	693	(924)	(1,012)	167,365	156,016
Total assets	7G	471,580	438,851	33,122	27,814	172,970	162,176	(83,470)	(86,906)	594,202	541,935

(a) Comprises the elimination of inter-sector balances.

Australian Government balance sheet by sector — including General Government Sector Financial Report (continued)
as at 30 June 2016

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Liabilities											
Interest bearing liabilities											
Deposits held	8A	217	218	4	-	61,211	60,486	(30,692)	(35,580)	30,740	25,124
Government securities	8B	483,361	409,937	-	-	-	-	(2,604)	(5,893)	480,757	404,044
Loans	8C	10,351	5,693	2,664	2,660	2,599	2,406	(953)	(1,052)	14,661	9,707
Other borrowings	8D	1,607	1,509	4,418	3,826	-	-	4	1	6,029	5,336
Other interest bearing liabilities	8E	6,473	6,601	7	15	8,571	4,562	-	(1)	15,051	11,177
Total interest bearing liabilities		502,009	423,958	7,093	6,501	72,381	67,454	(34,245)	(42,525)	547,238	455,388
Provisions and payables											
Superannuation liability	8F	314,228	248,209	46	24	685	306	(1)	1	314,958	248,540
Other employee liabilities	8F	18,302	17,052	1,797	1,636	1,457	1,403	2	-	21,558	20,091
Suppliers payable	8G	5,335	4,601	1,077	1,002	63	60	(145)	(105)	6,330	5,558
Personal benefits payable	8G	3,820	4,722	-	-	-	-	-	-	3,820	4,722
Subsidies payable	8G	539	444	-	-	-	-	-	-	539	444
Grants payable	8G	2,659	3,239	-	-	-	-	-	-	2,659	3,239
Australian currency on issue	8G	-	-	-	-	70,209	65,481	-	-	70,209	65,481
Tax liabilities		-	-	515	674	1	1	(516)	(675)	-	-
Other payables	8G	2,841	2,801	2,324	1,956	3,391	2,668	(3,382)	(2,645)	5,174	4,780
Other provisions	8G	35,361	33,127	380	382	1	1	1	(2)	35,743	33,508
Total provisions and payables		383,085	314,195	6,139	5,674	75,807	69,920	(4,041)	(3,426)	460,990	386,363
Total liabilities		885,094	738,153	13,232	12,175	148,188	137,374	(38,286)	(45,951)	1,008,228	841,751

(a) Comprises the elimination of inter-sector balances.

Australian Government balance sheet by sector — including General Government Sector Financial Report (continued)
as at 30 June 2016

	Note	General Government		Public non-financial corporations		Public financial corporations		Eliminations(a)		Australian Government	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Net worth											
Accumulated results		(473,200)	(360,589)	(6,557)	(3,575)	(286)	(142)	(3,904)	(3,924)	(483,947)	(368,230)
Reserves		59,686	61,287	2,770	2,672	24,822	24,698	(17,357)	(20,243)	69,921	68,414
Contributed equity		-	-	23,677	16,542	246	246	(23,923)	(16,788)	-	-
Net worth		(413,514)	(299,302)	19,890	15,639	24,782	24,802	(45,184)	(40,955)	(414,026)	(299,816)
Current liabilities		60,685	86,449	5,069	4,252	75,195	68,643	(37,538)	(44,965)	103,411	114,379
Non-current liabilities		824,409	651,704	8,163	7,923	72,993	68,731	(748)	(986)	904,817	727,372
Total liabilities by maturity		885,094	738,153	13,232	12,175	148,188	137,374	(38,286)	(45,951)	1,008,228	841,751
Current assets		235,297	220,228	4,636	3,839	155,869	149,401	(37,531)	(44,552)	358,271	328,916
Non-current assets		236,283	218,623	28,486	23,975	17,101	12,775	(45,939)	(42,354)	235,931	213,019
Total assets by maturity		471,580	438,851	33,122	27,814	172,970	162,176	(83,470)	(86,906)	594,202	541,935

(a) Comprises the elimination of inter-sector balances.

Australian Government cash flow statement by sector — including General Government Sector Financial Report
for the year ended 30 June 2016

	General Government		Public non-financial corporations		Public financial corporations(a)		Eliminations and netting(b)		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
OPERATING ACTIVITIES										
Cash received										
Taxes received	361,962	353,494	-	-	-	-	2	(98)	361,964	353,396
Receipts from sales of goods and services	7,592	7,020	10,882	10,732	628	3,104	(1,029)	(4,162)	18,073	16,694
Interest receipts	2,936	3,056	51	44	2,453	2,327	(1,063)	(968)	4,377	4,459
Dividend receipts	5,540	4,745	-	-	43	58	(2,693)	(1,047)	2,890	3,756
GST receipts	-	-	576	370	26	18	(602)	(388)	-	-
Other receipts	8,480	7,598	46	34	161	210	(294)	(308)	8,393	7,534
Total cash received	386,510	375,913	11,555	11,180	3,311	5,717	(5,679)	(6,971)	395,697	385,839
Cash used										
Taxes paid	-	-	(16)	(43)	-	(31)	16	74	-	-
Payments for employees	(27,122)	(25,775)	(4,293)	(4,130)	(207)	(97)	12	498	(31,610)	(29,504)
Payments for goods and services	(85,115)	(79,967)	(6,737)	(6,086)	(242)	(2,774)	1,271	4,097	(90,823)	(84,730)
Grants and subsidies paid	(145,866)	(144,623)	-	-	(166)	(162)	255	231	(145,777)	(144,554)
Interest paid	(14,977)	(13,924)	(56)	(57)	(1,198)	(1,366)	1,059	970	(15,172)	(14,377)
Personal benefits	(133,822)	(131,066)	-	-	-	-	-	(1)	(133,822)	(131,067)
GST paid	-	-	(414)	(385)	(12)	-	426	385	-	-
Other payments	(5,921)	(5,289)	(347)	(537)	(59)	(311)	(7)	(330)	(6,334)	(6,467)
Total cash used	(412,823)	(400,644)	(11,863)	(11,238)	(1,884)	(4,741)	3,032	5,924	(423,538)	(410,699)
Net cash from discontinued operating activities	-	-	-	-	-	-	-	(7)	-	(7)
Net cash from operating activities	(26,313)	(24,731)	(308)	(58)	1,427	976	(2,647)	(1,054)	(27,841)	(24,867)
INVESTING ACTIVITIES										
Investments in non-financial assets										
Sales of non-financial assets	414	2,305	52	75	-	-	-	-	466	2,380
Purchases of non-financial assets	(10,341)	(11,280)	(5,770)	(3,801)	(97)	(53)	-	20	(16,208)	(15,114)
Net cash flows from investments in non-financial assets	(9,927)	(8,975)	(5,718)	(3,726)	(97)	(53)	-	20	(15,742)	(12,734)

(a) Comparatives include Medibank Private Limited (discontinued operation) for the period prior to disposal – refer Note 2.

(b) The eliminations and netting column includes the elimination of inter-sector transactions and the netting off of certain cash flows across sectors.

Australian Government cash flow statement by sector — including General Government Sector Financial Report (continued)
for the year ended 30 June 2016

	General Government		Public non-financial corporations		Public financial corporations(a)		Eliminations and netting(b)		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
INVESTING ACTIVITIES										
Investments in financial assets for policy purposes	(12,684)	(5,163)	-	-	(35)	(63)	7,025	36	(5,694)	(5,190)
Investments in financial assets for liquidity purposes	(5,255)	(11,951)	(146)	(46)	(4,406)	(12,315)	(8,249)	13,404	(18,056)	(10,908)
Net cash from discontinued investing activities	-	-	-	-	-	-	-	91	-	91
Net cash from investing activities	(27,866)	(26,089)	(5,864)	(3,772)	(4,538)	(12,431)	(1,224)	13,551	(39,492)	(28,741)
FINANCING ACTIVITIES										
Cash flows from financing activities										
Cash received										
Borrowings	57,102	52,381	-	105	887	6,381	3,415	(1,270)	61,404	57,597
Other financing	-	7	7,158	4,817	4,729	5,456	(5,065)	(7,587)	6,822	2,693
Total cash received	57,102	52,388	7,158	4,922	5,616	11,837	(1,650)	(8,857)	68,226	60,290
Cash used										
Other financing	(2,441)	(2,256)	(470)	(430)	(2,572)	(932)	5,480	(2,756)	(3)	(6,374)
Total cash used	(2,441)	(2,256)	(470)	(430)	(2,572)	(932)	5,480	(2,756)	(3)	(6,374)
Net cash from discontinued financing activities	-	-	-	-	-	-	-	-	-	-
Net cash from financing activities	54,661	50,132	6,688	4,492	3,044	10,905	3,830	(11,613)	68,223	53,916
Net increase/(decrease) in cash	482	(688)	516	662	(67)	(550)	(41)	884	890	308
Cash at beginning of year	3,156	3,844	2,042	1,380	480	1,030	(856)	(1,740)	4,822	4,514
Cash at end of year	3,638	3,156	2,558	2,042	413	480	(897)	(856)	5,712	4,822
Key fiscal aggregate										
Net cash flows from operating activities	(26,313)	(24,731)	(308)	(58)	1,427	976	(2,647)	(1,054)	(27,841)	(24,867)
Net cash flows from investments in non-financial assets	(9,927)	(8,975)	(5,718)	(3,726)	(97)	(53)	-	20	(15,742)	(12,734)
Cash surplus/(deficit)	(36,240)	(33,706)	(6,026)	(3,784)	1,330	923	(2,647)	(1,034)	(43,583)	(37,601)
Finance leases and similar arrangements	(165)	(72)	(528)	(408)	-	-	-	-	(693)	(480)
GFS cash surplus/(deficit)	(36,405)	(33,778)	(6,554)	(4,192)	1,330	923	(2,647)	(1,034)	(44,276)	(38,081)

(a) Comparatives include Medibank Private Limited (discontinued operation) for the period prior to disposal – refer Note 2.

(b) The eliminations and netting column includes the elimination of inter-sector transactions and the netting off of certain cash flows across sectors.

General Government Sector statement of changes in equity (net worth)

for the year ended 30 June 2016

General Government

Item	Accumulated results \$m	Asset revaluation reserve \$m	Reserves				Total Net Worth \$m
			Foreign currency translation reserve \$m	Investments reserve \$m	Other reserves \$m	Total reserves \$m	
Adjusted opening balance as at 1 July 2014	(316,383)	30,497	(330)	25,258	80	55,505	(260,878)
Comprehensive result - Total change in net worth	(48,514)	10,354	166	(441)	11	10,090	(38,424)
Transfers to/(from)/between reserves	4,308	(3)	-	(4,308)	3	(4,308)	-
Net worth as at 30 June 2015	(360,589)	40,848	(164)	20,509	94	61,287	(299,302)
Non-material changes in accounting policy and errors	750	(399)	-	99	18	(282)	468
Adjusted opening balance as at 1 July 2015	(359,839)	40,449	(164)	20,608	112	61,005	(298,834)
Comprehensive result - Total change in net worth	(113,395)	2,788	196	(4,251)	(18)	(1,285)	(114,680)
Transfers to/(from)/between reserves	34	21	-	-	(55)	(34)	-
Net worth as at 30 June 2016	(473,200)	43,258	32	16,357	39	59,686	(413,514)

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

NOTES TO THE FINANCIAL STATEMENTS

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Note 1: Basis of financial statements preparation

1.1 Purpose

The purpose of this note is to outline the basis on which the financial statements for the Australian Government (whole of government) and the general government sector (GGS) have been prepared.

Significant accounting policies that are relevant to understanding the financial statements are provided throughout the notes to the financial statements.

Except as otherwise noted, the accounting policies detailed in this note and throughout the notes to the financial statements are applicable at both the whole of government level and for the GGS.

1.2 Statement of compliance

The Australian Government Consolidated Financial Statements (CFS) are required by section 48 of the *Public Governance, Performance and Accountability Act 2013*.

The CFS are general purpose financial statements that have been prepared for the whole of government and the GGS in accordance with Australian Accounting Standards (AAS), including AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

The GGS financial statements are included in the CFS and can be found in the Sector statements and the Notes to the financial statements.

1.3 Basis of accounting

The purpose of the CFS is to provide users with information about the stewardship by the Australian Government and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of the Australian Government; and information that facilitates assessment of the macro-economic impact of the Australian Government.

The principles and rules in the Australian Bureau of Statistics *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 – ABS Catalogue No. 5514.0* (ABS GFS Manual) have been applied in the production of these financial statements, except in instances in which their application would conflict with AAS.

The 2015-16 financial statements for the whole of government and the GGS have been prepared on the basis of the ABS GFS Manual effective as at 1 July 2014.

Where the key fiscal aggregates presented on the face of the financial statements are materially different to those measured in accordance with the applied ABS GFS Manual, a reconciliation between the two measures has been provided (refer Note 13A).

The CFS has been prepared on an accrual basis and is presented in Australian dollars.

With the exception of advances paid to the International Development Association (IDA) and the Asian Development Fund (ADF), the key fiscal aggregates reported in the CFS GGS financial statements materially align to the GGS financial statements included in the 2015-16 Final Budget Outcome (FBO). As detailed in Part 2, Note 2 of the 2015-16 FBO, AASB 1049 requires the advances paid to the IDA and ADF to be recognised at fair value. Under the ABS GFS Manual, these advances are recorded at nominal value. The ABS GFS treatment is adopted in the FBO while the AAS treatment is adopted in the CFS.

1.4 New Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

During 2015-16, the Australian Government adopted all applicable AAS that became effective during the year. The application of new accounting standards did not materially impact the operations of the Australian Government.

The Australian Government has early adopted AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities* (AASB 2015-7). AASB 2015-7 amends AASB 13 *Fair Value Measurement* to provide disclosure relief to not-for-profit public sector entities from certain disclosures about the fair value measurements of property, plant and equipment held for their current service potential rather than to generate net cash inflows. This includes relief from disclosures of quantitative information about the significant unobservable inputs used in fair value measurements and of the sensitivity of certain fair value measurements to changes in unobservable inputs.

Future Australian Accounting Standards requirements

The Australian Accounting Standards Board (AASB) has issued a number of new standards, amendments to standards and interpretations that are effective for future reporting periods:

- AASB 124 *Related Party Disclosures* removes the current exemption for not-for-profit public sector entities such as government departments with respect to related party relationships and transactions. It is expected that this will require additional disclosures. The new standard is effective from 1 July 2016.
- AASB 15 *Revenue from Contracts with Customers* (AASB 15) replaces components of AASB 111 *Construction Contracts*, AASB 118 *Revenue* and AASB 1004 *Contributions*. AASB 15 could significantly change the pattern of revenue and profit recognition and internal budgeting processes. The new standard is effective from 1 January 2018.

- AASB 9 *Financial Instruments* represents the finalisation of the three phase project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. It incorporates new principles for the requirements for recognition, measurement and derecognition of financial assets and liabilities, and general hedge accounting. This is likely to impact on the categorisation, recognition and measurement of financial instruments particularly those currently held at fair value through profit or loss. The new standard is effective from 1 January 2018.
- AASB 16 *Leases* will require all leases to be recognised on the balance sheet of lessees, thereby increasing the transparency surrounding such arrangements and making the lessee's balance sheet better reflect the economics of its transactions. The new standard is effective from 1 January 2019. This is likely to impact on the recognition of operating leases currently reported as commitments.

Other than the above, current pronouncements related to future reporting periods are not expected to materially impact on future reporting periods or will not apply to the operations of the Australian Government.

The ABS GFS Manual has been updated to incorporate the changes sought by the International Monetary Fund (IMF) as outlined in its Government Finance Statistics Manual 2014 (IMF GFSM 2014). These revisions were necessary to reflect changes to the international and Australian standards for compiling national accounts as GFS are a key input to those measures. The new 2015 ABS GFS Manual replaces the current 2005 ABS GFS Manual for GFS publications from September 2017. The changes may impact upon the classification of certain items and will change the reconciliation to GFS measures disclosed in Note 13A.

1.5 Prior year adjustments and changes in accounting policy

Non-financial assets recognised at cost

The 2014-15 comparatives have been restated to recognise specialist military equipment (SME) at fair value, consistent with the AASB 1049 requirement for SME to be measured at fair value from 30 June 2015, if fair value can be reliably measured. The Australian Government, through Finance and Defence, had not completed its work to establish reliable measurements of the fair value of SME in time for the 2014-15 CFS. Consequently, SME was measured at the historic cost basis of measurement.

SME has now been restated to fair value, including as at 30 June 2015. Consistent with AASB 1049 and AASB 108, the 2014-15 restatement of SME to fair value has been recorded as a revaluation as at 30 June 2015. This has resulted in a \$9,237 million increase to SME as at 30 June 2015 (refer Note 7D). There is no impact upon the 2014-15 net operating balance nor net assets as at 1 July 2014.

The 2014-15 comparatives have also been restated to recognise the property, plant and equipment of NBN Co Ltd at fair value in line with AASB 1049 requirements (NBN Co Ltd is not required to recognise these assets at fair value in their own financial statements). The prior period restatement of these assets to fair value resulted in a \$793 million increase to other infrastructure, plant and equipment at 30 June 2015 (\$317 million at 1 July 2014). Within the operating statement, the 2014-15 depreciation expense was increased by \$32 million and other comprehensive income increased by \$508 million. Within the GGS, there was an associated \$793 million increase in equity investments in public corporations at 30 June 2015 (\$317 million at 1 July 2014) to reflect the increased value of NBN Co Ltd net assets (refer Note 7C).

Provisions for taxation credit amendments and refunds

In the 2014-15 comparatives, adjustments were made to tax related items as a result of changes to percentages used by the Australian Taxation Office in calculating the provision for credit amendments and provision for refunds. This restatement resulted in a \$430 million increase in the provision for credit amendments (refer Note 7A) and a \$450 million increase in the provision for taxation refunds (refer Note 8G). There was a corresponding decrease of \$880 million in taxation revenue (refer Note 3A) increasing the prior period deficit in net operating balance and fiscal balance.

There were also adjustments made as a result of an overstatement of revenue and expenses in relation to tax settlements. This reduced taxation revenue by \$411 million (refer Note 3A) and mutually agreed write-downs by \$384 million, resulting in a \$27 million increase to the prior period deficit in net operating balance and fiscal balance.

Loan fee revenue

In 2015-16 a reliable estimate of the loan fee revenue generated by the Higher Education Loan Program (HELP) was reported separately as revenue. The amount had previously been reported as part of the actuarial adjustments to HELP. The adjustment was a total of \$559 million impacting other sources of non-tax revenue (refer Note 3D) and the net-write-down of financial assets (refer Note 5A).

The combined impact of the above restatements was to increase net assets at 30 June 2015 by \$9,150 million (\$317 million at 1 July 2014), and to increase the prior period deficit in net operating balance and fiscal balance by \$381 million.

Several comparative balances have also been reclassified to ensure consistency in presentation with the 2015-16 reported results. Reclassifications are disclosed in the relevant notes.

1.6 The reporting entity and basis of consolidation

For the purposes of these financial statements, the Australian Government means the executive (consisting principally of Ministers and their departments), the legislature (that is, the Parliament) and the judiciary (that is, the courts). Where the 'Australian Government' is referred to throughout these statements it is intended to also mean the 'Commonwealth of Australia'. The Australian Government reporting entity (referred to as the reporting entity) includes Australian Government Departments of State, Parliamentary Departments, other non-corporate Commonwealth entities, corporate Commonwealth entities and companies in which the Australian Government holds a controlling interest.

The Australian Government controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence of control in the context of these financial statements does not in any way indicate that there is necessarily control over the manner in which statutory/professional functions are performed by an entity.

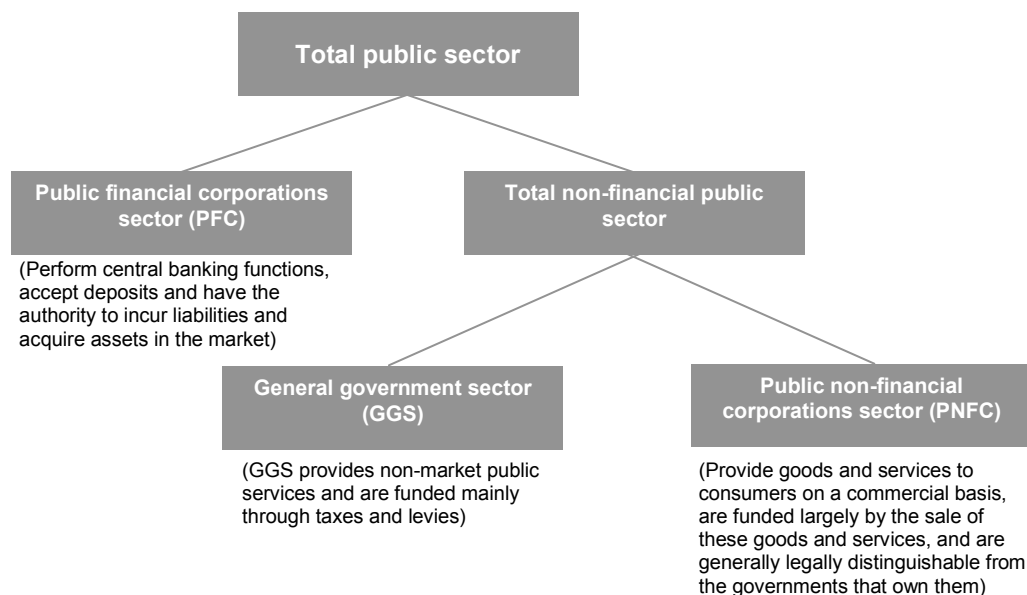
In the process of reporting the Australian Government as a single economic entity, all material transactions and balances between Australian Government-controlled entities are eliminated. Any dissimilar accounting policies applied at the entity level are amended to ensure consistent policies are adopted in these financial statements where the effect is material.

Where control of an entity is obtained during a financial year, results are included in the consolidated operating statement and consolidated cash flow statement from the date on which control commenced. Where control of an entity ceases during a financial year, results are included for that part of the year for which control existed.

1.7 Sectors

The sector classification of Australian Government entities follows that defined by the Australian Bureau of Statistics for the purposes of Government Finance Statistics (GFS). This, in turn, is based on international standards issued by the International Monetary Fund (IMF).

Figure 1: Institutional structure of the public sector



1.8 Significant accounting judgements and estimates

In preparing financial statements, Australian Government entities are required to make judgements and estimates that impact:

- income and expenses for the year;
- the reported amounts of assets and liabilities; and
- the disclosure of off-balance sheet arrangements, including contingent assets and contingent liabilities.

Judgements and estimates are subject to periodic review, including through the receipt of actuarial advice. Judgements and estimates are based on historical experience, various other assumptions believed to be reasonable under the circumstances and, where appropriate, practices adopted by other entities.

In the process of applying the accounting policies described in the relevant note, judgements and estimates made by Australian Government entities that have the most significant impact on the amounts recorded in these financial statements include:

Significant accounting estimate / judgement	Note
Taxation revenue items reported under the economic transaction method	3A
Impairment — key assumptions and methodologies used to estimate the recoverability of accounts receivable, statutory debts and inventory	5A
Fair value — assumptions used in valuation techniques for the fair value of financial assets and liabilities, including derivatives	6, 11B

Significant accounting estimate / judgement	Note
Fair value and impairment test — key assumptions underlying recoverable amount and valuations of land, property, plant and equipment and infrastructure	5A, 6
Measurement of depreciation and amortisation — estimate of expected useful lives	4B, 7D
Measurement of defined benefit and long service leave obligations — principal actuarial assumptions	8F, 11C
Recognition and measurement of provisions and contingencies — key assumptions about the likelihood and magnitude of an outflow or inflow of resources	8G, 11A

1.9 Insurance

Australian Government entities operating in the GGS are members of the Australian Government's self managed fund for insurable risks, Comcover. This excludes workers' compensation where the risk continues to be managed by Comcare. Australian Government entities operating outside the GGS adopt their own insurance strategies, which includes both self-insurance and commercial insurance coverage.

1.10 Rounding

All amounts have been rounded to the nearest million dollars, unless otherwise noted.

1.11 Minority interests (non-controlling interests)

Minority interests have not been separately disclosed in the operating statement and balance sheet as they are immaterial to the CFS.

1.12 Compliance with the Constitution

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. It is important to note that it is not possible in all instances to fully remove the potential for Section 83 breaches under existing legislation. In many cases the Australian Government relies on information provided by payment recipients to calculate and pay appropriate entitlements, and this information is not always timely or accurate.

Australian Government entities monitor their level of compliance with Section 83 of the Constitution across all legislation for which they have legislative responsibility. If an entity identified a risk of/or actual Section 83 breach during the reporting period, the details have been disclosed in the financial statements of the responsible entity.

In 2015-16, 622 actual breaches of Section 83 were identified across nine Commonwealth entities, with a total value of \$6.2 million. This compares to 6,731 breaches across 11 entities in 2014-15, with a total value of \$82.5 million. A further 2,315,399 potential breaches were identified in 2015-16 with a total value of \$2,762 million. This compares to 2,346,969 potential breaches in 2014-15 with a total value of \$2,554 million. Of the actual and potential breaches, \$1,473 million has been recovered or waived in 2015-16 (2014-15: \$1,625 million).

Note 2: Discontinued operations

There were no discontinued operations during 2015-16.

During 2014-15 the Australian Government sold Medibank Private Limited (Medibank) through an initial public offering.

The Medibank Share Offer prospectus was released on 20 October 2014. Medibank was listed on the Australian Stock Exchange on 25 November 2014.

Medibank's pre-disposal results, adjusted for the elimination of transactions with Australian Government entities, have been reported as a discontinued operation in the 2014-15 CFS.

The adjusted financial performance of Medibank, on consolidation in the Australian Government's financial statements for 2014-15 is detailed below. There is no income tax expense associated with the sale of Medibank as this is eliminated upon consolidation.

Financial performance	Discontinued operations	
	2016 \$m	2015(a) \$m
Revenue from transactions	-	2,769
Expenses from transactions	-	2,619
Net operating balance	-	150
Other economic flows - included in Operating Result	-	(1)
Net operating result	-	149

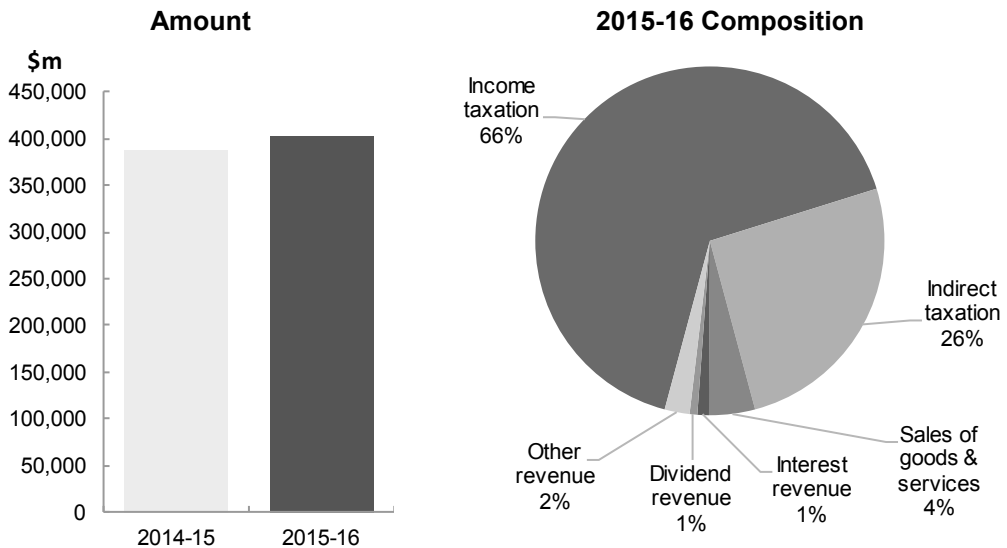
The contribution to Australian Government cash flows of Medibank after adjusting for the elimination of transactions with Australian Government entities was as follows:

Cash flows	Discontinued operations	
	2016 \$m	2015(a) \$m
Net cash flows from operating activities	-	(7)
Net cash flows from investing activities	-	91
Net cash flows from financing activities	-	-
Net result	-	84

(a) The 2015 amounts are for the period 1 July 2014 to 24 November 2014.

Note 3: Revenue from transactions

Revenue from transactions arise from interactions between the Australian Government and other entities, including households, private corporations, the not-for-profit sector and other governments. It excludes gains resulting from changes in price levels and other changes in the volume of assets. These are disclosed separately in Note 5 as 'Other Economic Flows'. The total Australian Government revenue and relative composition of revenue sources were as follows:



- **Income taxation** (refer Note 3A) is the largest source of Australian Government revenue and refers to the taxation of income, profits and capital gains.
- **Indirect taxation** (refer Note 3A) includes taxes on the sale and use of goods and services and other taxes. Included within this grouping is the goods and services tax (GST), customs and excise duties and other taxes levied on particular products or industries.
- **Sales of Goods and Services** (refer Note 3B) is distinguished from taxation in that the revenue is received in return for the direct provision of goods and services (including the provision of regulatory services) to the payer.
- **Interest revenue** (refer Note 3C) refers to income accrued on financial assets such as deposits, securities other than shares, loans and accounts receivable.
- **Dividend revenue** (refer Note 3C) includes equity distributions received by the Government Investment Funds and corporations and, at the GGS level, also includes distributions from corporate commonwealth entities or companies (which are eliminated upon consolidation).

- **Other non-taxation revenue** (refer Note 3D) includes transaction revenue not categorised elsewhere, with significant items including the collection of royalties and the collection of child support payments to pass on to custodial parents.

Note 3A: Taxation revenue

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Income taxation(a)				
Individuals and other withholding taxes				
Gross income tax withholding	174,815	167,645	174,815	167,645
Gross other individuals	43,261	40,224	43,261	40,224
less Refunds	(28,081)	(27,033)	(28,081)	(27,033)
Total individuals and other withholding taxation	189,995	180,836	189,995	180,836
Fringe benefits tax	4,453	4,392	4,453	4,392
Company tax	63,529	65,167	63,534	65,069
Superannuation funds	6,830	5,879	6,830	5,879
Resource rent taxes	876	1,352	876	1,352
Total income taxation revenue	265,683	257,626	265,688	257,528
Indirect taxation				
Sales taxes				
Goods and services tax	60,312	56,348	60,312	56,348
Wine equalisation tax	883	828	883	828
Luxury car tax	620	540	620	540
Total sales taxes	61,815	57,716	61,815	57,716
Excise duty revenue(b)	21,625	23,687	21,625	23,687
Customs duty revenue(b)	14,046	10,884	14,046	10,884
Other indirect taxation				
Agricultural levies	522	510	522	510
Other taxes(c)	5,246	5,111	5,246	5,111
Total other indirect taxation revenue	5,768	5,621	5,768	5,621
Mirror taxes	513	503	513	503
less Transfers to States in relation to mirror tax revenue	(513)	(503)	(513)	(503)
Mirror tax revenue	-	-	-	-
Total indirect taxation revenue	103,254	97,908	103,254	97,908
Total taxation revenue	368,937	355,534	368,942	355,436

(a) Includes 2014-15 adjustments of \$1,174 million relating to changes in percentages used to calculate the provision for credit amendments and refunds and overstatement of revenue and expenses in relation to settlements.

(b) The 2015-16 *Final Budget Outcome* provides a disaggregation of excise and customs duty revenue by duty type.

(c) Visa application charges have been reclassified from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of the receipts. This includes an adjustment to 2014-15 of \$1,819 million.

Taxation revenue

Taxation revenues are recognised when all of the following three conditions have been satisfied:

- there is a basis establishing the Australian Government's right to receive the revenue;
- it is probable that future economic benefits will be received; and
- the amount of revenue to be received can be reliably measured.

Estimation of some revenues can be difficult due to impacts of economic conditions and the timing of final taxable income, hence the Australian Government uses two bases of recognition:

- **Economic Transaction Method (ETM)** – Revenue is recognised when the Government, through the application of legislation to taxation and other relevant activities, gains control over the future economic benefits that arise from taxes and other statutory charges. Where a taxation revenue is able to be measured reliably (even in cases where the transactions are yet to occur but are likely to be reported) the ETM method is used to recognise revenue.
- **Taxation Liability Method (TLM)** – Revenue is recognised at the earlier of when an assessment of a tax liability is made, or payment is received. Furthermore, revenue is recognised when there is sufficient information to raise an assessment but an event has occurred which delays the issue of the assessment. This method is permitted when there is an 'inability to reliably measure taxes when the underlying transactions or events occur'. Revenue recognised under this policy is generally measured at a later time than would be the case if it were measured under ETM.

The revenue recognition policy adopted by the Australian Government for each major type of taxation revenue is as follows:

Type of taxation revenue	Revenue recognition basis	Basis of revenue recognition
Income tax — individuals	TLM	Comprise income tax withholding (ITW), other individuals, Medicare levy and income tax refunds. ITW represents amounts withheld from payments of remuneration for the year. Other individuals revenue includes income tax instalments and final tax returns received during the year. Other individuals revenue and income tax refunds do not incorporate an estimate of the tax to be paid or refunded on the final assessment for the year.
Income tax — companies	TLM	Comprise amounts of tax payable by companies that relate to instalments and final payments received/raised for current and former periods. It does not include estimates of revenue related to the reporting year that will be recognised in annual income tax returns lodged after the reporting date.

Type of taxation revenue	Revenue recognition basis	Basis of revenue recognition
Income tax — superannuation funds	TLM	Superannuation contributions tax is levied on superannuation funds based on contributions made by employers. Superannuation fund tax revenue comprise amounts of tax payable by superannuation funds that relate to instalments and payments for current and former reporting years. It does not include estimates of revenue related to the reporting year that will be recognised in annual income tax returns lodged after the reporting date.
Petroleum resource rent tax (Resource rent taxes)	ETM	Recognised based on the actual and estimated taxable profits in respect to offshore petroleum projects excluding some of the North-West Shelf production and associated exploration areas, which are subject to excise (included in excise on petroleum and other fuel products) and royalties.
Goods and services tax (GST)	ETM	Recognised based on the actual liabilities raised during the year and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Excise duty	ETM	Recognised based on the actual and estimated duty payable. Excise duty becomes payable when certain goods are distributed for home consumption during the reporting period.
Customs duty	ETM	Recognised when imported goods are distributed for home consumption.
Luxury car tax	ETM	Recognised at the time the sale (or private import) of a luxury vehicle occurs within the reporting period and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Wine equalisation tax	ETM	Recognised when an assessable dealing occurs within the reporting period giving rise to a tax liability and includes an estimate of amounts outstanding that relate to transactions occurring in the reporting period.
Fringe benefits tax (FBT)	ETM	Recognised on fringe benefits provided by employers to employees during the reporting period and includes an estimate of outstanding instalments and balancing payments for the annual FBT return.

If all taxation revenue had been measured according to the ETM, including those revenue types currently considered unreliable, the estimated impact on the 2015-16 financial results would be as follows:

Operating statement and balance sheet for 2015-16 — Adoption of ETM

	2016	2016	2016
		Full ETM	Difference
	\$m	\$m	\$m
Income			
Taxation revenue			
Income tax			
Individuals and other withholding taxes	189,995	191,852	1,857
Fringe benefits tax	4,453	4,453	-
Superannuation funds	6,830	5,718	(1,112)
Company tax	63,534	65,929	2,395
Resource rent taxes	876	876	-
Total income tax	265,688	268,828	3,140
Total taxation revenue	368,942	372,082	3,140
Assets	594,202	665,312	71,110
Liabilities	1,008,228	1,068,947	60,719
Net worth	(414,026)	(403,635)	10,391

Penalties and general interest charges (GIC) arising under taxation legislation are recognised as revenue at the time the penalty and GIC are imposed on the taxpayer and included within the relevant revenue categories. Generally, subsequent remissions and write-offs of such penalties and interest are treated as an expense or other economic flow of the period. Penalties and interest that are imposed by law and immediately remitted by the Commissioner of Taxation are not recognised as revenue or expense.

Taxpayers are entitled to dispute amounts assessed by the Government. Where the Government considers that the probable outcome will be a reduction in the amount of tax owed by a taxpayer, an allowance for credit amendment (if the disputed debt is unpaid) or a provision for refund (if the disputed debt has been paid) will be created and there will be a corresponding reduction in revenue.

Concessions and other forms of tax expenditures constitute revenue foregone and are not reported in Note 3A above or as an expense (unless available to beneficiaries regardless of whether they are required to pay tax in which case an expense is recorded). The Australian Government Treasury issues an annual Tax Expenditures Statement (unaudited), which provides a list of tax expenditures provided by the Australian Government to individuals and businesses.

Note 3B: Sales of goods and services

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Sales of goods	1,618	1,547	2,025	1,951
Rendering of services	4,101	3,684	13,153	12,147
Operating lease rental	77	44	138	103
Other fees from regulatory services(a)	1,823	1,881	1,823	1,881
Total sales of goods and services revenue	7,619	7,156	17,139	16,082
Cost of goods sold	754	731	1,177	1,070

(a) Visa application charges have been reclassified from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of the receipts. This includes an adjustment to 2014-15 of \$1,819 million.

Sales of goods and services

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the seller retains neither managerial involvement nor effective control over the goods;
- the revenue and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from the rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

The total of future minimum sublease payments expected is \$800 million for the General Government and \$1,012 million for the Australian Government.

The Government charges fees for both regulatory and other services. These include a number of mandatory fees, the most significant of which are visa application charges (VAC), passport fees, and passenger movement charges. Fees from regulatory services are designed to cover all or part of the cost of providing a regulatory function. If the revenue collected is clearly out of proportion to the costs of providing the regulatory service, then the fee is classified as taxation revenue. Fees from regulatory services are recognised when collected or when due and payable under the relevant legislation.

A review of the classification of VAC determined that the revenue for these charges had increased over a number of years without a commensurate increase in costs. As a result, VAC have been reclassified from non-taxation to taxation revenue to reflect the sustained change in the nature of the revenue in accordance with principles contained in the ABS GFS Manual. The 2014-15 comparatives have been restated to reflect this revenue classification change.

Note 3C: Interest and dividend income

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Interest from other governments				
State and territory debt	49	21	49	21
Housing agreements	112	116	112	116
General purpose advances	-	-	143	160
Total interest from other governments	161	137	304	297
Interest from other sources				
Advances	47	47	47	47
Deposits	96	104	102	111
Bills receivable	-	-	27	27
Bank deposits	166	178	232	240
Indexation of HELP receivable and other student loans	457	567	457	567
Securities	1,136	1,208	2,607	2,817
Other	868	904	503	393
Total interest from other sources	2,770	3,008	3,975	4,202
Total interest	2,931	3,145	4,279	4,499
Dividends				
Dividends from other public sector entities	3,442	2,324	-	-
Other dividends	2,798	3,854	2,863	3,927
Total dividends	6,240	6,178	2,863	3,927
Total interest and dividend income	9,171	9,323	7,142	8,426

Interest and dividend income

Interest revenue is recognised using the effective interest method. Dividend revenue is recognised when the right to receive a dividend has been established.

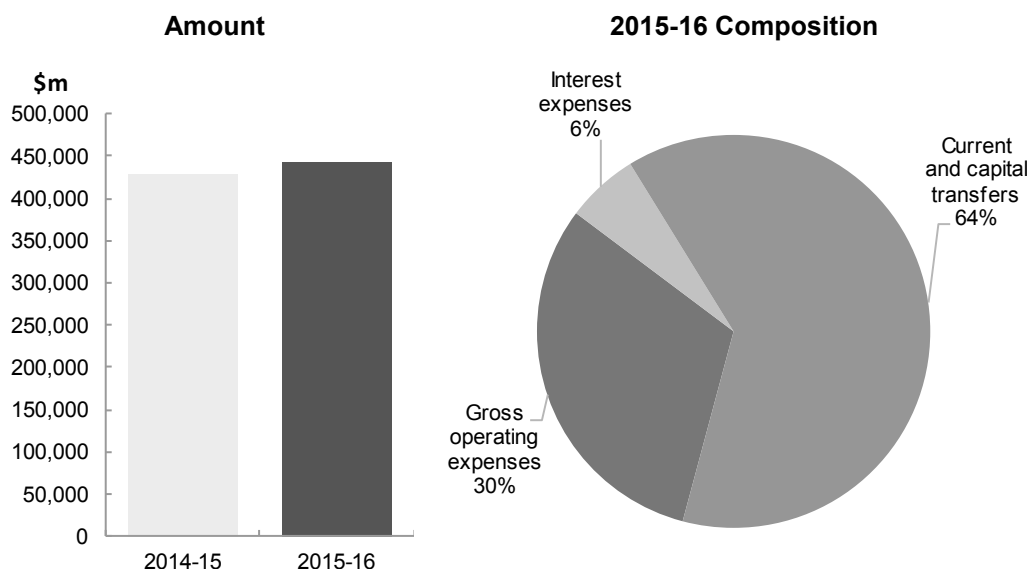
Note 3D: Other sources of non-taxation revenue

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Industry contributions	129	90	129	90
Royalties	1,005	1,402	1,005	1,402
Seigniorage	145	111	145	111
Child support payments	1,517	1,499	1,517	1,499
Loan fees(a)	676	559	676	559
Other	5,854	3,904	5,827	3,864
Total other sources of non-taxation revenue	9,326	7,565	9,299	7,525

(a) HELP loan fees of \$559 million have been reclassified in 2014-15 from net write-downs of actuarial revaluations.

Note 4: Expenses from transactions

Expenses from transactions arise from interactions between the Australian Government and other entities, including households, private corporations, the not-for-profit sector and other governments. They exclude losses resulting from changes in price levels and other changes in the volume of assets. These are disclosed separately in Note 5 as 'Other Economic Flows'. The total Australian Government expenses and relative composition of expenses are as follows:



- **Gross operating expenses** cover the costs incurred by the Government in the provision of services, including benefit payments to third parties to provide services to households (such as Medicare). Included in gross operating expenses are:
 - employee and superannuation expenses (refer Note 4A),
 - depreciation and amortisation (refer Note 4B), and
 - supply of goods and services (refer Note 4C).
- **Interest expenses** comprise the nominal growth in the Government's unfunded superannuation liabilities (refer Note 4A), interest incurred on financial liabilities and the initial discount recognised on the provision of concessional loans (refer Note 4D).

- **Current and capital transfers** are unrequited transfers in the form of:
 - personal benefits paid directly to individuals or households,
 - subsidies to public and private entities to allow them to provide goods or services at a reduced cost, or
 - financial assistance in the form of current or capital grants to third parties to achieve particular government outcomes (refer Note 4E).

Note 4A: Employee and superannuation expenses^(a)

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Wages and salaries expenses	18,675	18,357	22,730	22,282
Other operating expenses				
Leave and other entitlements	3,084	2,530	3,836	3,246
Separations and redundancies	278	372	429	619
Workers compensation premiums and claims	641	754	687	804
Other	2,329	2,086	2,428	2,169
Total other operating expenses	6,332	5,742	7,380	6,838
Superannuation expenses				
Superannuation	7,854	6,927	8,396	7,324
Superannuation interest	9,106	8,999	9,106	8,999
Total superannuation expenses	16,960	15,926	17,502	16,323
Total employee and superannuation expense	41,967	40,025	47,612	45,443

(a) Employee benefit accounting policies are disclosed in Note 8F.

Ministerial remuneration

The Australian Government has elected to disclose ministerial remuneration of Cabinet Ministers. This disclosure is not currently required under the accounting standards. Ministerial remuneration is limited to Cabinet Ministers because they are considered the key management personnel of the Australian Government. Cabinet Ministers are responsible for planning, directing and controlling the activities of the Australian Government, directly or indirectly. The disclosure includes all Cabinet Ministers who have served during the financial year. For Cabinet Ministers who serve only part of the financial year, their ministerial remuneration is pro-rated. Employee expenses including salary and allowances received or receivable by 29 Cabinet Ministers totalled \$9.5 million during 2015-16 (2014-15: 20 Cabinet Ministers; \$8.7 million).

Ministerial remuneration comprises total salary (including the additional ministerial component), superannuation contributions, and motor vehicle costs including related fringe benefits tax. Additional ministerial benefits that are not considered to be for personal benefit, such as electorate allowance, staff, transport, printing and communication, as well as costs incurred by portfolio departments on behalf of

ministers, are excluded from the disclosure. Costs associated with The Lodge and Kirribilli House are not included, as these are national assets and incur costs regardless of who uses them. The Life Gold Pass entitlement and accumulation of the entitlement available for former prime ministers are also excluded. The overall value of these entitlements is included in employee provisions.

The Remuneration Tribunal provides information on the remuneration of Senators and Members of Parliament, including ministers. This information is available on the Remuneration Tribunal website.

Note 4B: Depreciation and amortisation expenses

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Depreciation				
Specialist military equipment(a)	3,968	2,872	3,968	2,872
Buildings	1,457	1,462	1,583	1,574
Other infrastructure, plant and equipment(b)	1,619	1,450	2,647	2,230
Heritage and cultural assets	104	73	104	73
Total depreciation	7,148	5,857	8,302	6,749
Total amortisation	1,039	1,005	1,556	1,503
Add back Amortisation of non-produced assets	(55)	(58)	(85)	(121)
Total depreciation and amortisation expense	8,132	6,804	9,773	8,131

(a) SME is recognised at fair value from 30 June 2015. The 2015-16 depreciation is based on the fair value of SME while the 2014-15 depreciation is based on historical cost.

(b) Includes an adjustment to 2014-15 of \$32 million in relation to the recognition of NBN net assets at fair value in accordance with AASB 116 *Property, Plant and Equipment*.

Depreciation

Land, being an asset with an unlimited useful life, is not depreciated. The majority of buildings, plant, equipment and infrastructure are depreciated on a straight-line basis over their useful life or over the lesser of the lease term and useful life for selected leasehold improvements.

Depreciation and amortisation rates applying to each class of depreciable assets are based on the following useful lives:

	2015-16	2014-15
Buildings(a)	1-200 years	1-200 years
Specialist military equipment	1-54 years	1-54 years
Other plant, equipment and infrastructure	1-112 years	1-112 years
Heritage and cultural assets	1-5,000 years	1-5,000 years

(a) This depreciation range includes certain leasehold improvements, which have depreciation rates of up to 50 per cent.

Amortisation

Software is amortised on a straight-line basis over its anticipated useful life. Other intangible assets are amortised from the date they are available for use, unless classified as an indefinite life intangible (for example, water entitlements). Amortisation rates applying to each class of intangible asset are based on the following useful lives:

	2015-16	2014-15
Computer software	1-24 years	1-24 years
Other intangibles(a)(b)	1-100 years	1-100 years

(a) Excludes goodwill and indefinite life intangibles.

(b) The useful life of the Hansard digitised data is currently 100 years.

Note 4C: Supply of goods and services

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Supply of goods and services(a)(b)	27,415	25,526	31,679	29,102
Operating lease rental expenses	2,551	2,555	2,808	2,847
Health care payments	4,768	5,080	4,768	5,080
Benefits to households in goods and services(b)	47,428	43,658	47,428	43,658
Other	2,233	1,814	2,444	1,966
Total payment for supply of goods and services	84,395	78,633	89,127	82,653

(a) Includes a reclassification of \$111 million from suppliers to subsidies in relation to employment programs.

(b) Payments of direct or indirect personal benefits have been reviewed against the principles contained in the ABS GFS Manual, which has resulted in reclassifications in 2014-15 of \$176 million.

Operating leases

Operating lease payments are expensed on a straight-line basis, which is representative of the pattern of benefits derived from the leased assets.

Operating lease commitments

Operating lease commitments include the following types of leasing arrangements:

- computer and office equipment leases;
- office accommodation leases;
- agreements for the provision of motor vehicles; and
- transportation and support facilities for Antarctic operations.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Leasing commitments				
Within 1 year	2,728	2,668	3,026	2,952
Between 1 to 5 years	8,407	7,590	9,087	8,294
More than 5 years	6,793	7,062	7,501	7,765
Total lease commitments	17,928	17,320	19,614	19,011

Benefits to households in goods and services (indirect personal benefits)

These benefits are provided to households as social transfers and delivered by a third party (for example, medical and pharmaceutical benefits). The benefits are reported separately to personal benefits which comprise current transfers provided directly to individuals or households, rather than via a third party. Direct and indirect personal benefit payments are determined in accordance with provisions under social security law and other legislation.

Note 4D: Interest expense

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Interest on debt				
Government securities	15,312	14,473	14,828	14,236
Loans	9	10	136	134
Taxation overpayments	174	223	174	223
Exchange settlement funds	-	-	458	506
Deposits	4	4	30	31
Other	24	34	99	107
Total interest on debt	15,523	14,744	15,725	15,237
Discount on concessional instruments	675	860	675	860
Unwinding of discount and other	377	314	379	316
Finance charges for finance leases	98	106	418	403
Other financing costs	1,150	1,280	1,472	1,579
Total interest expense	16,673	16,024	17,197	16,816

Interest expense

Interest on outstanding borrowings and other finance costs directly related to borrowings are expensed as incurred. Interest expense includes interest on debt, discounts on loans and concessional instruments, unwinding of discount of provisions and amortisation of finance charges for finance leases.

Note 4E: Grants expense

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Current grants expense				
State and Territory governments(a)	99,363	96,418	99,363	96,418
Local governments	6	-	6	-
Private sector	6,262	5,826	6,262	5,826
Overseas	3,659	4,622	3,659	4,622
Non-profit organisations	4,393	5,834	4,393	5,834
Multi-jurisdictional sector	10,319	9,985	10,319	9,985
Other	2,133	1,950	2,062	1,882
Total current grants expense	126,135	124,635	126,064	124,567
Capital grants expense				
Mutually agreed write-downs(b)	1,193	1,473	1,193	1,473
Other capital grants				
State and Territory governments(a)	5,869	6,594	5,869	6,594
Local governments	958	410	958	410
Non-profit organisations	380	-	380	-
Private sector	375	-	375	-
Multi-jurisdictional sector	-	101	-	101
Other	7	293	7	293
Total other capital grants expense	7,589	7,398	7,589	7,398
Total capital grants expense	8,782	8,871	8,782	8,871
Total grants expense	134,917	133,506	134,846	133,438

(a) Current and capital grants to and through 'State and Territory Governments' are limited to grants under the *Federal Financial Relations* framework, as disclosed in Budget Paper No 3 and the Final Budget Outcome. Commonwealth entities may also provide grants to individual state and territory government entities, including under the *Commonwealth Grants Rules and Guidelines*. These are disclosed as grants to non-profit organisations or other grants as appropriate.

(b) Includes an adjustment to 2014-15 of \$384 million relating to an overstatement of revenue and expenses in relation to taxation settlements as detailed in Note 1.

Current and capital transfers (grants)

Where no economic benefits are receivable in return for transfers, amounts are recognised as current transfers. For other transfers, the distinction between current and capital transfers is based on the nature of the activities or assets for which the transfers are made. If the activities or assets relate to the acquisition of assets, other than inventories that will be used in production for one year or more, the transfers are treated as capital transfers. Otherwise they are treated as current transfers.

Where a transaction or event gives rise to legal, social, political or economic consequences such that the Australian Government has little discretion to avoid the sacrifice of future economic benefits, a liability and expense is recognised. In other circumstances, grants are recognised to the extent that the services required to be performed by the grantee have been performed or the grant eligibility criteria have been satisfied. Education grants to and through the states, territories and other education providers, such as universities, are recognised on a due and payable basis.

Capital transfers also include mutually agreed write-downs. These transactions occur when both parties agree to the write-off of an amount owed to the Australian Government, rather than the Australian Government unilaterally deciding to write-down or write-off a debt. Mutually agreed write-downs include, for example, the remission of a penalty raised for overdue taxes receivable. Mutually agreed write-downs are recorded as an expense in the calculation of fiscal balance.

The 2015-16 Final Budget Outcome provides a disaggregation of current and capital grants to state and territory governments, and local governments.

Note 4F: Expenses by function

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
General public services	24,207	24,149	25,144	25,019
Defence	27,034	23,693	27,175	23,771
Public order and safety	4,823	4,443	4,819	4,527
Education	32,122	31,100	32,122	31,100
Health	69,301	65,696	69,297	65,675
Social security and welfare	152,122	147,785	152,049	147,700
Housing and community amenities	4,741	4,835	4,741	4,836
Recreation and culture	3,462	3,533	3,462	3,529
Fuel and energy	6,423	6,799	6,423	6,799
Agriculture, forestry and fishing	2,261	2,412	2,261	2,409
Mining, manufacturing and construction	3,103	3,550	3,201	3,648
Transport and communication	7,083	6,432	18,572	16,767
Other economic affairs	9,198	10,045	8,937	10,016
Other purposes	83,831	82,873	83,827	82,875
Total expenses	429,711	417,345	442,030	428,671

The functional classification of expenses shows the total accrual outlays according to the socioeconomic objectives that the Australian Government aims to achieve. The following table provides a description of each function.

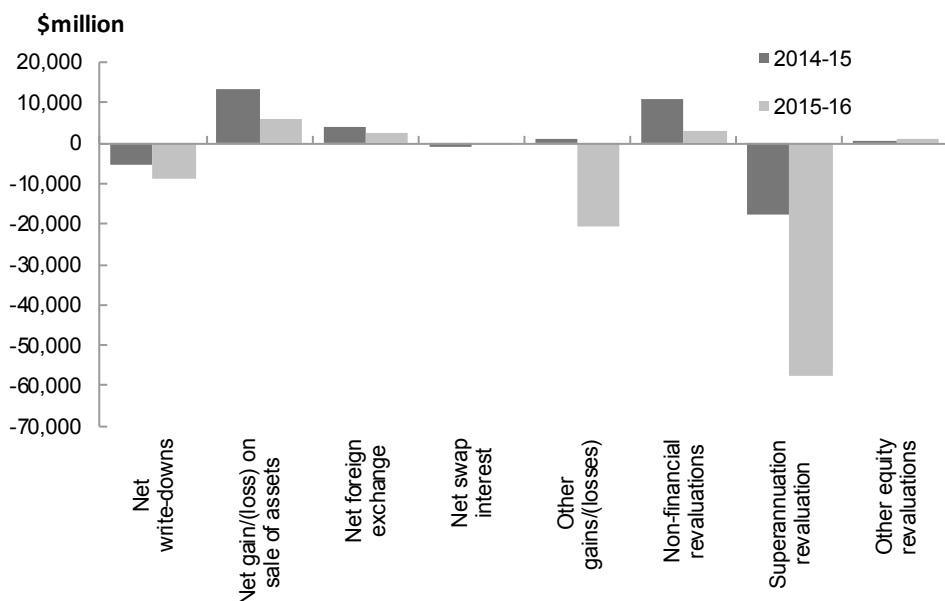
Function	Description
General public services	Includes legislative and executive affairs, financial and fiscal affairs, foreign affairs, foreign economic aid, general research, general economic and social planning, statistical services, and government superannuation benefits.
Defence	Includes military and civil defence affairs, foreign military aid and defence research.
Public order and safety	Includes administration of the federal legal system and the provision for legal services, including legal aids, to the community. Public order and safety expenses also include law enforcement and intelligence activities, and the protection of Australian Government property.
Education	Includes primary and secondary education, university and other higher education, technical and further education, preschool and special education, and transportation of students.

Function	Description
Health	Includes general hospitals, repatriation hospitals, mental health institutions, nursing homes, special hospitals, hospital benefits, medical benefits, medical clinics and practitioners, dental clinics and practitioners, maternal and infant health, ambulance services, school and other public health services, pharmaceuticals, medical aids and appliances, and health research.
Social security and welfare	Includes sickness benefits, benefits to ex servicemen and their dependants, invalid and other permanent disablement benefits, old age benefits, widows, deserted wives, divorcees and orphans benefits, unemployment benefits, family and child benefits, sole parent benefits, family and child welfare, and aged and handicapped welfare.
Housing and community amenities	Includes housing and community development, water supply, household garbage and other sanitation, sewerage, urban stormwater drainage, protection of the environment, and street lighting.
Recreation and culture	Includes public halls and civic centres, swimming pools and beaches, national parks and wildlife, libraries, creative and performing arts, museums, art galleries, broadcasting, and film production.
Fuel and energy	Includes coal, petroleum, gas, nuclear affairs, and electricity.
Agriculture, forestry and fishing	Includes agricultural land management, agricultural water resources management, agricultural support schemes, agricultural research and extension services, forestry and fishing.
Mining, manufacturing and construction	Includes activities relating to prospecting, mining and mineral resources development, manufacturing activities and research into manufacturing methods, materials and industrial management, and activities associated with the building and construction industry.
Transport and communication	Includes road construction, road maintenance, parking, water transport, rail transport, air transport, pipelines, multi mode urban transit systems, and communications.
Other economic affairs	Includes storage, saleyards, markets, tourism and area promotion, and labour and employment affairs.
Other purposes	Includes public debt transactions, general purpose inter government transactions, and natural disaster relief.

Note 5: Other economic flows

Included within 'other economic flows' are the changes in the volume or value of assets and liabilities that do not result from transactions. This includes impairment write-downs (unless mutually agreed with the counter-party), fair value movements, changes in assumptions underpinning actuarial assessments, and foreign exchange gains or losses. For government reporting, these flows are distinguished from transactions as they do not involve an interaction between entities and are often not related to economic activities (for example, production, income generation, consumption, wealth accumulation).

Noting that other economic flows comprise both gains and losses, the predominant sources of other economic flows are as follows:



Of the above, the following flows are included in the measurement of the accounting operating result. The remaining movements are adjusted directly to equity.

- **Net write-down of assets** (refer Note 5A) comprised the revaluation and impairment of financial and non-financial assets.
- **Net gains/(losses) from the sale of assets** (refer Note 5B) the difference between the proceeds and the carrying amount of assets sold after selling costs.
- **Net foreign exchange gains/(losses)** (refer Note 5C) comprised unrealised gains/losses from the translation of assets and liabilities held overseas.
- **Net swap interest gains/(losses)** (refer Note 5D) comprised interest accrued or incurred on swaps and other derivatives (a form of financing transaction).
- **Other gains/(losses)** (refer Note 5E) are other gains/losses not classified elsewhere but which are included in the calculation of the operating result for accounting purposes.

Note 5A: Net write-down of assets (including bad and doubtful debts)

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
FINANCIAL ASSETS				
Receivables - bad and doubtful debts				
Goods and services	177	101	177	114
Taxes due(a)	3,302	3,050	3,302	3,050
Other	588	681	588	681
Total receivables - bad and doubtful debts	4,067	3,832	4,067	3,845
Net write-down/(reversal) and impairment arising from the revaluation of investments and other financial assets(b)	4,097	628	4,097	623
Total financial write-down and impairment	8,164	4,460	8,164	4,468
NON-FINANCIAL ASSETS				
Inventories	562	419	572	427
Land	-	2	(8)	(2)
Buildings	52	67	23	53
Specialist military equipment(c)	214	324	214	324
Other infrastructure, plant and equipment	54	148	85	222
Heritage and cultural assets	3	31	3	31
Intangibles	(302)	(90)	(247)	53
Net write-down, impairment and fair value losses arising from the revaluation of non-financial assets	583	901	642	1,108
Total net write-down and impairment of assets and fair value losses	8,747	5,361	8,806	5,576

(a) Includes an adjustment to 2014-15 of \$27 million relating to an overstatement of taxation revenue and expenses.

(b) HELP loan fees of \$559 million have been reclassified in 2014-15 to other sources of non-taxation revenue.

(c) As detailed in Note 1, the Australian Government restated SME to fair value for 2014-15. As a result of this, impairment losses of \$583 million and impairment reversals of \$103 million were treated as net revaluation decrements.

Impairment of taxes due

Impairment losses for large tax receivables (greater than \$10 million) are estimated on an individual assessment basis, with a default percentage impairment rate (based on historical collectability rates) applied to debts where the taxpayer is insolvent or has entered into a payment arrangement. The remaining tax receivables (less than or equal to \$10 million) impairment loss is derived using an automated model which allows large debt populations to be examined and provides for statistical credibility, in conjunction with interpretive judgement.

Impairment of non-financial assets

Non-financial assets were assessed for impairment at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if

the Australian Government was deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Note 5B: Net gains/(losses) from the sale of assets

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
FINANCIAL ASSETS				
Net gains/(losses) from sale of investments	6,052	6,964	5,896	6,881
Net gains/(losses) - financial assets	6,052	6,964	5,896	6,881
COMMONWEALTH ENTITIES				
Proceeds from sale of entities	-	5,686	-	5,686
less written down value of entities	-	(4,034)	-	(1,256)
Net gains/(losses) - Entities(a)	-	1,652	-	4,430
NON-FINANCIAL ASSETS				
Proceeds from sale of land and buildings	220	211	237	286
less selling costs of sale of land and buildings	(4)	(4)	(4)	(5)
less written down value of land and buildings sold	(204)	(258)	(219)	(282)
Net gains/(losses) - land and buildings	12	(51)	14	(1)
Proceeds from sale of investment properties	4	15	39	15
less selling costs of investment properties	-	(1)	-	(1)
less written down value of investment properties	(4)	(15)	(30)	(15)
Net gains/(losses) - investment properties	-	(1)	9	(1)
Proceeds from sale of infrastructure, plant and equipment	68	47	81	50
less selling costs of infrastructure, plant and equipment	(8)	(11)	(8)	(11)
less written down value of infrastructure, plant and equipment sold	(65)	(53)	(74)	(59)
Net gains/(losses) - I,P&E	(5)	(17)	(1)	(20)
Proceeds from sale of intangibles	153	2,144	153	2,144
less selling costs of intangibles	-	-	-	-
less written down value of intangibles	(2)	(16)	(2)	(16)
Net gains/(losses) - intangibles	151	2,128	151	2,128
less written down value of heritage and cultural assets	-	(1)	-	(1)
Net gains/(losses) - heritage and cultural assets	-	(1)	-	(1)
Proceeds from sale of biological assets	41	15	41	15
less selling costs of biological assets	-	-	-	-
less written down value of biological assets	(41)	(15)	(41)	(15)
Net gains/(losses) - biological assets	-	-	-	-
Total net gains/(losses) - non-financial assets	158	2,058	173	2,105
Net gains/(losses) from sale of assets	6,210	10,674	6,069	13,416
Add back selling costs included in expenses	12	16	12	17
Net gains/(losses) from sale of assets in other economic flows	6,222	10,690	6,081	13,433

(a) Comparatives include gain on sale of Medibank Private Limited, excluding selling costs. In 2014-15, these costs comprised \$1.5 million in employee costs and \$77.3 million in supplier costs which are reported within the respective categories — refer Note 2.

Note 5C: Net foreign exchange gains/(losses)

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Net foreign exchange gains/(losses)				
Non-speculative	429	(2,335)	2,247	3,808
Net foreign exchange gains/(losses)	429	(2,335)	2,247	3,808

Foreign currency translation

Transactions are translated to Australian dollars at the rate of exchange applicable at the date of the transaction. Balances and investments are translated at the exchange rates applicable at balance date.

Note 5D: Net swap interest gains/(losses)

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Net swap interest				
Net swap interest revenue	2,203	1,025	2,301	1,114
Net swap interest expense	(2,711)	(2,002)	(2,777)	(2,049)
Net swap interest received	(508)	(977)	(476)	(935)

Swap interest

Consistent with the ABS GFS Manual, interest on swaps and other derivatives is classified as a financing transaction and recorded in 'other economic flows'.

Note 5E: Other gains/(losses)

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Fair value gains - financial instruments	(17,813)	5,694	(17,795)	1,698
Fair value gains - biological assets	22	22	22	22
Fair value gains - investment properties	16	2	48	9
Net actuarial gains/(losses)	(3,244)	(1,141)	(3,244)	(1,141)
Other	108	129	108	129
Total other gains/(losses)	(20,911)	4,706	(20,861)	717

Other gains/(losses)

Other gains/(losses) primarily comprise:

- fair value movements in financial assets and liabilities categorised as 'held at fair value through profit and loss' (refer Note 11B);
- the actuarial revaluation of provisions, other than superannuation; and
- gains resulting from the derecognition of financial assets previously categorised as 'available for sale' (refer Note 11B) with the gain equal to the accumulated fair value movements previously taken direct to reserves.

Note 6: Fair value measurement**(a) Fair value measurement**

The following tables provide an analysis of assets and liabilities that are measured at fair value.

Australian Government

	2016				2015			
	Level 1(a) \$m	Level 2(b) \$m	Level 3(c) \$m	Total \$m	Level 1(a) \$m	Level 2(b) \$m	Level 3(c) \$m	Total \$m
Financial assets:								
Receivables	-	1,766	40,276	42,042	-	1,931	33,606	35,537
Investments, loans and placements(d)	59,098	48,105	64,319	171,522	62,769	42,324	52,146	157,239
Equity investments	38,298	30	4,291	42,619	41,871	7	4,059	45,937
Total financial assets	97,396	49,901	108,886	256,183	104,640	44,262	89,811	238,713
Non-financial assets:								
Land	-	10,323	1,415	11,738	-	9,897	1,056	10,953
Buildings	-	3,858	23,921	27,779	-	4,539	23,338	27,877
Specialist military equipment	-	-	56,217	56,217	-	-	51,889	51,889
Plant, equipment and infrastructure	-	1,592	34,793	36,385	-	2,028	29,279	31,307
Heritage and cultural assets	-	7,589	3,873	11,462	-	7,717	3,615	11,332
Other	5	678	-	683	5	555	-	560
Total non-financial assets	5	24,040	120,219	144,264	5	24,736	109,177	133,918
Total fair value measurements of assets in the statement of financial position	97,401	73,941	229,105	400,447	104,645	68,998	198,988	372,631

(a) Fair value measurement (continued)**Australian Government**

	2016				2015			
	Level 1(a)	Level 2(b)	Level 3(c)	Total	Level 1(a)	Level 2(b)	Level 3(c)	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial liabilities:								
Government securities	480,736	-	-	480,736	363,907	40,114	-	404,021
Other	200	5,086	1,395	6,681	-	3,720	1,609	5,329
Total financial liabilities	480,936	5,086	1,395	487,417	363,907	43,834	1,609	409,350
Total fair value measurements of liabilities in the statement of financial position	480,936	5,086	1,395	487,417	363,907	43,834	1,609	409,350

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at measurement date.

(b) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.

(c) Level 3: Unobservable inputs for the asset or liability.

(d) Investments, loans and placements includes gold holdings of \$4,165 million at 30 June 2016 (30 June 2015: \$3,866 million). Gold holdings were previously categorised with gold loans under 'loans and receivables' in Note 11B. 'Loans and receivables' are not included in the above fair value disclosure.

General Government	2016					2015				
	Level 1(a)	Level 2(b)	Level 3(c)	Total		Level 1(a)	Level 2(b)	Level 3(c)	Total	
	\$m	\$m	\$m	\$m		\$m	\$m	\$m	\$m	
Financial assets:										
Receivables	-	1,122	38,941	40,063		-	1,205	32,434	33,639	
Investments, loans and placements	1,759	72,105	64,177	138,041		745	68,809	51,906	121,460	
Equity investments	38,299	29	48,611	86,939		41,872	7	44,261	86,140	
Total financial assets	40,058	73,256	151,729	265,043		42,617	70,021	128,601	241,239	
Non-financial assets:										
Land	-	9,463	1,157	10,620		-	9,097	845	9,942	
Buildings	-	3,179	22,368	25,547		-	3,653	21,986	25,639	
Specialist military equipment	-	-	56,217	56,217		-	-	51,889	51,889	
Plant, equipment and infrastructure	-	888	13,393	14,281		-	1,263	12,360	13,623	
Heritage and cultural assets	-	7,589	3,873	11,462		-	7,717	3,615	11,332	
Other	5	465	-	470		5	355	-	360	
Total non-financial assets	5	21,584	97,008	118,597		5	22,085	90,695	112,785	
Total fair value measurements of assets in the statement of financial position	40,063	94,840	248,737	383,640		42,622	92,106	219,296	354,024	
Financial liabilities:										
Government securities	480,736	-	-	480,736		363,908	40,113	-	404,021	
Other	-	3,290	1,251	4,541		-	6,897	1,483	8,380	
Total financial liabilities	480,736	3,290	1,251	485,277		363,908	47,010	1,483	412,401	
Total fair value measurements of liabilities in the statement of financial position	480,736	3,290	1,251	485,277		363,908	47,010	1,483	412,401	

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at measurement date.
(b) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
(c) Level 3: Unobservable inputs for the asset or liability.

(b) Valuation technique and inputs for Level 2 and Level 3 fair value measurements

The following table summarises the valuation techniques used by entities in determining the values of Level 2 and Level 3 categorised assets and liabilities.

Valuation Technique	Description
Cost approach	The amount required currently to replace the service capacity of an asset.
Depreciated replacement cost (DRC)	The amount a market participant would be prepared to pay to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence is determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration.
Income approach / Discounted cash flows	Converts future amounts (cash flow or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
Market approach	Market approach seeks to estimate the current value of an asset with reference to recent market evidence including transactions of comparable assets within local second-hand markets.
Net assets of entities	The value of the corporation's assets less the value of its liabilities.

The following table summarises the inputs used by entities:

Input Used	Description
Cost of new assets	The amount a market participant would pay to acquire or construct a new substitute asset of comparable utility.
Per square metre cost	The square metre cost of new or replacement assets.
Consumed economic benefit	Physical deterioration, functional or technical obsolescence and conditions of the economic environment specific to the asset.
Capitalisation rate	Rate of return on a real estate investment property based on the income that the property is expected to generate.
Market transactions	Market transactions of comparable assets, adjusted by a small amount to reflect differences in price sensitive characteristics (eg. size, condition etc).
Adjusted market transactions	Market transactions of comparable assets, involving significant professional judgement to adjust for other factors (eg. economic conditions) and their impact on price sensitive characteristics.
Principal due	The amount of the principal remaining to be repaid.
Discount rate	Rate at which cash flows are discounted back to the value at measurement date.
Future cash flows	The future predicted cash flows of the asset.
Foreign exchange rates	Rates used to convert foreign currencies into Australian dollars.
Weighted average cost of capital (WACC)	The average rate of return a company is expected to pay to all its security holders to finance its assets.
Net assets of entities	The value of the corporation's assets less the value of its liabilities.

The valuation techniques and inputs have been applied to the various classes of assets and liabilities as follows:

Receivables

Receivables categorised as Level 2 and Level 3 have been valued using a discounted cash flow approach. The primary inputs include principal due and the discount rate.

Level 3 receivables are differentiated from Level 2 in that the majority (by value) are calculated each year by actuarial assessment. The two main measures impacting on the calculation are the face value of the debt not expected to be repaid and the fair value of the remaining receivable, calculated as the present value of projected future cash flows. The remaining balance of the Level 3 receivables have been valued consistent with previous years, using professional valuation advice.

These balances are sensitive to changes in the underlying assumptions, including the discount rate. For example, the Government's largest receivable, Higher Education Loan Program loans, are sensitive to changes in the future Consumer Price Index (CPI) growth, the discount rate (yield curve) and debt not expected to be repaid.

Investments, loans and placements

Investments, loans and placements categorised as Level 2 have been valued using a market approach based on observable market transactions. Those categorised as Level 3 use the following techniques:

	Category	Valuation technique(s)	Inputs used
IMF Quota	3	Cost approach	Foreign exchange rates
Collective investment vehicles	3	Discounted cash flow	Discount rate
	3	Market approach	Adjusted market transactions
Other interest bearing securities	3	Discounted cash flow	Discount rate
Other	3	Net assets of entities	Net assets of entities

Investments, loans and placements categorised as Level 3 that are valued using the net assets technique have been based on either the latest available audited accounts of those entities or internal management accounts because this is the most relevant available information at the end of the period. This information is an observable input. Due to the diverse nature of the collective investment vehicles, it is not possible to provide a range of inputs and associated sensitivity analysis for those investments of the Future Fund Management Agency.

For the IMF quota investment, the value of shares are held in foreign currency and converted to an Australian dollar equivalent for inclusion in the financial statements. This information is an observable input.

Equity investments

Equity investments categorised as Level 2 have been valued using a market approach based on observable market transactions. Those categorised as Level 3 use the following techniques:

	Category	Valuation technique(s)	Inputs used
Shares	3	Values of shares held Net assets of entities	Foreign exchange rates Net assets of entities
Investment in public corporations	3	Net assets of entities Discounted cash flow	Net assets of entities WACC
Equity accounted investments	3	Net assets of entities	Net assets of entities

GGs investments in public corporations that have been valued using a discounted net cash flow technique are assumed to be a cash generating unit. Cash flow projections for a forecast period and terminal year are based on management corporate plans and have been discounted using a WACC. A decrease of 0.3 per cent in the discount rate used in the WACC calculations would result in an approximate \$0.2 billion increase in the value of the assets. An increase of 0.3 per cent in the discount rate would result in a decrease of \$0.4 billion in the value of assets.

For international shares held by the Treasury, the value is held in foreign currency and converted to an Australian dollar equivalent for inclusion in the financial statements. This information is an observable input.

Financial liabilities

Financial liabilities categorised as Level 2 have been valued using a market approach based on observable market transactions. Those categorised as Level 3 use the following techniques:

	Category	Valuation technique(s)	Inputs used
Other			
Loans	3	Market approach	Adjusted market transactions
Payables	3	Discounted cash flow	Discount rate Bond rate

Financial liabilities categorised as Level 3 have had their fair value determined using market interest rates and valuation techniques that incorporate discounted cash flows or adjusted market transactions. They have been classified Level 3 because they have either complex interest rate formulas that include foreign exchange rates, a variety of discount rates, use the Nikkei index or they have knockout or callable features. The inputs are considered observable.

Non-financial assets

Non-financial assets categorised as Level 2 and 3 have been valued using the following techniques:

	Category	Valuation technique(s)	Inputs used
Land	2	Market approach	Market transactions
		Income approach	Future cash flows
	3	Market approach	Adjusted market transactions
		Income approach	Future cash flows
Buildings	2	Market approach	Market transactions
	2	Income approach	Future cash flows
	2	Cost approach	Replacement cost of new assets
	3	Cost approach	Replacement cost of new assets
			Consumed economic benefit
			Adjusted market transactions
			Future cash flows
			Adjusted market transactions
Specialist military equipment	3	Market approach	Adjusted market transactions
		Cost approach	Replacement cost of new assets
			Consumed economic benefit
			Adjusted market transactions
Other infrastructure plant and equipment	2	Market approach	Market transactions
	2	Cost approach	Replacement cost of new assets
	3	Cost approach	Replacement cost of new assets
			Consumed economic benefit
			Future cash flows
			Adjusted market transactions
	2	Market approach	Market transactions
			Replacement cost of new assets
			Replacement cost of new assets
Heritage and cultural assets	3	Cost approach	Replacement cost of new assets
			Consumed economic benefit
			Adjusted market transactions
			Market transactions
Other	3	Market approach	Adjusted market transactions
	2	Market approach	Market transactions

Government entities engage professional valuers to undertake comprehensive valuations of these classes of non-financial assets as specified in their respective accounting policy notes. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date.

Level 3 non-financial assets valued using the market approach utilise market transactions of similar assets adjusted using professional judgement for each individual asset's characteristics to determine fair value. Non-financial assets that do not transact with enough frequency and transparency to develop objective opinions of value from observable market evidence have been valued utilising the depreciated replacement cost approach, unless this cannot be reliably calculated.

(c) Reconciliation for recurring Level 3 fair value measurements

The following tables provide reconciliations for the movement in balances for assets and liabilities classified as Level 3.

Australian Government

	Financial Assets				Non-Financial Assets ^(b)				Financial Liabilities	
	Receivables	Investments, loans and placements	Equity investments	Land	Buildings	Other IPE	Heritage and cultural assets	Other		
										\$m
Opening balance at 1 July 2014	27,583	42,132	3,779	1,004	22,916	25,077	2,664	1,919		
Purchases / Payments	8,233	14,128	220	5	1,741	5,563	30	108		
Sales / Repayments	(2,096)	(13,497)	(192)	(10)	(38)	(153)	-	(532)		
Gains and losses recognised in profit or loss	(114)	616	128	3	(1,523)	(2,120)	(46)	122		
Gains and losses recognised in equity	-	8,334	34	31	348	1,074	(135)	-		
Transfers in / (out) of level 3 ^(a)	-	433	90	23	(106)	(162)	1,102	(8)		
Closing balance at 30 June 2015	33,606	52,146	4,059	1,056	23,338	29,279	3,615	1,609		
Purchases / Payments	531	25,286	310	208	1,667	7,048	39	1		
Sales / Repayments	(2,561)	(15,117)	(98)	(2)	(60)	(49)	-	(346)		
Gains and losses recognised in profit or loss	398	2,054	(6)	5	(1,418)	(2,516)	(83)	131		
Gains and losses recognised in equity	8,302	(39)	1	86	85	474	(252)	-		
Transfers in / (out) of level 3 ^(a)	-	(11)	25	62	309	557	554	-		
Closing balance at 30 June 2016	40,276	64,319	4,291	1,415	23,921	34,793	3,873	1,395		

(a) Transfers between levels are determined on an individual entity basis and usually occur when there has been a change to the valuation technique or inputs used to determine the fair value measurement.

(b) For the reconciliation of SME refer to Note 7D.

General Government

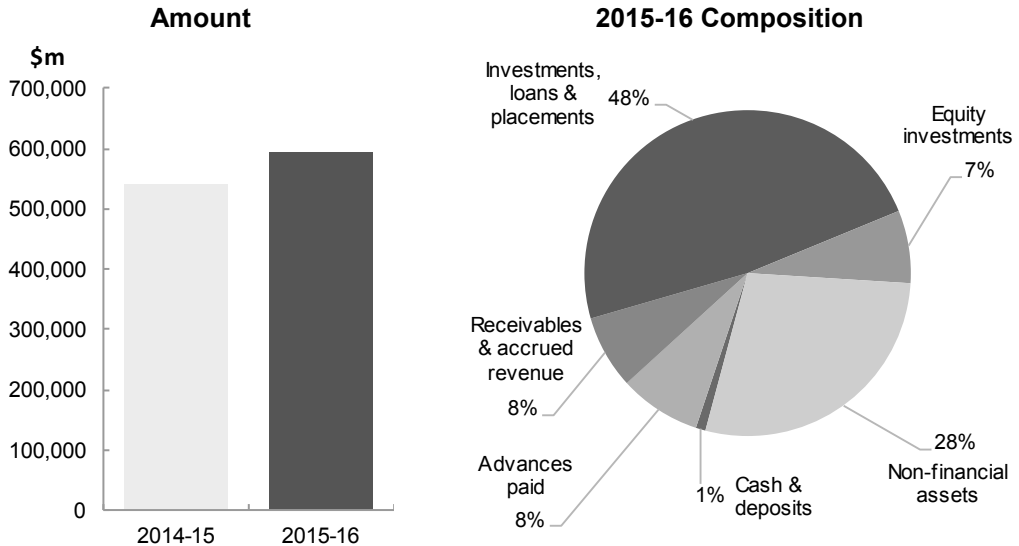
	Financial Assets					Non-Financial Assets ^(b)					Financial Liabilities	
	Receivables		Investments, loans and placements		Equity investments	Land	Buildings	Other IPE	Heritage and cultural assets	Other		
	\$m	\$m	\$m	\$m							\$m	\$m
Opening balance at 1 July 2014	26,727	41,655	39,177	792	21,677	11,918	2,664	1,667				
Purchases / Payments	7,945	13,995	5,211	1	1,611	1,660	30	107				
Sales / Repayments	(1,960)	(13,465)	(1,739)	-	(10)	(48)	-	(389)				
Gains and losses recognised in profit or loss	(278)	607	(4,007)	(2)	(1,461)	(1,327)	(46)	106				
Gains and losses recognised in equity	-	8,360	5,633	31	275	301	(135)	-				
Transfers in / (out) of level 3 ^(a)	-	754	(14)	23	(106)	(144)	1,102	(8)				
Closing balance at 30 June 2015	32,434	51,906	44,261	845	21,986	12,360	3,615	1,483				
Purchases / Payments	-	25,205	7,586	203	1,530	1,494	39	-				
Sales / Repayments	(2,165)	(14,984)	(98)	(2)	(59)	(46)	-	(342)				
Gains and losses recognised in profit or loss	370	2,054	(6)	(3)	(1,354)	(1,466)	(83)	110				
Gains and losses recognised in equity	8,302	7	(3,157)	66	10	403	(252)	-				
Transfers in / (out) of level 3 ^(a)	-	(11)	25	48	255	648	554	-				
Closing balance at 30 June 2016	38,941	64,177	48,611	1,157	22,368	13,393	3,873	1,251				

(a) Transfers between levels are determined on an individual entity basis and usually occur when there has been a change to the valuation technique or inputs used to determine the fair value measurement.

(b) For the reconciliation of SME refer to Note 7D.

Note 7: Assets

Assets are probable future economic benefits obtained or controlled by an Australian Government entity as a result of past transactions and activities undertaken, and other events. These include financial assets such as deposits, loans and investments, and non-financial assets such as land, buildings and inventories. The total Australian Government assets and relative composition of assets are as follows:



- **cash and deposits** include cash on hand or at bank and short-term deposits;
- **advances paid** (refer Note 7A) include loans receivable and are predominantly provided for policy purposes such as student loans;
- **other receivables and accrued revenue** (refer Note 7A) include statutory amounts due for the collection of tax or the recovery of benefits, and contractual amounts due for the provision of goods and services or other arrangements;
- **investments, loans and placements** (refer Note 7B) comprise securities and other non-equity investments held for liquidity or policy purposes;
- **equity investments** (refer Note 7C) cover shares held by the Government Investment Funds and corporations and, at the GGS level, include the investment in public corporations (which are eliminated upon consolidation); and
- **non-financial assets** comprise the Government's holdings of land and buildings, plant, equipment and infrastructure, heritage and cultural assets, investment properties and intangibles (refer Note 7D). Non-financial assets also includes inventories for sale, use or distribution (refer Note 7E) and other non-financial assets (refer Note 7F).

Note 7A: Advances paid and receivables

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Advances paid				
Loans to State and Territory governments(a)	3,839	3,685	3,839	3,685
Higher Education Loan Programme	36,808	30,445	36,808	30,445
Student Financial Supplement Scheme	411	531	411	531
Other(a)	6,077	6,232	7,373	7,344
<i>less</i> Provision for doubtful debts	(237)	(235)	(237)	(236)
Total advances paid	46,898	40,658	48,194	41,769
Other receivables				
Goods and services receivable	1,045	895	1,932	1,686
Recoveries of benefit payments	5,346	4,206	5,346	4,206
Taxes receivable	34,204	35,441	34,215	35,434
Other financial assets	40	25	281	324
Other	7,048	6,910	3,962	4,556
<i>less</i> Provision for doubtful debts - Goods and services and other	(840)	(739)	(858)	(754)
<i>less</i> Provision for doubtful debts - Personal benefits receivable	(1,034)	(766)	(1,034)	(766)
<i>less</i> Provision for doubtful debts - Taxes receivable	(11,764)	(13,107)	(11,764)	(13,107)
<i>less</i> Provision for credit amendments(b)	(2,946)	(4,134)	(2,946)	(4,134)
Total other receivables	31,099	28,731	29,134	27,445
Accrued revenue				
Accrued taxation revenue	13,699	12,785	13,699	12,785
Other accrued revenue	245	389	399	548
Total accrued revenue	13,944	13,174	14,098	13,333
Other receivables and accrued revenue	45,043	41,905	43,232	40,778
Total advances paid and receivables	91,941	82,563	91,426	82,547
Advances paid and receivables maturity schedule				
Not later than one year(b)	41,082	35,547	39,021	34,391
Later than one year	50,859	47,016	52,405	48,156
by maturity	91,941	82,563	91,426	82,547

(a) Includes a reclassification of \$540 million loans receivable in 2014-15 in line with consolidated entity financial statements.

(b) Includes an adjustment to 2014-15 of \$430 million relating to changes in percentages used to calculate taxation provisions for credit amendments and refunds.

Advances (loans)

Advances are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment loss, unless these loans have been designated as 'held at fair value through profit or loss'. Interest is recognised on loans evenly in proportion to the amount outstanding over the period to repayment. Loans designated as 'held at fair value through profit or loss' include the Higher Education Loan Program and certain concessional loans.

Other receivables and accrued revenue

Trade debtors, bills of exchange, promissory notes and other receivables are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest rate method, less any impairment loss. Other accrued revenue is recognised when a service has been provided but has not been invoiced. Accrued revenue is recognised at the nominal amounts due. Taxation related accounting policies are disclosed in Note 3A. Collectability of debts is reviewed at balance date. An allowance is made when collection of the debt is judged to be less, rather than more, likely. The following tables provide a reconciliation of the movement in the provision for doubtful debts, excluding those associated with statutory receivables.

Reconciliation of the allowance for doubtful debts^(a)

Australian Government	Advances and loans \$m	Goods and Services \$m	Other \$m	Total \$m
Opening balance 1 July 2014	(229)	(167)	(1,811)	(2,207)
less Amounts written off	(16)	(47)	(4)	(67)
less Amounts recovered and reversed	(1)	(38)	(4)	(43)
plus Amount recognised in net surplus	7	(95)	(1)	(89)
plus Other movement(b)	(31)	(2)	1,229	1,196
Closing balance 30 June 2015	(236)	(179)	(575)	(990)
less Amounts written off	(17)	(53)	(13)	(83)
less Amounts recovered and reversed	-	(23)	-	(23)
plus Amount recognised in net surplus	(1)	(72)	(120)	(193)
plus Other movement	(17)	25	(26)	(18)
Closing balance 30 June 2016	(237)	(150)	(708)	(1,095)

General Government	Advances and loans \$m	Goods and Services \$m	Other \$m	Total \$m
Opening balance 1 July 2014	(228)	(148)	(1,810)	(2,186)
less Amounts written off	(16)	(47)	(4)	(67)
less Amounts recovered and reversed	(1)	(31)	(4)	(36)
plus Amount recognised in net surplus	7	(93)	(1)	(87)
plus Other movement(b)	(31)	(1)	1,228	1,196
Closing balance 30 June 2015	(235)	(164)	(575)	(974)
less Amounts written off	(17)	(54)	(13)	(84)
less Amounts recovered and reversed	-	(23)	-	(23)
plus Amount recognised in net surplus	(1)	(71)	(120)	(192)
plus Other movement	(18)	26	(26)	(18)
Closing balance 30 June 2016	(237)	(132)	(708)	(1,077)

(a) Excludes statutory receivables such as taxes receivable and personal benefits recoverable.

(b) Comparatives include \$1,200 million reversal of previous impairment write-down for the Higher Education Superannuation Program following agreement with the NSW Government that NSW will resume making payments to eligible NSW universities to meet its share of superannuation expenses.

Note 7B: Investments, loans and placements

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Gold	-	-	4,566	3,915
Deposits	33,039	38,268	13,499	5,890
Government securities	1	2	143,116	138,649
Residential mortgage backed securities(a)	2,808	4,288	2,808	4,288
International Monetary Fund quota	12,354	5,913	17,258	11,824
Defined benefit superannuation plan assets	-	-	34	266
Collective investment vehicles	50,017	45,121	50,017	45,121
Other interest bearing securities	39,283	29,661	39,283	29,661
Other(b)	12,492	11,018	16,206	12,742
Total investments, loans and placements	149,994	134,271	286,787	252,356

(a) Investments in residential mortgage-backed securities are to support competition in the residential mortgage market and to meet government policy objectives. Residential mortgage-backed securities held for investment purposes are classified elsewhere.

(b) 2014-15 includes a reclassification of the Government's investment in the Australian National University (ANU) to investments in associated entities (\$2,105 million).

Investments, loans and placements

Gold holdings (including gold on loan to other institutions) are valued at market value at balance date. The Australian Government measures gold at the bid price.

Depending on the type of instrument, deposits are recognised at either nominal or market value. Interest is credited to revenue as it accrues. Deposits have varying terms and rates of interest.

Investments in domestic and foreign government securities, except those contracted for sale under repurchase agreements, are classified by the Reserve Bank of Australia (RBA) as 'at fair value through profit or loss'. Securities purchased and contracted for sale under repurchase agreements are classified as 'loans and receivables' and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

The IMF quota represents Australia's membership subscription to the IMF. The investment is denominated in special drawing rights (SDR) and is valued at the Australian dollar equivalent. SDR is an international type of monetary reserve made up of a basket of national currencies created by the IMF.

The Future Fund employs collective investment vehicles (CIVs) as part of its investment strategy. Investments in CIVs are recorded at fair value on the date which consideration is provided to the contractual counterparty under the terms of the relevant subscription agreement.

Other interest bearing securities are primarily held by the Australian Government investment funds (refer Note 11B) and include negotiable certificates of deposit, mortgage and asset backed securities, bank bills and corporate debt securities.

Note 7C: Equity investments

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Investments - Shares	39,718	42,976	40,133	43,377
Investment in public corporations(a)	44,735	40,603	-	-
Equity accounted investments	2,777	2,815	2,779	2,817
Total equity investments	87,230	86,394	42,912	46,194

(a) Includes an adjustment to 2014-15 of \$793 million in relation to recognition of NBN net assets at fair value in accordance with AASB 116 *Property, Plant and Equipment*.

Equity investments

At the whole of government level, equity investments primarily consist of the Future Fund's holdings of listed equities and listed managed investment schemes. These investments are designated as 'financial assets through profit or loss' on acquisition.

At the GGS level, equity investments also include the Australian Government's ownership interest in public corporations in the public non-financial corporation (PNFC) and PFC sectors. The investments are eliminated at whole of government level. Where the public corporation is a government business enterprise whose principal function is to engage in commercial activities in the private sector, the investment is measured at fair value, applying a discounted cash flow technique. Investments in other public corporations are measured as the Australian Government's proportional interest in the net assets of the public corporation as at the end of the reporting period.

Note 7D: Land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles**Australian Government**

Item	Land(a)		Buildings(a)		Specialist military equipment(b)		Other plant, equipment and infrastructure(a)		Heritage and cultural assets		Investment property		Computer software		Other intangibles		Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Gross book value	-	-	-	-	-	-	-	-	-	-	-	-	11,081	4,601	-	-	15,682	-
Accumulated depreciation/amortisation	-	-	-	-	-	-	-	-	-	-	-	-	(6,002)	(1,002)	-	-	(7,004)	-
At Cost	-	-	-	-	-	-	-	-	-	-	-	-	5,079	3,599	-	-	8,678	-
Gross book value	10,953	29,685	51,889	35,625	11,446	387	-	-	-	-	-	-	-	-	-	-	139,985	-
Accumulated depreciation/amortisation	-	(1,808)	-	(4,318)	(114)	-	-	-	-	-	-	-	-	-	-	-	(6,240)	-
At Fair Value	10,953	27,877	51,889	31,307	11,332	387	-	-	-	-	-	-	-	-	-	-	133,745	-
Net book value at 30 June 2015	10,953	27,877	51,889	31,307	11,332	387	5,079	3,599	142,423	17,022	(7,191)	9,831	149,143	(5,185)	143,958	153,789	153,789	153,789
Gross book value	-	-	-	-	-	-	-	-	-	-	-	-	12,319	4,703	-	-	17,022	-
Accumulated depreciation/amortisation	-	-	-	-	-	-	-	-	-	-	-	-	(6,574)	(617)	-	-	(7,191)	-
At Cost	-	-	-	-	-	-	-	-	-	-	-	-	5,745	4,086	-	-	9,831	-
Gross book value	11,738	29,528	56,217	39,731	11,552	377	-	-	-	-	-	-	-	-	-	-	149,143	-
Accumulated depreciation/amortisation	-	(1,749)	-	(3,346)	(90)	-	-	-	-	-	-	-	-	-	-	-	(5,185)	-
At Fair Value	11,738	27,779	56,217	36,385	11,462	377	-	-	-	-	-	-	-	-	-	-	143,958	-
Net book value at 30 June 2016	11,738	27,779	56,217	36,385	11,462	377	5,745	4,086	153,789	153,789	153,789	153,789	153,789	153,789	153,789	153,789	153,789	153,789

(a) Includes an adjustment to 2014-15 of \$793 million in relation to recognition of NBN net assets at fair value in accordance with AASB 116 Property, Plant and Equipment.

(b) Includes an adjustment to 2014-15 of \$9,237 million in relation to recognition of SME at fair value.

Australian Government assets at fair value — Revaluation period

Assets held at fair value as at 30 June 2016 were based on valuations conducted in the following periods:

Australian Government																		
	Land		Buildings		Specialist military equipment		Other plant, equipment and infrastructure		Heritage and cultural assets		Investment property		Computer software		Other intangibles		Total	
Item	\$m		\$m		\$m		\$m		\$m		\$m		\$m		\$m		\$m	
2014-15 or earlier	1,942		4,892		-		3,081		1,510		-		-		-		11,425	
2015-16	9,796		22,887		56,217		33,304		9,952		377		-		-		132,533	
Assets at fair value at 30 June 2016	11,738		27,779		56,217		36,385		11,462		377		-		-		143,958	

Australian Government assets at fair value — Valuation details

Details pertaining to valuations can be found in the audited financial statements of individual Australian Government controlled entities.

SME were valued by internal experts, with the exception of three platforms which were subject to independent valuation. Other asset classes were predominantly independently valued. Valuations are undertaken with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date.

Australian Government leased assets

Australian Government entities lease assets under a number of finance leases. As at 30 June 2016, the carrying value of leased assets included \$1,294 million in land and buildings (2015: \$1,400 million) and \$368 million in plant and equipment (2015: \$262 million). These entities were within the GGS. Refer Note 8D for accounting policy disclosure on finance leases.

Australian Government assets under construction

Australian Government assets under construction include \$1,301 million (2015: \$2,886 million) in land and buildings, \$14,260 million (2015: \$11,993 million) in SME and \$5,886 million (2015: \$5,849 million) in other plant, equipment and infrastructure (including computer software and intangibles).

Australian Government**Reconciliation of movement in land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles****Australian Government****Heritage**

Item	Land(a) \$m	Buildings(a) \$m	Specialist military equipment(b) \$m	Other plant, equipment and infrastructure(a) \$m	Heritage cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m
Net book value at 1 July 2014	10,396	27,003	41,243	26,990	10,825	375	5,077	3,459	125,368
Additions:									
Purchases and entity acquisitions	21	2,419	5,065	5,412	71	17	671	289	13,965
Acquisition by finance lease	4	20	-	457	-	-	-	-	481
Internally developed	-	-	-	-	-	-	783	-	783
Revaluations: write-ups	649	324	8,758	570	489	10	-	-	10,800
Depreciation/amortisation expense	(1)	(1,623)	(2,872)	(2,400)	(73)	-	(1,169)	(114)	(8,252)
Recoverable amount write-downs	(2)	(83)	(325)	(152)	(3)	-	(150)	(117)	(832)
Reversal of write-downs	4	8	-	3	-	-	5	213	233
Other movements	-	(135)	25	477	24	1	(121)	(131)	140
Disposals	(118)	(56)	(5)	(50)	(1)	(16)	(17)	-	(263)
As at 30 June 2015	10,953	27,877	51,889	31,307	11,332	387	5,079	3,599	142,423
Additions:									
Purchases and entity acquisitions	31	1,638	6,753	6,923	109	16	465	248	16,183
Acquisition by finance lease	1	5	-	687	-	-	-	-	693
Internally developed	-	-	-	-	-	-	1,366	-	1,366
Revaluations: write-ups	915	166	1,143	273	475	41	-	-	3,013
Depreciation/amortisation expense	-	(1,644)	(3,968)	(2,821)	(104)	-	(1,242)	(79)	(9,858)
Recoverable amount write-downs	8	(13)	(214)	(70)	(4)	-	(55)	(57)	(405)
Reversal of write-downs	-	8	-	4	-	-	(1)	358	369
Other movements	(139)	(193)	623	138	(346)	(37)	136	17	199
Disposals	(31)	(65)	(9)	(56)	-	(30)	(3)	-	(194)
As at 30 June 2016	11,738	27,779	56,217	36,385	11,462	377	5,745	4,086	153,789

(a) Includes an adjustment to 2014-15 of \$793 million in relation to recognition of NBN net assets at fair value in accordance with AASB 116 *Property, Plant and Equipment*.

(b) Includes an adjustment to 2014-15 of \$9,237 million in relation to recognition of SME at fair value.

General Government

Reconciliation of movement in land and buildings, plant, equipment and infrastructure, heritage and cultural assets and intangibles

General Government		Specialist military equipment(a)		Other plant, equipment and infrastructure		Heritage and cultural assets		Investment property		Computer software		Other intangibles		Total	
Item	Land \$m	Buildings \$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Gross book value	-	-	-	-	-	-	-	-	-	8,644	3,533	-	-	12,177	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	(4,955)	(678)	-	-	(5,633)	-
At Cost:	-	-	-	-	-	-	-	-	-	3,689	2,855	-	-	6,544	-
Gross book value	9,942	26,993	51,889	16,239	11,446	187	-	-	-	-	-	-	-	116,696	-
Accumulated depreciation/amortisation	-	(1,354)	-	(2,616)	(114)	-	-	-	-	-	-	-	-	(4,084)	-
At Fair Value:	9,942	25,639	51,889	13,623	11,332	187	-	-	-	-	-	-	-	112,612	-
Net book value at 30 June 2015	9,942	25,639	51,889	13,623	11,332	187	-	-	-	3,689	2,855	-	-	119,156	-
Gross book value	-	-	-	-	-	-	-	-	-	9,137	3,750	-	-	12,887	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	(5,232)	(374)	-	-	(5,606)	-
At Cost:	-	-	-	-	-	-	-	-	-	3,905	3,376	-	-	7,281	-
Gross book value	10,620	27,209	56,217	16,891	11,552	164	-	-	-	-	-	-	-	122,653	-
Accumulated depreciation/amortisation	-	(1,662)	-	(2,610)	(90)	-	-	-	-	-	-	-	-	(4,362)	-
At Fair Value:	10,620	25,547	56,217	14,281	11,462	164	-	-	-	-	-	-	-	118,291	-
Net book value at 30 June 2016	10,620	25,547	56,217	14,281	11,462	164	-	-	-	3,905	3,376	-	-	125,572	-

(a) Includes an adjustment to 2014-15 of \$9,237 million in relation to recognition of SME at fair value.

General Government assets at fair value — Revaluation period

Assets held at fair value as at 30 June 2016 were based on valuations conducted in the following periods:

2014-15 or earlier	1,942	4,892	-	2,832	1,509	-	-	-	-	-	-	-	-	11,175	-
2015-16	8,678	20,655	56,217	11,449	9,953	164	-	-	-	-	-	-	-	107,116	-
Assets at fair value at 30 June 2016	10,620	25,547	56,217	14,281	11,462	164	-	-	-	-	-	-	-	118,291	-

General Government										
Item	Land \$m	Buildings \$m	Specialist military equipment(a) \$m	Other plant, equipment and infrastructure \$m	Heritage cultural assets \$m	Investment property \$m	Computer software \$m	Other intangibles \$m	Total \$m	
Net book value at 1 July 2014	9,331	24,847	41,243	13,097	10,825	183	3,719	2,464	105,709	105,709
Additions:										
Purchases and entity acquisitions	18	2,333	5,065	1,605	71	16	292	276	9,676	9,676
Acquisition by finance lease	4	20	-	49	-	-	-	-	73	73
Internally developed	-	-	-	-	-	-	652	-	652	652
Revaluations: write-ups	691	262	8,758	123	490	2	-	-	10,326	10,326
Depreciation/amortisation expense	(1)	(1,509)	(2,872)	(1,480)	(73)	-	(876)	(51)	(6,862)	(6,862)
Recoverable amount write-downs	(2)	(79)	(325)	(89)	(3)	-	(68)	(56)	(622)	(622)
Reversal of write-downs	-	(6)	-	(1)	-	-	5	213	211	211
Other movements	14	(187)	25	367	23	2	(19)	9	234	234
Disposals	(113)	(42)	(5)	(48)	(1)	(16)	(16)	-	(241)	(241)
As at 30 June 2015	9,942	25,639	51,889	13,623	11,332	187	3,689	2,855	119,156	119,156
Additions:										
Purchases and entity acquisitions	17	1,479	6,753	1,691	109	15	395	210	10,669	10,669
Acquisition by finance lease	1	5	-	159	-	-	-	-	165	165
Internally developed	-	-	-	-	-	-	800	-	800	800
Revaluations: write-ups	844	231	1,143	195	475	9	-	-	2,897	2,897
Depreciation/amortisation expense	-	(1,499)	(3,968)	(1,654)	(104)	-	(913)	(49)	(8,187)	(8,187)
Recoverable amount write-downs	-	(41)	(214)	(35)	(4)	-	(47)	(11)	(352)	(352)
Reversal of write-downs	-	8	-	1	-	-	(1)	358	366	366
Other movements	(155)	(223)	623	348	(346)	(43)	(15)	13	202	202
Disposals	(29)	(52)	(9)	(47)	-	(4)	(3)	-	(144)	(144)
As at 30 June 2016	10,620	25,547	56,217	14,281	11,462	164	3,905	3,376	125,572	125,572

(a) Includes an adjustment to 2014-15 of \$9,237 million in relation to recognition of SME at fair value.

General government assets under construction

GGs assets under construction include \$1,147 million (2015: \$2,609 million) in land and buildings, \$14,260 million (2015: \$11,993 million) in SME and \$1,679 million (2015: \$2,254 million) in other plant, equipment and infrastructure (including computer software and intangibles).

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

Australian Government capital commitments include buildings \$2,623 million (2015: \$2,099 million), SME \$15,064 million (2015: \$11,630 million) and property, plant and equipment (including computer software and intangibles) \$10,844 million (2015: \$10,077 million).

General Government capital commitments include buildings \$2,570 million (2015: \$2,068 million), SME \$15,064 million (2015: \$11,630 million) and property, plant and equipment (including computer software and intangibles) \$2,757 million (2015: \$2,348 million).

Capital commitments include GST where relevant (2015 figures have been restated to reflect this).

Land, buildings, plant, equipment and infrastructure

Property, plant and equipment are stated at fair value. Certain small entities and public corporations may adopt a cost basis in their own financial statements. Where the difference is material to the CFS, an adjustment is made on consolidation.

Where available, the fair value of property, plant and equipment is determined by reference to market-based evidence, for example, the market value of similar properties. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant or equipment and the item is rarely sold, fair value is estimated using an income (net present value/discounted cash flows) or a depreciated replacement cost approach. The valuation technique used for each class of depreciable assets is disclosed in Note 6.

The cost of restoration or removal is provided for in the measurement of property, plant and equipment when a legal or constructive obligation exists. These costs include obligations relating to the dismantling, removal, remediation, restoration and other expenditure associated with the Australian Government's fixed assets or site fit-outs. Restoration provisions are initially recorded when a reliable estimate of the costs to be incurred can be determined and are discounted to present value. Estimates are based upon a review of lease contracts, legal requirements, historical information, and expected future costs. Any changes to these estimates are adjusted on a progressive basis as required.

Intangibles

The Australian Government's intangibles comprise internally developed software for internal use, water entitlements and intangible assets acquired by public corporations (PNFCs and PFCs). When public corporations acquire investments in controlled, jointly controlled or associated entities, and pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is recognised as goodwill.

Intangibles are carried at cost. Water entitlements are classified as indefinite life intangibles and are therefore subject to annual impairment testing. Goodwill and other indefinite life intangibles are not amortised but tested for impairment on an annual basis.

Note 7E: Inventories

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Inventories held for sale				
Finished goods(a)	890	1,081	976	1,146
Raw materials and stores	58	57	73	70
Work in progress	406	242	417	247
Total inventories held for sale	1,354	1,380	1,466	1,463
Consumable stores and inventories held for distribution	7,213	7,035	7,245	7,068
Total inventories	8,567	8,415	8,711	8,531

(a) Finished goods include \$218 million valued at net realisable value (2015: \$193 million).

Inventories

Inventories held for sale are valued at the lower of cost and net realisable value. Inventories held for distribution are measured at cost, adjusted for any loss of service potential. Quantities on hand and items of inventory are periodically evaluated with excess and obsolete inventory recorded as a reduction to inventory and an expense.

Note 7F: Other non-financial assets

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Total biological assets	49	44	49	44
Total assets held for sale	257	129	257	129
Prepayments	4,219	4,516	4,382	4,620
Other	113	207	177	269
Total other non-financial assets	4,638	4,896	4,865	5,062

Note 7G: Assets by function^(a)

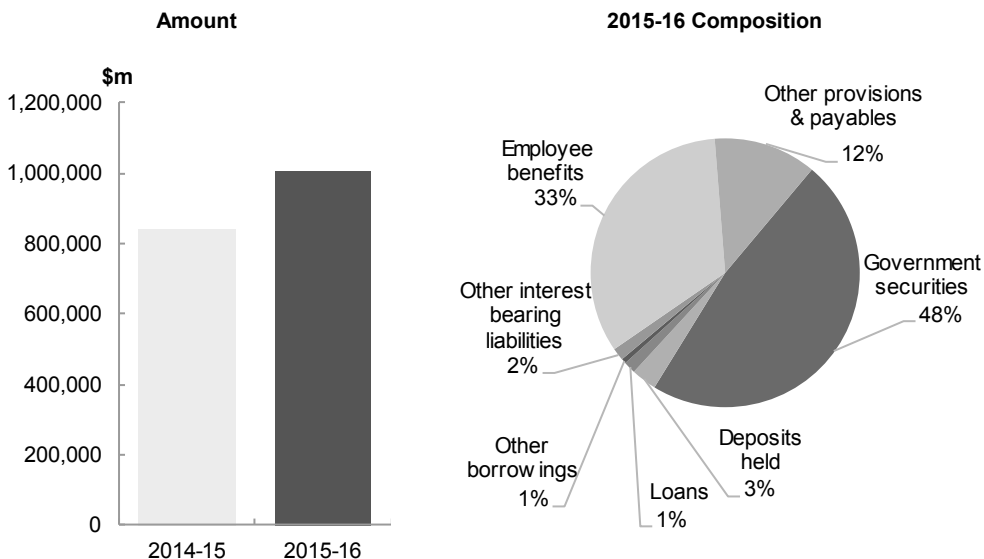
	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
General public services	205,999	184,719	205,131	184,422
Defence	93,810	89,121	93,736	89,507
Public order and safety	2,678	2,915	2,678	2,944
Education	39,577	33,240	39,577	33,240
Health	2,298	1,261	2,277	1,244
Social security and welfare	7,930	8,317	7,930	7,979
Housing and community amenities	9,541	8,435	9,541	8,389
Recreation and culture	12,847	12,428	12,847	12,428
Fuel and energy	1,458	1,538	1,458	1,538
Agriculture, forestry and fishing	956	910	956	908
Mining, manufacturing and construction	530	525	2,566	2,384
Transport and communication	20,505	16,404	29,245	24,578
Other economic affairs	31,875	30,926	162,150	154,982
Other purposes(b)	41,576	48,112	24,110	17,392
Total assets	471,580	438,851	594,202	541,935

(a) Refer to Note 4F for a description of each function.

(b) Cash and deposits that are not allocated to other functions are included in the 'other purposes' function.

Note 8: Liabilities

Liabilities are obligations to another entity to provide economic value as a result of past transactions and activities undertaken by Australian Government entities. They include interest bearing liabilities, provisions and payables. The total Australian Government liabilities and relative composition of liabilities are as follows:



- **deposits held** (refer Note 8A) predominantly the liability for cash and deposits held with the RBA and other PFCs;
- **Government securities** (refer Note 8B) issued by the Australian Government in the form of Treasury Bonds, Treasury Indexed Bonds and Treasury Notes;
- **loans** (refer Note 8C) comprising promissory notes issued to the IMF and other multi-lateral organisations to meet Australia's international financial obligations, bonds issued by public corporations, and other loans;
- **other borrowings** (refer Note 8D) covers obligations under finance lease arrangements;
- **other interest bearing liabilities** (refer Note 8E) includes Australia's liability to the IMF as denominated in special drawing rights (SDR), repurchase agreements entered into by the RBA, and other debt not elsewhere classified;
- **employee benefits** (refer Note 8F) captures amounts owing to current and former employees, the largest of which is the Australian Government obligation for the unfunded proportion of the public sector and military superannuation schemes; and
- **other provisions and payables** (refer Note 8G) including year-end obligations for goods and services, current and capital transfers and unearned income. Also includes a liability for currency notes issued by the RBA.

Note 8A: Deposit liabilities

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Exchange settlement funds	-	-	24,745	23,360
Drawing accounts held with the Reserve Bank of Australia	-	-	321	370
State governments	-	-	121	59
Monies held in trust	211	212	211	212
Foreign governments	-	-	4,810	758
Other	6	6	532	365
Total deposit liabilities	217	218	30,740	25,124

Deposits held

Deposits include deposits at call and term deposits and are classified as financial liabilities. Deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of deposits and is paid periodically or at maturity.

Note 8B: Government securities

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Treasury bonds	434,333	359,868	434,333	359,868
Treasury notes	4,986	5,978	4,986	5,978
Treasury indexed bonds	41,417	38,176	41,417	38,176
Other	2,625	5,915	21	22
Total government securities	483,361	409,937	480,757	404,044

Government securities

Government securities liabilities are measured at fair value. Where a security is issued at a premium or discount, the premium or discount is recognised at that time and included in the book value of the liability.

Note 8C: Loans

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Bills of exchange and promissory notes	9,651	4,825	10,618	5,658
Bonds (non-Treasury)	-	-	2,732	2,908
Loans	700	868	1,311	1,141
Total loans	10,351	5,693	14,661	9,707
Loans maturity schedule				
Not later than one year	111	212	1,278	801
Later than one year	10,240	5,481	13,383	8,906
Total loans by maturity	10,351	5,693	14,661	9,707

Loans

Loans are initially recognised at fair value plus any transaction costs that are directly attributable to the issue, and are subsequently measured at either amortised cost or at fair value through profit and loss. Any differences between the final amounts paid to discharge the loan and the initial loan proceeds (including transaction costs) are recognised in the operating statement over the borrowing period using the effective interest method.

Note 8D: Other borrowings

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Finance lease liabilities as at the reporting date are reconciled to the lease liability as follows:				
Not later than one year	154	143	641	588
Later than one year and not later than five years	713	650	2,254	1,965
Later than five years	2,272	2,277	12,161	11,072
Minimum lease payments	3,139	3,070	15,056	13,625
/less future finance charges	1,532	1,561	9,027	8,289
Total finance lease liabilities	1,607	1,509	6,029	5,336
Finance lease liabilities maturity schedule				
Current	52	45	184	192
Non-current	1,555	1,464	5,845	5,144
Total finance lease liabilities by maturity	1,607	1,509	6,029	5,336

Other borrowings (finance leases)

Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased assets. Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease contract. A corresponding liability is recognised at the same time in other borrowings. Lease payments are allocated between the principal component and the interest expense. The discount rate used is the interest rate implicit in the lease.

Note 8E: Other interest bearing liabilities

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Swap principal payable	653	942	2,896	2,174
Amounts outstanding under repurchase agreements	-	-	4,526	1,780
Special reserve - IMF special drawing rights	5,795	5,633	5,795	5,633
Finance lease incentives(a)	11	17	11	25
Other	14	9	1,823	1,565
Total other interest bearing liabilities	6,473	6,601	15,051	11,177

(a) \$114 million liabilities in 2014-15 have been reclassified from finance lease incentives to other payables consistent with the treatment in 2015-16.

Other interest bearing liabilities

The IMF Special Drawing Right (SDR) allocation liability reflects the current value in Australian dollars of the Australian Government's liability to repay Australia's cumulative allocations of SDRs. Interest is payable to the IMF in relation to the amount by which Australia's SDR holdings are below Australia's net cumulative allocations. Interest expense is recognised as it accrues.

In the course of financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities. Securities sold but contracted for purchase under repurchase agreements are reported within the relevant investment category and are valued at market prices. The counterparty obligation to repurchase is reported as an interest bearing liability and is measured at amortised cost. The difference between the sale and purchase price is recognised as interest expense over the term of the agreement.

Note 8F: Employee benefits

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Total superannuation liability	314,228	248,209	314,958	248,540
Other employee liabilities				
Leave and other entitlements	7,754	7,263	10,388	9,770
Accrued salaries and wages	192	785	264	875
Workers compensation claims	3,164	3,225	3,324	3,374
Separations and redundancies	126	154	446	388
Military compensation	6,737	5,333	6,737	5,333
Other	329	292	399	351
Total other employee liabilities	18,302	17,052	21,558	20,091
Total employee and superannuation liabilities	332,530	265,261	336,516	268,631

Superannuation

The superannuation liability represents the present value of the Australian Government's unfunded liability to employees for past services as estimated by the actuaries of the respective superannuation plans. Additional information on superannuation is included in Note 11C.

Other employee liabilities

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits due within 12 months of balance date are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. The liability for leave and other entitlements includes provision for annual leave and long service leave.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

The liability for long service leave is calculated using expected future increases in wages and salary rates including related on-costs and is discounted using applicable government bond rates. In determining the present value of the liability, attrition rates, pay increases through promotion and inflation are taken into account. The liability for long service leave has been determined by reference to the work of actuaries.

Workers' compensation claims

The provision represents an estimate of the present value of future payments in respect of claims for events occurring before 30 June 2016 with a 75 per cent probability of sufficiency. The expected future payments are discounted to present value using a risk free rate. The expected future payments include claims reported but not yet paid, claims incurred but not yet reported, and anticipated claims handling costs.

Military compensation

The military compensation provision represents an estimate of the present value of future payments in respect of claims under the *Military Rehabilitation and Compensation Act 2004* and the *Safety, Rehabilitation and Compensation Act 1988* arising from service rendered before 30 June 2016. The provision is calculated by discounting future payments using a yield curve derived from the yields on Commonwealth bonds of various durations as at 30 June 2016.

The military compensation provision is subject to inherent sources of uncertainty arising from a range of factors, including that claims may not be received until many years after the event and subsequent payments for income support, health and rehabilitation services can extend over a long period of time. The Annual Report for the Department of Veterans' Affairs details the assumptions and areas of uncertainty underpinning the actuarial estimation of the military provision.

Note 8G: Other provisions and payables

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Payables				
Suppliers payable				
Trade creditors	3,612	3,646	4,400	4,431
Operating lease rental payable	430	325	430	325
Other creditors	1,293	630	1,500	802
Total suppliers payable	5,335	4,601	6,330	5,558
Total personal benefits payable(a)	3,820	4,722	3,820	4,722
Total subsidies payable(b)	539	444	539	444
Grants payable				
State and territory governments	198	630	198	630
Private sector	566	573	566	573
Overseas	1,455	1,483	1,455	1,483
Local governments	-	3	-	3
Other	440	550	440	550
Total grants payable	2,659	3,239	2,659	3,239
Other payables				
Unearned income	866	916	1,230	1,248
Accrued expenses	915	897	2,796	2,518
Other(c)	1,060	988	1,148	1,014
Total other payables	2,841	2,801	5,174	4,780
Total payables	15,194	15,807	18,522	18,743
Australian currency on issue	-	-	70,209	65,481
Other provisions				
Grant provisions	9,325	8,457	9,325	8,457
Provision for outstanding benefits and claims(d)	15,897	14,550	15,897	14,550
Provision for tax refunds(d)	2,972	3,338	2,972	3,338
Provision for restoration, decommissioning and makegood	2,546	2,159	2,651	2,259
Subsidy provisions	4,053	4,085	4,053	4,085
Other(d)	568	538	845	819
Total other provisions	35,361	33,127	35,743	33,508
Total provisions	35,361	33,127	105,952	98,989
Total other provisions and payables	50,555	48,934	124,474	117,732

(a) \$1,261 million personal benefits payable have been reclassified in 2014-15 to provision for outstanding benefits to better reflect the nature of the transaction.

(b) \$4,085 million subsidies payable have been reclassified in 2014-15 to subsidies provisions to better reflect the nature of the transaction.

(c) \$114 million of other payables have been reclassified from finance lease incentives in 2014-15.

(d) 2014-15 includes adjustments of \$450 million relating to changes in percentages used to calculate provision for credit amendments and refunds and overstatement of revenue and expenses in relation to settlements.

Other provisions and payables

Payables

Trade and other payables, including accruals, are recorded when Australian Government entities are required to make future payments as a result of a purchase of assets or services. Payables are initially recognised at fair value and are subsequently measured at amortised cost.

Australian currency on issue

Australian currency issued represents a liability of the RBA in favour of the holder. Currency issued for circulation, including demonetised currency, is measured at face value. When the RBA issues currency notes to the commercial banks it receives, in exchange, funds equal to the full face value of the notes issued.

Provisions

Non-employee provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect is material, provisions are determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The calculation of provisions is subject to the volatility of economic assumptions used, in particular, the discount rate and the effects of inflation as well as the impact of variations in payment patterns. In calculating the estimated cost of future payments for each provision, actuarial advice is generally obtained. Given the uniqueness of a number of the Australian Government provisions and the use of actuarial assumptions, there can be an element of uncertainty in the estimate.

Reconciliation of movement in provisions

2016	General Government	Australian Government
	\$m	\$m
Movement table:		
Balance of provisions at 1 July	33,127	98,989
Provisions made during the year	11,943	16,840
Provisions used during the year	(10,043)	(10,206)
Provisions remeasured, reversed or unwound during the year	334	329
Balance of provisions at 30 June	35,361	105,952

Note 9: Net revaluation increases/(decreases)

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Financial assets				
Equity investments(a)	(2,970)	3,676	640	383
Non-financial assets				
Land	847	679	921	638
Buildings	208	272	139	329
Specialist military equipment(b)	1,157	8,757	1,157	8,757
Other infrastructure, plant and equipment(a)	227	169	305	615
Heritage and cultural assets	474	518	474	518
Provision for restoration, decommissioning and makegood	(47)	9	(47)	9
Total non-financial assets	2,866	10,404	2,949	10,866
Total revaluation increases/(decreases)	(104)	14,080	3,589	11,249

(a) Includes adjustments to 2014-15 of \$475 million for the GGS (being adjustment to Department of Communication's Administered investment in NBN Co Ltd) and \$508 million for the Australian Government in relation to recognition of NBN Co Ltd non-financial assets at fair value in accordance with AASB 116 *Property, Plant and Equipment*.

(b) Includes an adjustment to 2014-15 of \$8,757 million in relation to recognition of SME at fair value.

Note 10: Reconciliation of cash**Cash and deposits**

Cash includes: cash at bank and on hand, short term deposits at call and investments in short-term money market instruments that are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts. Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Deposits at call, which are held for longer-term investment purposes, are classified as investments. Cash is recognised at its nominal amount.

A: Reconciliation of net operating balance to net cash flows from operating activities

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Net operating balance	(34,658)	(37,767)	(39,508)	(41,202)
<i>less</i> Revenues not providing cash				
Other	4,551	1,304	4,551	1,138
Total revenues not providing cash	4,551	1,304	4,551	1,138
<i>plus</i> Expenses not requiring cash				
Increase in employee entitlements	10,108	8,382	10,856	8,636
Depreciation/amortisation expense	8,132	6,804	9,773	8,131
Mutually agreed writedowns	1,193	1,473	1,193	1,473
Other non-cash expenses	1,031	1,881	1,033	1,882
Total expenses not requiring cash	20,464	18,540	22,855	20,122
<i>plus</i> Cash provided by working capital items				
(Increase)/Decrease in receivables	(7,625)	(5,224)	(1,197)	(2,826)
(Increase)/Decrease in inventories	(461)	(489)	(498)	(498)
(Increase)/Decrease in other financial assets	(787)	1,280	(665)	1,200
(Increase)/Decrease in other non-financial assets	37	(1,479)	(22)	(1,472)
Increase/(Decrease) in benefits, subsidies and grants payable	(454)	(189)	(588)	(189)
Increase/(Decrease) in supplier payables	(72)	2,417	(1,479)	2,098
Increase/(Decrease) in other provisions and payables	1,794	(516)	(2,188)	(962)
Total cash provided/(used) by working capital items	(7,568)	(4,200)	(6,637)	(2,649)
equals Net cash from/(used by) operating activities	(26,313)	(24,731)	(27,841)	(24,867)

B: Reconciliation of cash at the end of the reporting period as shown in the cash flow statement to the related items in the balance sheet.

Cash at the end of the reporting period as shown in the Australian Government and GGS cash flow statement is equal to 'cash and deposits' as reported in the Australian Government and GGS balance sheet.

Note 11: Risks

The assets and liabilities in the 2015-16 CFS incorporate assumptions and judgements based on the best information available at the date of signing. The judgements and estimates made by Australian Government entities that have the most significant impact on the amounts recorded in the financial statements are disclosed in Note 1.8. In addition to these, there are a range of factors that may influence the amounts ultimately realised or settled in future years that relate to past events. The disclosure of these factors increases the transparency of the risks to the Government's financial position. These risks have been grouped into the following disclosures:

- **Contingencies** (refer Note 11A) comprise possible obligations or assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events. The Australian Government has issued a number of guarantees, such as those relating to guarantee schemes for the banking and financial sector, while other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government. The Government has robust and conservative strategies in place to reduce its potential exposure to these contingent liabilities. Please refer to 2016-17 Budget Paper No 1, Statement 8: Statement of Risks⁵ which outlines general fiscal risks, specific contingent liabilities and specific contingent assets that may affect the budget balances.
- **Financial Instrument** disclosures (refer Note 11B) concern the contractual arrangements that the Australian Government has entered into for policy, liquidity or financing purposes. To varying degrees, Australian Government entities are exposed to the following risks arising from financial instruments:
 - market risk;
 - credit risk; and
 - liquidity risk.
- **Defined benefit superannuation plans** (refer Note 11C) comprise the Government's largest liability after public debt. Under these schemes, the Australian Government's obligation is to provide the agreed benefits to current and former employees, for which it bears actuarial risk (the risk that benefits will cost more than expected). Given the significance of these obligations, Note 11C explains the characteristics of the major defined benefit plans and risks associated with them, and describes how the plans may affect the amount, timing and uncertainty of the Australian Government's future cash flows. The Future Fund is a long-term

5 <http://budget.gov.au/2016-17/content/bp1/download/bp1.pdf>.

investment fund that is designed to enhance the ability of the Australian Government to discharge unfunded superannuation liabilities expected after 2020, when an ageing population is likely to place significant pressures on the Government's finances.

Consistent with the amounts recognised in the financial statements, the disclosures are based on the policies, events and arrangements up to the reporting date and do not include policy decisions announced in the 2016-17 Budget Papers which have not yet been enacted or implemented.

Note 11A: Contingencies

Reconciliation of movement in quantifiable contingent liabilities and contingent assets

Item	Contingent Liabilities						Total		Net	
	Guarantees	Indemnities	Uncalled shares or capital	Claims for damages or costs	Other quantifiable contingencies(e)	Total quantifiable liabilities	Contingent assets	Contingent Liabilities		
	(a)	(b)	(c)							
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening balance as at 1 July 2014	16,639	332	13,474	181	5,442	36,068	190	35,878		
Increases(d)	39	3	-	81	255,960	256,083	10	256,073		
Re-measurement	1,362	(2)	2,095	(53)	235	3,637	28	3,609		
Liabilities/Assets crystallised	-	-	-	(38)	(1)	(39)	(51)	12		
Expired	(26)	(18)	-	(20)	(2,802)	(2,866)	(49)	(2,817)		
As at 30 June 2015	18,014	315	15,569	151	258,834	292,883	128	292,755		
Opening balance as at 1 July 2015	18,014	315	15,569	151	258,834	292,883	128	292,755		
Increases	70	-	3,977	64	681	4,792	18	4,774		
Re-measurement	(3,559)	15	(815)	33	(29,892)	(34,218)	68	(34,286)		
Liabilities/Assets crystallised	-	-	-	(12)	-	(12)	(74)	62		
Expired	(254)	(20)	-	(50)	(605)	(929)	(3)	(926)		
As at 30 June 2016	14,271	310	18,731	186	229,018	262,516	137	262,379		

(a) A guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way.

(b) An indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.

(c) Uncalled shares/capital subscriptions include uncalled shares of \$18,664 million (2015: \$15,504 million) in the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency and the Asian Development Bank.

(d) From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions (ADIs) as part of Australia's implementation of the Basel III liquidity requirements. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions.

(e) The comparatives have been reduced by \$1,091 million, reflecting the restatement of the estimated aggregate value of tax in dispute, for which a liability has not been made.

Contingent liabilities and assets are not recognised in the balance sheet but are disclosed in the relevant notes. They are classified as contingent due to:

- uncertainty as to the existence of a liability or asset which will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Australian Government;
- an existing liability in respect of which settlement is not probable or, for a contingent asset, where the inflow of economic benefits is not virtually certain; or
- an existing liability or asset where the amount cannot be reliably measured.

Quantifiable contingencies by sector(a)(b)
as at 30 June 2016

	General Government		Public non-financial corporations		Public financial corporations	
	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m
Quantifiable contingent liabilities						
Guarantees	13,135	16,506	306	389	951	1,180
Indemnities	410	415	-	-	-	-
Uncalled shares/capital subscriptions	18,664	15,504	-	-	68	66
Claims for damages/costs	184	113	2	39	-	-
Other contingencies	4,538	3,810	-	-	224,480	255,024
Total quantifiable contingent liabilities	36,931	36,348	308	428	225,499	256,270
/less Quantifiable contingent assets	127	117	10	12	-	-
Net quantifiable contingencies	36,804	36,231	298	416	225,499	256,270

(a) Refer to the Australian Government contingency disclosures for further details on quantifiable and non-quantifiable contingencies.

(b) Transactions between sectors are included in this table but eliminated in the consolidated statements to avoid double counting. Accordingly, the sum of the amounts for each line item may exceed or be less than the equivalent amount in the consolidated statements.

Non-quantifiable contingencies

The following pages list unquantifiable contingencies. Those identified and reported in the 2015-16 CFS for the first time have been identified as 'new'. Further detail on individual contingencies may be included in the annual report for the respective Commonwealth entity.

Guarantees, indemnities and undertakings

A range of guarantees, indemnities and undertakings have been provided by Australian Government entities in relation to various agreements, deeds and other matters and some of these guarantees, indemnities and undertakings are unlimited. Guarantees, indemnities and undertakings include, but are not limited to:

- **Emergency pest and disease response arrangements** (administered by the Department of Agriculture and Water Resources). Typically, the Australian Government is liable for 50 per cent of total government funding to respond to a disease or pest outbreak and may be expected to contribute bilaterally in situations where an incursion is not covered by a cost sharing agreement or where the relevant industry body is not party to an agreement. The Australian Government may also provide financial assistance to an industry party by funding its initial share of the response. These contributions may subsequently be recovered from the industry over a period of up to ten years, usually by a levy.
- **Native title costs and agreements – access to geospatial data** (administered by the Attorney-General's Department) whereby indemnities have been provided against third-party claims arising from errors in the data. Additionally, under the *Native Title Act 1993*, the Australian Government will be liable for any compensation found to be payable in respect of compensable acts for which the Commonwealth is responsible.
- **Australian Victims of Terrorism Overseas Payment** (administered by the Attorney-General's Department). The Australian Government manages a scheme for providing financial assistance to Australians who are victims of an overseas terrorist act that has been declared by the Prime Minister. Under the scheme, Australians harmed (primary victims) and Australians who are close family members of a person who dies as a direct result of a declared terrorist act (secondary victims) will be able to claim payments of up to \$75,000. As acts of terrorism are unpredictable, the cost of the scheme is unquantifiable.
- The **Terrorism Insurance Scheme** is managed by the Australian Reinsurance Pool Corporation (ARPC) for replacement terrorism insurance covering damage to commercial property including associated business interruption and public liability under the *Terrorism Insurance Act 2003*. The Australian Government guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured parties if the Australian Government's liability would otherwise exceed \$10 billion.
- **Australian Red Cross Society – blood and blood products** (administered by the Department of Health). The Australian Government, states and territories jointly provide indemnity for the Australian Red Cross Blood Service regarding personal injury and loss or damages suffered by a recipient of certain blood and blood products where other available mitigation or cover is not available.

- **CSL Ltd** (administered by the Department of Health). The Australian Government has indemnified CSL Ltd for a specific range of events that occurred during the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004, where alternative cover was not arranged by CSL Ltd. Indemnities relate to certain existing and potential claims made for personal injury, loss or damage suffered through therapeutic and diagnostic use of certain products manufactured by CSL Ltd.
- **Vaccines** (administered by the Department of Health). Indemnities have been provided to the manufacturers of smallpox and influenza vaccines held by the Australian Government, covering possible adverse events that could result from the use of the vaccines in an emergency situation.
- **The Australian Medical Association Ltd (AMA)** (administered by the Department of Health). The AMA, the Commonwealth, Australian Private Hospitals Association Ltd and Private Healthcare Australia have agreed to indemnify each other in respect of any loss, liability, cost, claim or expense due to misuse of confidential information or breach of the *Privacy Act 1988* in relation to participation in and support of the Private Mental Health Alliance.
- **New South Wales Health Administration Council (NSW HAC)** (administered by the National Health Funding Body (NHFB)). An indemnity has been provided to the New South Wales Government through the NSW HAC, in relation to a state funding pool account with the RBA.
- **Accommodation Payment Guarantee Scheme** (administered by the Department of Health). The Australian Government guarantees the repayment of aged care residents' accommodation bonds, entry contribution balances and, from 1 July 2014, refundable accommodation deposits and contributions if the approved provider becomes insolvent or bankrupt and defaults on its refund obligations. From the latest available information, the maximum contingent liability, in the unlikely event that all providers defaulted, is \$18.340 billion. The scheme was activated during 2016. Since the scheme was introduced, it has been activated a total of nine times requiring payment of \$41 million. It is difficult to predict if the past patterns of payments are indicative of future payments, and as such it is not possible to estimate potential future payments.
- **Medical indemnity schemes** (administered by the Departments of Health and Human Services) operate under the *Medical Indemnity Act 2002* and the *Midwife Professional Indemnity (Commonwealth Contribution) Scheme Act 2010*. A provision has been recognised for estimated liabilities under the Incurred but Not Reported Scheme (IBNRS), the High Cost Claims Scheme (HCCS) and the Run-Off Cover Scheme (ROCS). No provision has been recognised for the Exceptional Claims Scheme (ECS), the Midwife Professional Indemnity (Commonwealth Contribution) Scheme (MPIS) and the Midwife Professional Indemnity Run-off Cover Scheme (MPIRCS) as, to date, no payment has been made against these schemes and they could not be reliably measured. However, the nature of these claims is such that

there is usually an extended period between the date of the medical incident and notification to the insurer.

- **Garrison and welfare services and immigration detention services** (administered by the Department Immigration and Border Protection). The Australian Government has entered into limited liability contracts with: Broadspectrum Limited (BRS) for the provision of garrison and welfare services at Regional Processing Countries and Serco Australia Pty Ltd (Serco) for immigration detention services in Australia. The Australian Government has also negotiated arrangements with a number of state and territory governments for the provision of health, education, corrections and policing services to immigration detention facilities and people in immigration detention. Some jurisdictions are seeking indemnification by the Australian Government for the provision of those services.
- **Snowy Hydro Limited water releases** (administered by the Department of Industry, Innovation and Science). The Australian, New South Wales and Victorian governments have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three governments. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.
- **Maralinga clean-up** (administered by the Department of Industry, Innovation and Science). Fourteen unlimited indemnities have been given in relation to the clean-up of the former British atomic test site at Maralinga.
- **Gorgon liquefied natural gas and carbon dioxide storage project** (administered by the Department of Industry, Innovation and Science). Gorgon Joint Venture Partners (GJV) have been indemnified against independent third-party claims (relating to stored carbon dioxide) following closure of the carbon dioxide sequestration project. The Western Australian Government will indemnify the GJV, and the Australian Government will indemnify the Western Australian Government for 80 per cent of any amount determined to be payable.
- **Liquid Fuel Emergency Act 1984** (administered by the Department of Industry, Innovation and Science). The Australian Government and state and territory governments have entered into an inter-governmental agreement in relation to a national liquid fuel emergency. Under the agreement, the Australian Government may incur the direct costs of managing a liquid fuel emergency and includes the possibility of the Australian Government reimbursing the state and territory governments for costs arising from their responses, and potential compensation for industry arising from Australian Government directions under the Act.
- **Maritime incident clean-up** (administered by the Department of Infrastructure and Regional Development). The Australian Maritime Safety Authority is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution and, in all circumstances, is responsible for making

appropriate efforts to recover the costs of any such incidents. The Australian Government meets costs that cannot be recovered from such incidents.

- **National Disability Insurance Scheme (NDIS)** (administered by the Department of Social Services). In bilateral negotiations to establish the NDIS, the Australian Government has committed to provide temporary, untied financial assistance to some jurisdictions that expect to have their GST entitlements adversely affected during the transition to the NDIS. Any impact on the Australian Government is not expected to occur before 2016-17.
- **Officers and directors assisting the Commonwealth in relation to asset sales, reviews and other arrangements** (administered by various entities). From time to time, the Australian Government has provided warranties, undertakings and indemnities (indemnities) to directors, committee members, advisers, officers and/or staff of organisations for activities undertaken in good faith in assisting the Commonwealth in relation to asset sales, reviews and other arrangements.

This includes indemnities in relation to the: directors of NBN Co Ltd (NBN Co); former directors of the Australian Submarine Corporation Pty Ltd; directors and delegates of the board of the Commonwealth Superannuation Corporation, Future Fund Board of Guardians (Board members); certain specified members of the review into the Australian Human Pituitary Hormone Program; and certain specified members of the review into the Diagnostics Products Agreement. The Australian Government has also indemnified the boards and/or acquirers of certain entities against certain claims and costs arising from the sales of the Government entities.

Claims and proceedings

At any time, various Australian Government entities are subject to claims and legal actions that are pending court or other processes. These include, but are not limited to:

- **Suspension of livestock exports to Indonesia** (administered by the Department of Agriculture and Water Resources). Proceedings have commenced against the Australian Government for losses due to the temporary suspension of exports of live animals to Indonesia that was put in place on 7 June 2011. Currently the amount of the claims remains unquantified.
- **Aviation Rescue & Fire Fighting (ARFF) potential contaminated site management (new)** (managed by Airservices Australia). A number of sites around the country have potentially been contaminated with polyfluorinated chemicals that were contained in firefighting foams. The foams containing these chemicals were used widely from 1978 until 2010. The identified contaminants do not break down in the natural environment. Testing and assessment of the fire training grounds commenced in 2008-09 with some additional site assessments conducted in the years following. A sum of \$26 million has been provided at 30 June 2016. It is not possible to quantify any potential remediation costs at this time.

- **Termination of the funding agreement with OPEL Network Pty Ltd** (administered by the Department of Communications and the Arts). The Australian Government is a party to legal action brought against it in relation to an agreement under the Broadband Connect Infrastructure Program. The outcome of that litigation cannot be predicted.
- **Australian Government general insurance fund – Comcover** (administered by the Department of Finance). Comcover's liability for outstanding claims, which includes the expected future cost of claims notified and claims incurred but not reported, is subject to inherent uncertainty in the estimation process. The Australian Government's potential liability cannot be quantified at this time.
- **Tobacco Plain Packaging** (administered by the Department of Health). The Government will continue to fund the defence of legal challenges to the tobacco plain packaging legislation in international forums. Further information about these cases has not been disclosed on the grounds that it may prejudice the outcomes of these cases or may relate to commercial information.

Property remediation — Defence and other sites

From time to time, the Australian Government may have ownership of properties that have a potential or possible environmental and associated concern. Where this is the case, further reviews may be undertaken to determine the extent, nature and estimated costs of remediation, if required. Financial provision has been made for the estimated costs in restoring, decontaminating and decommissioning property. However, for sites where the potential costs cannot be quantified, the obligations have been assessed as remote contingencies. This includes contingencies for Defence properties and the Goongong Dam lease agreement with the Australian Capital Territory Government.

Non-quantifiable contingent assets

Contingent assets include but are not limited to:

- **HIH Claims Support Scheme (HCSS)** (administered by the Department of the Treasury). As an insured creditor in the liquidation of the HIH Group, the Australian Government is entitled to payments arising from the HCSS's position in the Proof of Debt of respective HIH companies. The Australian Government has received payments from the HIH Estate during 2015-16, however, the timing and amount of future payments are unknown and will depend on the outcome of the estimation process and the completion of the liquidation of the HIH Group.
- **International Monetary Fund (IMF)** (administered by the Department of the Treasury). Since 1986, the IMF has used its burden sharing mechanism to make up for the loss of income from unpaid interest charges on the loans of debtor members and to accumulate precautionary balances in a Special Contingent Account to protect the IMF against losses arising from the failure of a member to repay its overdue principal obligations. As there is considerable and inherent uncertainty around the timing and amounts of burden sharing to be refunded to Australia this

contingent asset cannot be reliably measured and as such is recorded as an unquantifiable contingent asset.

- **Wireless local area network.** The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has ongoing patent infringement proceedings in the United States of America in relation to CSIRO's invention of a wireless local area network. CSIRO expects to receive additional revenue which would exceed the associated legal costs.
- **Coal Mining Industry (Long Service Leave) Legislation Amendment Act 2011.** The Coal Mining Industry (Long Service Leave Funding) Corporation (Corporation) is currently undertaking a Transitional Service Review. The provision in the Act provides that 'Eligible Employees' and 'Former Employees' can make application to the Corporation for recognition of period or periods of employment service between 1 January 2000 and December 2011 in the Black Coal Mining Industry that may not be presently recognised and recorded by the Corporation. The Corporation has not recognised levies attributable to those employers of 'Eligible Employees' and 'Former Employees' that previously did not contribute to the Corporation. At balance date, the amounts that would be receivable are not reliably measurable.

Additionally, at any time various Australian Government entities are pursuing various other claims and legal actions that are pending court or other processes.

Other disclosure

The following contingencies are considered remote but are significant and have been disclosed to ensure comparability with contingency disclosures in the 2016-17 Budget, specifically Budget Paper 1, Statement 8: Statement of Risks:

- **Financial Claims Scheme - Deposits** (administered by the Australian Prudential Regulation Authority (APRA)). Provides depositors of authorised deposit-taking institutions and general insurance policyholders with timely access to their funds in the event of a financial institution failure. Authorised under the Banking Act 1959 and available from 1 February 2012, deposits up to \$250,000 at eligible authorised deposit-taking institutions are covered under the Financial Claims Scheme. This \$250,000 cap has no expiry date. When last estimated as at 31 December 2015, deposits eligible for coverage under the Financial Claims Scheme were approximately \$810 billion (31 December 2014: \$766 billion). It is not possible to estimate the amounts of any eventual payments that may be required in relation to the scheme.
- **Financial Claims Scheme - Insurance** (administered by the Australian Prudential Regulation Authority (APRA)). The Policyholder Compensation Facility established under the Insurance Act 1973 provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. Amounts available to meet payments and administer both facilities, in the event of activation, are capped at \$20 billion under the legislation. Any payments made

under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there were a shortfall, a levy would be applied to industry to recover the difference between the amount expended and the amount recovered in the liquidation. It is not possible to estimate the amounts of any eventual payments that may be required in relation to the scheme.

Note 11B: Financial instruments**(a) Categories of financial instruments**

The classification of financial assets depends on the purpose for which they were acquired. The Australian Government classifies its financial assets into the following categories:

Financial assets at fair value through profit or loss	Loans and receivables	Held-to-maturity investments	Available-for-sale
Financial assets held for trading, and those designated at fair value through profit or loss. Derivatives are categorised as held for trading unless they are designated as hedges	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market	Non-derivative financial assets with fixed or determinable payments and fixed maturities where there is a positive intention and ability to hold to maturity	Principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories

Similarly, the classification of financial liabilities depends on the purpose of the liability. The Australian Government classifies its financial liabilities in the following categories:

- financial liabilities at fair value through profit or loss; and
- other liabilities.

Categories of financial instruments by value

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Financial assets(a)				
Loans and receivables	26,308	26,870	128,662	108,252
Financial assets at fair value through profit or loss	201,563	188,771	234,272	221,501
Held to maturity	3,661	3,544	4,153	3,963
Available for sale	63,480	52,467	17,746	13,346
Carrying amount of financial assets	295,012	271,652	384,833	347,062
Financial liabilities				
Financial liabilities at fair value through profit or loss	485,277	412,401	487,417	409,350
Other financial liabilities	26,400	21,494	143,022	124,391
Carrying amount of financial liabilities	511,677	433,895	630,439	533,741

(a) Statutory receivables, gold holdings and equity accounted investments are included in financial assets in the Balance Sheet but excluded from this note as they do not represent cash, an equity instrument of another entity, nor a contractual right to receive cash or another financial asset. At 30 June 2016, statutory receivables were valued at \$37,516 million (30 June 2015: \$34,848 million), gold holdings were valued at \$4,165 million (30 June 2015: \$3,866 million) and equity accounted investments were valued at \$291 million (30 June 2015: \$306 million). Gold holdings were previously categorised with gold loans under 'loans and receivables'.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method less impairment. For 'financial assets at fair value through profit or loss', gains and losses arising from changes in the fair value are included as other economic flows in the operating statement in the period in which they arise.

Certain financial assets categorised as 'loans and receivables' and measured at amortised cost are initially measured at fair value using a valuation method as a quoted price was not observable. In addition, the investment in the IMF quota is classified as 'available for sale' but is measured at cost as fair value cannot be reliably measured due to its unique nature.

Impairment of financial assets

Financial assets are assessed for impairment at each balance date. If there is objective evidence that an impairment loss has been incurred it is recognised as follows:

Financial asset category	Measurement of impairment loss	Recognition of impairment loss
<i>Financial assets held at amortised cost:</i> loans and receivables or held to maturity investments held at amortised cost	Difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.	• carrying amount is reduced by way of an allowance account • loss is recognised in the operating statement as an 'other economic flow'.
<i>Financial assets held at cost:</i> unquoted equity instrument held at cost (because fair value cannot be reliably measured) or a linked derivative asset	Difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.	• loss is recognised in the operating statement as an 'other economic flow'.
<i>Available for sale financial assets</i>	Difference between its cost, less principal repayments and amortisation, and its fair value, less any impairment loss previously recognised in the operating statement.	• transferred from equity (net worth) to the operating statement as an 'other economic flow'.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred. Financial liabilities are derecognised when the obligation under the contract is discharged, cancelled or expired.

Fair value

The fair values of Australian Government and GGS financial assets and liabilities approximate their carrying amounts as reported in the CFS, with the exception of the subsequent measurement of concessional loans categorised as 'loans and receivables' under AASB 139 *Financial Instruments: Recognition and Measurement*. Subsequent to recognition, these loans are carried at amortised cost which may differ to an updated fair value.

Net income, expense and other economic flows from financial assets

	General Government		Australian Government	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Loans and receivables				
Interest income	455	510	73	311
Net gain/(loss) on disposal	-	1	6	8
Net foreign exchange gain/(loss)	(17)	(5)	(20)	(3)
Write-down and impairment	(398)	(249)	(400)	(262)
Interest expenses	(7)	(18)	(7)	(18)
Net gain/(loss)	33	239	(348)	36
Available for sale				
Interest income	5	2	31	29
Dividend income	3,466	2,344	53	38
Net gain/(loss) on disposal	-	(1)	-	(1)
Net foreign exchange gain/(loss)	181	626	181	626
Fair value movements in equity	(2,970)	3,951	641	383
Net gain/(loss)	682	6,922	906	1,075
Held for trading				
Interest income	-	-	1,746	1,527
Net gain/(loss)	-	-	1,746	1,527
Fair value through profit and loss				
Interest income	4,316	3,520	4,369	3,574
Net gain/(loss) on disposal	6,052	6,965	5,890	6,874
Dividend income	2,774	3,833	2,810	3,889
Net foreign exchange gain/(loss)	430	(2,317)	2,252	3,829
Write-down and impairment	-	(7)	-	(7)
Interest expenses	(406)	(517)	(406)	(517)
Other gains/(losses)	(4,384)	11,955	(4,364)	7,964
Net gain/(loss)	8,782	23,432	10,551	25,606
Held to maturity				
Interest income	122	135	122	158
Net foreign exchange gain/(loss)	-	2	-	2
Net gain/(loss)	122	137	122	160

Net income, expense and other economic flows from financial liabilities

	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Held at fair value through profit and loss				
Interest expenses	18,068	16,534	17,681	16,397
Other gains/(losses)	(17,913)	(8,197)	(17,915)	(8,197)
Net gain/(loss) held at fair value through profit and loss	155	8,337	(234)	8,200
Other financial liabilities				
Interest expenses	429	388	1,407	1,356
Net foreign exchange gain/(loss)	(164)	(641)	(166)	(647)
Net gain/(loss) other financial liabilities	265	(253)	1,241	709

(b) Financial management objectives and market risk

Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. The management of market risk by Australian Government entities is governed by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and, for some entities such as the RBA, specific legislation.

The three sectors of government: GGS, PNFC and PFC; hold financial instruments for different purposes and with different market risk exposures. Consequently, the following discussion of financial management objectives and market risk has been disaggregated by sector. Where material, the discussion includes a sensitivity analysis for each type of market risk exposure showing the effect on the net operating balance and net worth resulting from 'reasonably possible' changes in market risk at 30 June 2016.

Generally, in applying the sensitivity analysis as at 30 June 2016, a default rate of 10.5 per cent (2015: 10.9 per cent) has been applied for the sensitivity analysis of foreign exchange risk and 30 to 100 basis points for the sensitivity analysis of interest rate risk. However, for certain financial instruments, different sensitivity rates have been used based on the relevant entity's assessment of changes in risk variables that were considered reasonably possible at the reporting date with regard to the nature of the underlying financial instrument.

General government sector

GGS entities hold financial instruments as part of their operations or for public policy purposes.

Management of interest rate risk in the general government sector

Commonwealth entities subject to the PGPA Act are required to draw down administered and departmental monies on an 'as-needed' basis. As a general principle, Commonwealth general government entities cannot invest public monies except as delegated under section 58 of the PGPA Act or authorised by legislation. Corporate Commonwealth entities subject to the PGPA Act are also restricted in how they can invest monies that are surplus to operational requirements. As a general principle, surplus money may only be placed on deposit with a bank or invested directly in securities issued or guaranteed by the Australian Government, a state or a territory, unless an exemption is approved by the Finance Minister. Financial assets held by the majority of GGS entities are non-interest bearing, including trade receivables, or have fixed interest and do not fluctuate due to changes in the market interest rate.

The Treasurer has delegated investment powers to the Australian Office of Financial Management (AOFM). The AOFM's functions give it primary responsibility for ensuring that the Australian Government has sufficient cash to meet its needs. As at 30 June 2016, AOFM had deposited \$28.9 billion in term deposits with the RBA on behalf of the Australian Government (2015: \$34.3 billion). As these investments are internal to the Australian Government reporting entity, they are not reported in the CFS, except at the general government level.

Investment funds

The Australian Government Investment Funds currently comprise:

- Future Fund;
- DisabilityCare Australia Fund (DCAF);
- Building Australia Fund (BAF);
- Education Investment Fund (EIF); and
- Medical Research Future Fund (MRFF).

The Future Fund was established by the *Future Fund Act 2006* to finance the Australian Government's unfunded public sector superannuation liability. The Future Fund Board of Guardians is responsible for the investment decisions of the Fund under an Investment Mandate issued by the Australian Government. The Investment Mandate requires the Board to maximise returns above a benchmark rate whilst taking acceptable but not excessive risk. The benchmark rate has been set at the Consumer Price Index (CPI) plus 4.5 per cent to 5.5 per cent per annum over the long term. Section 58 of the PGPA Act does not apply to investments of the fund.

The Health and Hospitals Fund (HHF) was abolished with effect from 29 October 2015, replaced with the Medical Research Future Fund (MRFF). \$1.01 billion was transferred to the MRFF with the remaining funds returned to Government. The MRFF will provide grants of financial assistance to support health and medical research innovation with the objective of improving the health and wellbeing of Australians.

The DCAF is an investment fund which reimburses Commonwealth and state and territory governments for the costs relating to the National Disability Insurance Scheme.

The Nation Building Funds (BAF and EIF) are designed to provide financing resources for critical areas of infrastructure.

The MRFF, DCAF and Nation Building Funds are also managed by the Future Fund Management Agency and the Future Fund Board of Guardians and operate under the same governance arrangements.

As at 30 June 2016, the Funds' exposures to interest rates, in respect of securities held, was:

	Floating interest rates		Fixed interest rates	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Future Fund	7,544	8,810	22,918	17,517
Other Investment Funds	8,572	7,390	7,245	3,989

The following table details the impact on the net operating balance and net worth of a 30 basis point (2015: 40 basis point) change in the Funds' interest rate bond yield with all other variables held constant.

	Change in risk variable	Effect on		Effect on	
		Operating balance	Net worth	Operating balance	Net worth
		2016 \$m	2016 \$m	2015 \$m	2015 \$m
Interest rate risk					
Future Fund	+30bp	(575)	(575)	n/a	n/a
	-30bp	587	587	n/a	n/a
	+40bp	n/a	n/a	(525)	(525)
	-40bp	n/a	n/a	544	544
Other Investment Funds	+30bp	9	9	n/a	n/a
	-30bp	(8)	(8)	n/a	n/a
	+40bp	n/a	n/a	21	21
	-40bp	n/a	n/a	(19)	(19)

Exchange traded interest rate futures are used by the Future Fund's investment managers to manage the exposure to interest rates and to ensure it remains within approved limits. At 30 June 2016, the notional value of open futures contracts and swaps totalled \$19,918 million (2015: \$12,526 million).

The other administered funds had open positions in exchange traded interest rate futures contracts as at 30 June 2016. The notional value of investments in 'sell international interest rate futures contracts' was negative \$1,762 million (2015: negative \$1,054 million).

Financial assets held for policy purposes

The GGS also holds certain financial assets and liabilities for public policy purposes. These include:

- **Residential mortgage-backed securities (RMBS)** – RMBS support competition in the Australian residential mortgage market. They are administered by the AOFM and were initiated in September 2008. RMBS investments were subsequently extended in October 2008 and again in November 2009 (with a total program of up to \$20 billion). In April 2013, the Government announced that due to improvements in market conditions, the AOFM would not make any new investments in RMBS. On behalf of the Australian Government, the AOFM acquired a total of \$15,462 million of AAA (or equivalent) rated RMBS up to 30 June 2016. The amount held as at 30 June 2016 was \$2,813 million (in principal terms). Interest earned on RMBS comprises a floating interest rate (set against the one-month Bank Bill Swap (BBSW) reference rate) plus a fixed margin set at the time each investment is acquired. The following table shows the sensitivity to a change in the one-month BBSW rate.

	Effect on			Effect on	
	Change in risk variable	Operating balance	Net worth	Operating balance	Net worth
		2016 \$m	2016 \$m	2015 \$m	2015 \$m
Interest rate risk					
Residential mortgage backed securities	+30 bp	8	8	n/a	n/a
	-30 bp	(8)	(8)	n/a	n/a
Residential mortgage backed securities	+40 bp	n/a	n/a	17	17
	-40 bp	n/a	n/a	(17)	(17)

The prior year has been restated to reflect the change in approach for sensitivity analysis in accordance with AASB 7 *Financial Instruments: Disclosures*.

- **Concessional loans held for policy purposes** – The Australian Government has entered into a number of concessional loan arrangements for policy purposes. These include student loans provided under the Higher Education Loan Program (2016: \$36,808 million, 2015: \$30,445 million) and loans to state and territory governments under previous Commonwealth-State financing arrangements (2016: \$1,957 million, 2015: \$2,033 million). Student loans have been designated as ‘held at fair value through profit and loss’. Changes in market interest rates will impact on the fair value of these loans but will have no impact on the future cash flows or principal amounts at maturity. Loans to state and territory governments are borrowings for a fixed period with regular repayments, which comprise principal and interest components, and a fixed interest rate. Other concessional loans have been designated as ‘loans and receivables’ and have no exposure to interest rate risk.

Other material financial assets held for policy purposes (rather than liquidity management) include: Australia’s subscription to the Asian Development Fund and International Development Association; the IMF quota; investments in international financial institutions; and, at the general government level, the investment in public corporations.

Debt management

The majority of GGS entities are prohibited from borrowing. The AOFM is responsible for the borrowing activities of the GGS and for overall debt management. For many years, debt issuance by the Australian Government was undertaken solely with the objective of maintaining the Treasury Bond and Treasury Bond futures markets, as successive budget surpluses removed the need to borrow to fund the Budget. The forecast Budget outlook changed in the *Updated Economic and Fiscal Outlook* published on 3 February 2009 and the objective of issuance changed to funding the Budget. As a means of diversifying its funding sources, in September 2009, the Australian Government resumed issuance of Treasury Indexed Bonds.

The main types of market risk the Australian Government’s debt portfolio is exposed to is domestic interest rate risk and domestic inflation risk. Moreover, by generally issuing/buying and holding to maturity, the market risk most relevant to the debt portfolio is the risk of fluctuations to future interest cash flows and principal amounts arising from changes in interest rates and inflation. In market value terms, as at 30 June 2016, the AOFM had issued \$483,361 million in Commonwealth Government Securities (2015: \$409,936 million). The following table provides a sensitivity analysis of interest rate risk in relation to the debt portfolio.

	Effect on			Effect on	
	Change in	Operating	Net	Operating	Net worth
	risk variable	balance	worth	balance	
Interest rate risk		2016	2016	2015	2015
		\$m	\$m	\$m	\$m
Treasury bonds	+30 bp	7,711	7,711	n/a	n/a
	-30 bp	(7,940)	(7,940)	n/a	n/a
Treasury notes	+40 bp	n/a	n/a	7,728	7,728
	-40 bp	n/a	n/a	(8,019)	(8,019)

The prior year has been restated to reflect the change in approach for sensitivity analysis in accordance with AASB 7 *Financial Instruments: Disclosures*.

Management of currency risk in the general government sector

Entities in the GGS are responsible for the management of their foreign exchange risks. However, it is Australian Government policy that these entities, with four exceptions, do not act to reduce the foreign exchange risk that they would otherwise face in the course of their business arrangements. This means that these GGS entities are not permitted to undertake any form of hedging. Rather than allowing GGS entities to enter into individual hedging arrangements, the Australian Government has taken a decision to self-insure foreign exchange exposures and not accept the additional costs associated with hedging. This is based on the view that, as a large organisation, the Australian Government has a broad spread of assets and liabilities and a range of revenues and expenses, both geographically and across classes, which assists in the management of movements in exchange rates. The four exceptions are the Future Fund, the AOFM, the Australian Broadcasting Corporation and the Export Finance and Insurance Corporation (National Interest Account).

The Future Fund undertakes certain transactions denominated in foreign currencies, hence it is exposed to the effects of exchange rate fluctuations. Exchange rate exposures are managed utilising forward foreign exchange contracts. The Fund's exposure in Australian equivalents to foreign currency risk at 30 June 2016 totalled \$81,798 million (2015: \$80,737 million). After adjusting for forward exchange contracts, the Fund's net exposure at 30 June 2016 amounted to \$53,529 million (2015: \$49,220 million). The Fund's exposures are in multiple currencies, primarily US dollar, Euro, Yen and the UK Pound.

The following table demonstrates the impact on the net operating balance and net worth, of a 10.5 per cent movement (2015: 10.9 per cent movement) in the value of the Australian dollar (AUD) relative to the basket of actual net exposures.

	Effect on			Effect on	
	Change in	Operating	Net	Operating	Net worth
	risk variable	balance	worth	balance	
		2016	2016	2015	2015
		\$m	\$m	\$m	\$m
Currency risk					
Investments	+10.5%	6,581	6,581	n/a	n/a
	-10.5%	(6,459)	(6,459)	n/a	n/a
	+10.9%	n/a	n/a	4,667	4,667
	-10.9%	n/a	n/a	(4,587)	(4,587)

The Australian Government holds several financial instruments as part of its membership of the IMF and its investment in international financial institutions and multilateral aid organisations. These financial instruments include the:

- IMF quota (financial assets), comprising the current value in AUD of Australia's subscription to the IMF (2016: \$12,354 million, 2015: \$5,913 million);
- investment in international financial institutions, including the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the International Finance Corporation, the Asian Development Bank and the Multilateral Investment Guarantee Agency (2016: \$1,256 million, 2015: \$1,013 million);
- subscription based membership rights (not control) held by the Australian Government in accordance with the articles of association for the International Development Association and the Asian Development Fund, which are recognised at fair value (2016: \$1,987 million, 2015: \$1,936 million);
- promissory notes (financial liability) issued to the IMF and international financial institutions (2016: \$9,651 million, 2015: \$4,825 million). The promissory notes are non-interest bearing and relate to the undrawn paid-in capital subscriptions; and
- the SDR allocation liability which reflects the current value in AUD of the Treasury's liability to repay to the IMF Australia's cumulative allocations of SDRs (2016: \$5,795 million, 2015: \$5,633 million).

The Australian Government is exposed to foreign currency denominated in US dollars, Euro and SDR on the above financial instruments. The following table details the impact on the net operating balance and net worth of a 10.5 per cent (2015: 10.9 per cent) movement in the value of the AUD relative to financial instruments associated with the IMF and international financial institutions, and a 10.5 per cent (2015: 10.9 per cent) movement for financial instruments associated with multi-lateral aid organisations.

	Effect on			Effect on	
	Change in	Operating	Net	Operating	Net worth
	risk variable	balance	worth	balance	
Currency risk		2016	2016	2015	2015
		\$m	\$m	\$m	\$m
Loans	+ 10.5%	(189)	(189)	n/a	n/a
	- 10.5%	234	234	n/a	n/a
	+ 10.9%	n/a	n/a	(191)	(191)
	- 10.9%	n/a	n/a	238	238
International Monetary Fund	+10.5%	(1,174)	(1,174)	n/a	n/a
	-10.5%	1,449	1,449	n/a	n/a
	+10.9%	n/a	n/a	(581)	(581)
	-10.9%	n/a	n/a	723	723

Management of other price risk in the general government sector

The Australian Government is exposed to equity price risks arising from equity investments, primarily through Future Fund investments. The equity price risk is the risk that the value of the equity portfolio will decrease as a result of changes in the levels of equity indices and the price of individual stocks. The Future Fund holds all of its equities at fair value through profit or loss.

As at 30 June 2016, the Future Fund's exposure to equity price risk consisted of \$9,998 million in domestic listed equities and listed managed investment schemes (2015: \$11,001 million) and \$28,435 million in international listed equities and listed management schemes (2015: \$30,883 million).

The following table demonstrates the impact on the net operating balance and net worth of a +/- 20 per cent change in domestic equities and a +/- 15 per cent change in international equities held by the Future Fund.

	Effect on			Effect on	
	Change in	Operating	Net	Operating	Net worth
	risk variable	balance	worth	balance	
Other price risk		2016	2016	2015	2015
		\$m	\$m	\$m	\$m
Assets					
Australian equities	+ 20%	2,851	2,851	2,869	2,869
	- 20%	(2,796)	(2,796)	(2,724)	(2,724)
International equities	+ 15%	9,403	9,403	9,259	9,259
	- 15%	(8,983)	(8,983)	(8,543)	(8,543)

The Future Fund had open positions in exchange traded equity futures contracts and equity option contracts as at 30 June 2016. The exchange traded equity futures, swaps and options are used to manage market exposures to equity price risk to ensure that asset allocations remain within the Future Fund's approved limits. The notional value of the open contracts and their fair market value are set out below.

	Notional value	Fair market value	Notional value	Fair market value
Equity price risk	2016 \$m	2016 \$m	2015 \$m	2015 \$m
Buy domestic equity futures contracts	137	-	220	(5)
Sell domestic equity futures contracts	(1,921)	3	(2,233)	44
Buy international equity futures contracts	2,388	(143)	2,705	(44)
Sell international equity futures contracts	(2,612)	(22)	(1,681)	36
Sell equity index swap agreements	-	-	(18)	-
Exchange traded international volatility index call options	2	-	1	1
Exchange traded international volatility index put options	2	-	-	-
Over the counter domestic equity index put options	-	-	(46)	3
Over the counter domestic equity index call options	142	13	281	21
Over the counter international equity index put options	(115)	7	(1,060)	70
Over the counter international equity index call options	2,488	238	4,537	597
Exchange traded warrants	-	-	-	-
Total	511	96	2,706	723

The Australian Government is exposed to cash flow risk on Treasury Capital Indexed Bonds on issue. These instruments expose the Australian Government to cash flow risk on interest payments and the value of principal payable on maturity arising from indexation against the (all groups) Australian CPI. When the CPI increases, debt servicing costs and the principal payable on maturity will also rise (subject to a six-month lag).

At 1 July 2015, if the CPI had experienced an immediate 30 basis points increase/(decrease) and that change were to persist for 12 months to 30 June 2016 with all other variables held constant, the effect on the net operating balance and net worth position for the year ended 30 June 2016 would be as follows:

CPI sensitivity analysis	Effect on			Effect on	
	Change in risk variable	Operating balance	Net worth	Operating balance	Net worth
		2016 \$m	2016 \$m	2015 \$m	2015 \$m
Treasury Capital Indexed Bonds	+30 bp	969	969	n/a	n/a
	-30 bp	(1,006)	(1,006)	n/a	n/a
	+40 bp	n/a	n/a	1,121	1,121
	-40 bp	n/a	n/a	(1,172)	(1,172)

The prior year has been restated to reflect the change in approach for sensitivity analysis in accordance with AASB 7 *Financial Instruments: Disclosures*.

Public financial corporations

The PFC sector comprises the RBA and similar entities.

The RBA is Australia's central bank. Its role is set out in the *Reserve Bank Act 1959*. The RBA's main responsibility is monetary policy. In addition to conducting monetary policy, the RBA also holds Australia's foreign currency reserves, operates Australia's main high-value payments system, provides banking services to the Australian Government and designs, produces and issues Australia's banknotes. In undertaking these functions, the RBA has significant exposures to interest rate and currency risk. The Export Finance and Insurance Corporation (EFIC) is also involved in lending and borrowing activities with exposures to interest rate and currency risk.

In the PFC sector the market operations of the RBA and EFIC make up the overwhelming majority of the sector's exposure to market risk. The following market risk disclosures are therefore limited to the market operations of the RBA and EFIC.

Management of interest rate risk in the public financial corporations sector

The RBA's balance sheet is exposed to considerable interest rate risk because most of its assets are financial assets, such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security will fall if market rates rise. Interest rate risk increases with the maturity of a security because the associated income stream is fixed for a longer period.

The following table shows the sensitivity to a change in interest rate variables.

Interest rate risk	Effect on		Effect on	
	Change in risk variable	Operating balance	Net worth	Operating balance
		2016 \$m	2016 \$m	2015 \$m
Foreign currency securities	+100 bp	339	339	300
	-100 bp	(339)	(339)	(300)
Australian dollar securities	+100 bp	144	144	156
	-100 bp	(144)	(144)	(156)

As EFIC is also involved in lending and borrowing activities, interest rate risks arise. EFIC uses interest rate swaps, forward rate agreements, cross-currency swaps and futures as the primary methods of reducing exposure to interest rate movements.

Management of currency risk in the public financial corporations sector

Foreign exchange risk arises from the RBA's foreign currency assets, which are held to support the RBA's operations in the foreign exchange market. The overall level of foreign currency exposure is determined by policy considerations and cannot otherwise be managed to reduce foreign exchange risk. The RBA's net foreign currency exposure as at 30 June 2016 was \$53 billion (2015: \$50 billion). Within the overall exposure and to a limited extent, foreign currency risk can be reduced by holding assets across a diversified portfolio of currencies.

The RBA holds foreign reserves in several currencies – the US dollar (55 per cent of net foreign currency holdings), the Euro (20 per cent), the Canadian dollar (5 per cent), the Yen (5 per cent), the Chinese renminbi (5 per cent), the UK pound sterling (5 per cent) and the South Korean won (5 per cent) – because the markets for these currencies are typically liquid and suitable for investing foreign exchange reserves. The RBA also operates in foreign exchange markets on behalf of its clients, including to assist the Australian Government in meeting foreign currency obligations. The following table demonstrates the RBA's sensitivity to a movement of +/-10 per cent in the value of the AUD exchange rate as at 30 June 2016.

Currency risk	Effect on		Effect on	
	Change in risk	Operating balance	Net worth	Operating balance
		2016 \$m	2016 \$m	2015 \$m
Australian dollar exchange rate	+ 10%	(4,845)	(4,845)	(4,547)
	- 10%	5,922	5,922	5,557

The RBA undertakes foreign currency swaps to assist its daily domestic market operations. These instruments carry no foreign exchange risk since the exchange rates at which both legs of the transaction are settled are agreed at the time the swap is undertaken.

EFIC extends facilities in various currencies, principally in US dollars and Euros. Where the borrowing currency is different from the currency of the assets being funded, cross-currency swaps, or the foreign exchange markets are used to offset the exposure (before provisions). EFIC's exposure in AUD to foreign currency risk at 30 June 2016 totalled \$3,150 million on financial assets and \$3,184 million on financial liabilities giving a net exposure of negative \$34 million (2015: negative \$31 million).

Public non-financial corporations

The PNFC entities primarily hold financial instruments as a direct result of operations, including trade receivables and payables, or to finance operations. Certain entities in the PNFC sector also enter into derivative transactions, including interest rate swaps, forward currency contracts and commodity swap contracts. The purpose is to manage the interest rate, currency and commodity risks arising from the entity's operations and sources of finance.

(c) Credit risk

Credit risk in relation to financial assets, is the risk that a third party will not meet its obligations in accordance with agreed terms. Generally, the Australian Government's maximum exposure to credit risk in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the consolidated balance sheet. The following table shows the credit quality of financial receivables reported in the CFS that are not past due nor individually determined as impaired.

	2016 \$m	2015 \$m	2016 \$m	2015 \$m
	Not Past Due Nor Impaired \$m	Not Past Due Nor Impaired \$m	Past Due or Impaired \$m	Past Due or Impaired \$m
Australian Government				
Advances and loans	48,050	41,682	143	88
Goods and services receivable	1,619	1,262	162	245
Other receivables	2,796	3,488	735	817
Total	52,465	46,432	1,040	1,150
General Government				
Advances and loans	46,755	40,570	143	88
Goods and services receivable	778	609	135	122
Other receivables	5,641	5,584	735	776
Total	53,174	46,763	1,013	986

The following table shows the ageing of financial receivables that are past due but not impaired for 2016:

	0 to 30 days \$m	30 to 60 days \$m	60 to 90 days \$m	over 90 days \$m	Total \$m
Australian Government					
Advances and loans	61	21	9	52	143
Goods and services receivable	108	42	12	-	162
Other receivables(a)	42	31	27	635	735
Total	211	94	48	687	1,040
General Government					
Advances and loans	61	21	9	52	143
Goods and services receivable	87	22	12	14	135
Other receivables(a)	42	31	27	635	735
Total	190	74	48	701	1,013

(a) Excludes statutory receivables such as taxes receivable and personal benefits recoverable.

The following table provides the corresponding information for 2015:

	0 to 30 days \$m	30 to 60 days \$m	60 to 90 days \$m	over 90 days \$m	Total \$m
Australian Government					
Advances and loans	38	23	7	20	88
Goods and services receivable	131	37	25	52	245
Other receivables(a)	84	29	28	676	817
Total	253	89	60	748	1,150
General Government					
Advances and loans	38	23	7	20	88
Goods and services receivable	64	28	18	12	122
Other receivables(a)	43	29	28	676	776
Total	145	80	53	708	986

(a) Excludes statutory receivables such as taxes receivable and personal benefits recoverable.

The following table illustrates changes in the fair value of loans and receivables designated at fair value through profit and loss that arose due to credit risk:

	2016 \$m	2015 \$m
Fair value changes due to credit risk:		
During the period	2,049	1,442
Prior period	11,244	8,787
Cumulative change	13,293	10,229

Australian Government entities have assessed the risk of default on payment and have allocated \$237 million to the impairment allowance for advances and loans at 30 June 2016 (2015: \$236 million) and \$858 million to the impairment allowance for goods and services and other receivables at 30 June 2016 (2015: \$754 million).

The majority of Australian Government entities do not have significant exposures to any concentrations of credit risk. Generally, Australian Government entities' exposures are to a large number of customers or highly rated counterparties and their credit risks are very low. Australian Government entities that do have material concentrations of credit risk include:

- the Future Fund has a significant exposure to interest bearing securities issued by domestic banks (including domestic subsidiaries of foreign banks);
- EFIC's principal exposure to credit risk arises from the financing and credit facilities extended to clients. Exposures on the commercial account amounted to \$2,079 million at 30 June 2016 (2015: \$2,042 million) and on the national interest account amounted to \$822 million (2015: \$915 million);
- the AOFM's financial investments include loans to state and territory governments, deposits, discount securities and RMBS. The credit quality of the RMBS derives from the underlying quality of the mortgage assets and structural enhancements such as lenders mortgage insurance, liquidity facilities, and the issue of different classes of securities. At the time of acquisition, each RMBS issue must meet a range of eligibility criteria set by the AOFM;
- for the RBA, credit risk arises from exposure to the issuers of securities that it holds; banks with which the RBA deposits funds and counterparties that are yet to settle transactions. The RBA's credit exposure is low compared with that of most commercial financial institutions because it manages such risks within a highly risk-averse framework; and
- from time to time the Australian Government may have significant exposures to credit risk in relation to major asset sales.

Collateral

With the exception of the following, the majority of Australian Government entities do not hold collateral to manage credit risk. Cash invested by the RBA under repurchase agreements is secured by collateral to a value of 102 per cent of the amount invested. In relation to Indigenous Business Australia's gross credit risk, collateral valued at \$1,491 million is held against home and business loans (2015: \$1,403 million). For EFIC, collateral held may include first ranking mortgages over assets financed by EFIC, standby documentary credits, third-party guarantees and recourse to companies and company directors. No collateral has currently been called and held at year end.

(d) Liquidity risk

Liquidity risk is the risk that the Australian Government will not be able to meet its obligations as they fall due. The following tables disclose the undiscounted value of the contractual maturities of financial liabilities as at the end of the financial year, including estimated future interest payments.

The Australian Government has sufficient access to funds to meet its liabilities as they fall due. The Australian Government is positioned to address liquidity risk through existing revenue sources, including the power to tax, and its capacity to roll over existing debt:

Liquidity risk(a)(b)

	2016					2015				
	On demand	1 year or less	1 to 5 years	More than 5 years(c)	Total	On demand	1 year or less	1 to 5 years	More than 5 years(c)	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Australian Government										
Suppliers	198	4,917	113	1	5,229	212	6,403	120	2	6,737
Subsidies payable	-	218	-	-	218	-	171	-	-	171
Grants liability	11	1,905	742	168	2,826	17	2,422	930	275	3,644
Other payables	157	5,580	1,490	526	7,753	200	3,887	1,076	245	5,408
Deposits	16,015	14,719	-	-	30,734	11,398	13,726	-	-	25,124
Government securities	-	33,840	230,981	276,344	541,165	-	52,132	180,570	239,209	471,911
Loans	-	1,912	3,014	11,221	16,147	-	1,302	2,679	6,484	10,465
Leases	-	161	722	2,282	3,165	-	627	2,089	11,070	13,786
Other interest bearing liabilities	-	8,999	-	6,385	15,384	7	5,016	1,001	7,066	13,090
Australian currency on issue	-	-	-	70,209	70,209	-	-	-	65,481	65,481
Total financial liabilities	16,381	72,251	237,062	367,136	692,830	11,834	85,686	188,465	329,832	615,817
General Government										
Suppliers	102	4,369	78	1	4,550	107	4,492	53	2	4,654
Subsidies payable	-	218	-	-	218	-	171	-	-	171
Grants liability	11	1,963	742	168	2,884	17	2,471	930	275	3,693
Other payables	127	1,524	184	16	1,851	140	1,553	124	29	1,846
Deposits	212	6	-	-	218	218	-	-	-	218
Government securities	-	33,840	233,046	276,948	543,834	-	56,957	181,131	240,027	478,115
Loans	-	85	516	10,214	10,815	-	175	566	5,228	5,969
Leases	-	160	720	2,272	3,152	-	180	767	2,278	3,225
Other interest bearing liabilities	-	653	-	5,795	6,448	7	944	3	5,634	6,588
Australian currency on issue	-	-	-	-	-	-	-	-	-	-
Total financial liabilities	452	42,818	235,286	295,414	573,970	489	66,943	183,574	253,473	504,479

(a) The amounts disclosed in the tables above are the undiscounted values and may not align to the amounts disclosed in the balance sheet.

(b) The Future Fund has entered into forward exchange contracts to manage exposure to currency risk. These contracts are settled on a gross basis with maturities one year or less. Inflows under contract at 30 June 2016 amounted to \$15,557 million (2015: \$35,564 million) and outflows amounted to \$16,004 million (2015: \$32,083 million).

(c) Includes certain instruments with no specified maturity, such as Australian currency on issue.

Note 11C: Defined benefit superannuation plans

Accounting policy

The Australian Government recognises actuarial gains or losses immediately in Other Comprehensive Income in the year in which they occur. Interest on the net defined benefit liability is recognised in profit and loss. The return on plan assets excluding the amount included in interest income is recognised in Other Comprehensive Income.

Superannuation liabilities are calculated annually as the present value of future benefit obligations less the fair value of scheme assets. The rate used to discount future benefits is determined by reference to the long-term government bond rate. The long-term government bond rate decreased from 3.7 per cent at 30 June 2015 to 2.7 per cent at 30 June 2016, significantly increasing the superannuation liability in comparison to the prior year.

Overview of schemes

GGs employees will usually be members of the Commonwealth Superannuation Scheme (CSS), Public Sector Superannuation Scheme (PSS) or the Public Sector Superannuation Accumulation Plan (PSSAP). The PSS and the CSS are closed to new members, with the PSSAP available to most new employees who commenced employment on or after 1 July 2005. The CSS and PSS provide defined benefits. The PSSAP provides fully funded accumulation benefits to members, with no ongoing liability to the Australian Government.

Australian Government military personnel are members of the Defence Force Retirement and Death Benefits Scheme (DFRDB) or the Military Superannuation Benefits Scheme (MSBS). Both schemes are defined benefit schemes. The DFRDB was closed to new members in 1991. The MSBS was closed to new members from 1 July 2016. A new accumulation scheme, *ADF Super*, commenced for new military personnel who entered on or after 1 July 2016.

In addition to the above, several schemes have been established under legislation for specified personnel, including the Parliamentary Contributory Superannuation Scheme (PCSS) (closed to new members since 9 October 2004), Judges' Pension Scheme (JPS), Governor-General Pension Scheme, Federal Circuit Court Judges Death and Disability Scheme (FCCJDDS) and the North American and London, Dublin and New Delhi pension schemes.

Several Public Corporations are responsible for defined benefit schemes for their employees, including:

Scheme title	Responsible entities
AvSuper(a)	Airservices Australia
Australia Post Superannuation Scheme (APSS)(a)	Australia Post Corporation
State Authorities Superannuation Scheme (SASS), State Superannuation Scheme (SSS), State Authorities Non-contributory Superannuation Scheme (SASCS)(a)	Australian Rail Track Corporation
Australian Submarine Corporation Superannuation Fund (ASCSF)	Australian Submarine Corporation
Reserve Bank of Australia Officers' Superannuation Fund (OSF) and UK Pension Scheme (UKPS)(a)	RBA

(a) As required under AASB 119, *Employee Benefits*, the rate used to discount the superannuation liability is determined by reference to market yields on government bonds. Certain for-profit public corporations have applied the market yield on high quality corporate bonds in discounting their long-term employee benefits. On consolidation into these statements, the discount rate and associated disclosures have been adjusted back to apply government bond rates.

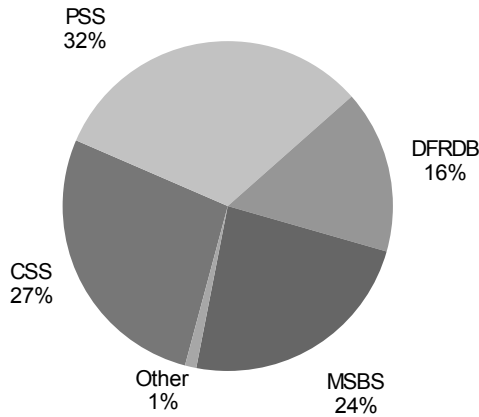
For the purposes of this whole of government disclosure, 'less material' schemes have been grouped under 'other'.

Composition

As at 30 June 2016, the composition of the Australian Government's net liability for the defined benefit schemes (as reported in Note 8F) was as follows:

Scheme	General Government		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Commonwealth Superannuation Scheme (CSS)	86,124	76,798	86,124	76,798
Public Sector Superannuation Scheme (PSS)	100,613	74,800	100,613	74,800
Defence Force Retirement and Death Benefits Scheme (DFRDB)	50,359	42,945	50,359	42,945
Military Superannuation Benefits Scheme (MSBS)	74,369	51,156	74,369	51,156
Other schemes	2,714	2,355	3,360	2,384
Other superannuation liabilities	49	155	133	457
Total superannuation provision	314,228	248,209	314,958	248,540

The following chart illustrates the relative mix of the Australian Government superannuation liability by scheme:



The defined benefit plan asset of \$34 million reported in Note 7B (2015: \$266 million) relates to certain schemes sponsored by public corporations (included in 'other').

Regulatory framework

The following table details the enabling legislation for each of the individually disclosed defined benefits schemes and whether the scheme must comply with the requirements of the *Superannuation Industry (Supervision) Act 1993*.

Scheme	Enabling Act	Period open for new members	Requirement
CSS	<i>Superannuation Act 1976</i>	1 July 1976 to 30 June 1990	Compliance with the <i>Superannuation Industry (Supervision) Act 1993</i>.
PSS	<i>Superannuation Act 1990</i>	1 July 1990 to 30 June 2005	
MSBS	<i>Military Superannuation and Benefits Act 1991</i>	From 1 October 1991	
DFRDB	<i>Defence Force Retirement and Death Benefits Act 1973</i>	1 October 1972 to 30 September 1991	Exempt from <i>Superannuation Industry (Supervision) Act 1993</i>.

Funding arrangements

The funding arrangements for the various schemes are as follows:

Scheme	Funding
CSS	Partially funded. Contributions generally comprise basic member contributions and employer productivity (up to three per cent) contributions. Benefits are funded on an emerging cost basis.
PSS	
MSBS	
DFRDB	Unfunded. DFRDB's member's contribution rate is 5.5 per cent of the highest incremental salary for rank plus Service Allowance, which is paid into consolidated revenue. Benefits are funded on an emerging cost basis.

The remaining schemes are a combination of unfunded, partially funded and funded defined benefit schemes.

Entitlements

The nature of the benefits provided under the schemes are as follows:

Scheme	Benefits paid
CSS	- Employer financed indexed pension defined by a set formula based on the member's age at retirement, years of contributory service and final superannuation salary. Indexation occurs twice yearly (January and July) in line with changes in the CPI. - Member's basic contributions, employer productivity contributions and interest can be taken as a lump sum or an additional non-indexed lifetime pension. This benefit is determined by the value of contributions and investment returns. - Members who resign before age 55 can claim a preserved resignation benefit on or after reaching that age. In this case, the indexed pension is calculated by applying age-based factors to the amount of two and a half times the member's accumulated basic member contributions and interest.
PSS	- On retirement a lump sum benefit is payable based on the member's length of contributory membership, their rate of member contributions and final average salary (average of a member's superannuation salary on their last three birthdays). - Members can convert 50 per cent or more of their lump sum to a lifetime indexed pension based on the member's age, indexed twice yearly (January and July) in line with changes in the CPI. - Where a member resigns before age 55, generally the member's lump sum benefit at that time is crystallised with the funded component of the benefit accumulating with interest and the unfunded component accumulating with changes in the CPI, until the benefit becomes payable.

Scheme	Benefits paid
MSBS	• Benefits payable comprise a lump sum of accumulated member contributions and an employer financed defined benefit. • The defined benefit is calculated on the basis of the member's final average salary and length of contributory service. • Benefits arising from member's contributions, the employer three per cent productivity contribution and amounts notionally carried over from the DFRDB are determined by the value of contributions and investment returns. • May be taken as a lump sum or as a pension or as a combination of lump sum and pension.
DFRDB	• Length of service is the primary factor that determines benefit entitlement. • Members who retire from the Australian Defence Force (Defence) after 20 years of effective service (or after 15 years of service at retirement age for rank) are entitled to a pension based on a percentage of their annual pay on retirement. • Members who have less than 20 years of service but have not reached their compulsory retiring age for rank are entitled to a refund of their contributions, a Superannuation Guarantee amount and a productivity benefit; and if applicable, a gratuity based on completed years of service. • Members are entitled to a productivity benefit under the <i>Defence Force (Superannuation) (Productivity Benefit) Determination 1988</i> (issued under the <i>Defence Act 1903</i>). The amount of this productivity benefit varies according to the circumstances under which an individual member has left Defence. It is paid at the same time as DFRDB Scheme benefits are paid.

Generally, benefits may also be payable to any surviving eligible spouse and children on the death of a member or pensioner.

Governance

Commonwealth Superannuation Corporation (CSC), was established under the *Governance of Australian Government Superannuation Schemes Act 2011* and is the trustee for eleven schemes, including the CSS, PSS, DFRDB and MSBS. CSC is responsible for:

- administration of each Scheme;
- management and investment of Scheme assets;
- compliance with superannuation and taxation laws and other applicable laws; and
- compliance with relevant legislation including the *Governance of Australian Government Superannuation Schemes Act 2011*.

CSC is supported by an administrator, a custodian and other specialist providers.

The governance arrangements for the 'other' defined benefit superannuation schemes are detailed in the annual reports of the respective employing entities.

Risks

The Australian Government is exposed to risks such as interest rate risk, investment risk, longevity risk and salary risk. The following pages identify and explain the amounts reported in these financial statements and detail the principal actuarial assumptions underpinning each of the major schemes, including an analysis of the sensitivity of changes in these assumptions to the amounts reported in the financial statements.

Reconciliation of the present value of the defined benefit obligation

The reconciliation of the changes in the present value of defined benefit obligation is as follows:

Scheme	CSS			PSS			DFRDB			MSBS			Other		
	2016	2015	2016	2016	2015	2015	2016	2015	2015	2016	2015	2015	2016	2015	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Present value of defined benefit obligations at beginning of the year	(80,288)	(75,322)	(91,383)	(80,213)	(42,945)	(41,279)	(57,954)	(47,362)	(11,867)	(11,323)					
Current service cost	(193)	(233)	(2,865)	(2,761)	(175)	(166)	(3,225)	(2,391)	(398)	(319)					
Productivity contributions	(17)	(20)	(189)	(196)	-	-	-	-	-	-					
Obligation required	-	-	-	-	-	-	-	-	-	-					
Interest cost	(2,898)	(3,005)	(3,352)	(3,255)	(1,563)	(1,664)	(2,198)	(1,985)	(322)	(415)					
Contributions by scheme participants	(62)	(70)	(534)	(548)	-	-	(329)	(274)	(54)	(134)					
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(1,849)	-	(765)	-	-	-	-	(11)	(32)					
Actuarial gains/(losses) arising from changes in financial assumptions	(10,547)	(3,401)	(21,274)	(5,289)	(8,025)	(2,537)	(18,508)	(4,614)	(803)	(381)					
Actuarial gains/(losses) arising from liability experience	899	(426)	829	(26)	773	1,131	(123)	(1,913)	38	92					
Actuarial gains/(losses) arising from other assumptions	-	-	-	-	-	-	-	-	53	(118)					
Benefits paid(a)	3,907	4,034	1,586	1,633	1,576	1,570	648	585	453	689					
Taxes, premiums and expenses paid	3	4	36	37	-	-	-	-	-	-					
Past service cost	-	-	-	-	-	-	-	-	-	-					
Exchange rate gains/(losses)	-	-	-	-	-	-	-	-	-	91					
Present value of defined benefit obligations at end of the year	(89,196)	(80,288)	(117,146)	(91,383)	(50,359)	(42,945)	(81,689)	(57,954)	(12,903)	(11,867)					

(a) Benefits paid includes estimate of net benefits paid and productivity payments.

Reconciliation of the fair value of scheme assets

The reconciliation of the changes in the fair value of scheme assets is as follows:

Scheme	CSS		PSS		DFRDB		MSBS		Other(b)	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Fair value of scheme assets at beginning of the year	3,490	3,765	16,583	15,351	-	-	6,799	5,765	9,488	8,890
Interest income	121	142	608	617	-	-	259	243	259	317
Actual return on scheme assets less interest income	(82)	202	(382)	1,231	-	-	(115)	485	(76)	536
Actuarial gains/(losses)	-	-	-	-	-	-	-	-	(1)	2
Net appropriation from CRF	3,374	3,329	623	310	1,576	1,570	697	617	90	84
Employer contributions	17	20	189	196	-	-	329	274	205	220
productivity contribution										
Contributions by scheme participants	62	70	534	548	-	-	-	-	54	134
Foreign currency exchange rate changes	-	-	-	-	-	-	-	-	(8)	7
	6,982	7,528	18,155	18,253	1,576	1,570	7,969	7,384	10,010	10,190
<i>Less</i>										
Benefits paid(a)	3,907	4,034	1,586	1,633	1,576	1,570	648	585	453	689
Taxes, premiums and expenses paid	3	4	36	37	-	-	-	-	12	13
	3,910	4,038	1,622	1,670	1,576	1,570	648	585	465	702
Fair value of scheme assets at end of the year	3,072	3,490	16,533	16,583	-	-	7,321	6,799	9,545	9,488

(a) Benefits paid includes estimate of net benefits paid and productivity payments.

(b) For schemes categorised under 'other', the JPS had a net obligation of \$1,204 million at 30 June 2016 (2015: \$1,205 million), PCSS had a net obligation of \$1,407 million at 30 June 2016 (2015: \$1,057 million) and the RBA Officer's fund had a net obligation of \$684 million (2015: \$305 million). The Australia Post Superannuation Scheme (APSS) reported a net asset position of \$34 million (2015: \$266 million) while the balances of the remaining schemes are immaterial to the CFS.

Composition of scheme assets

The fair value of scheme assets is represented by the following:

Scheme	CSS			PSS			DFRDB			MSBS			Other		
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2016	2015	2015	2016	2015	2015
Australian equity	24.0%	25.0%	24.0%	25.0%	-	-	-	-	18.0%	21.0%	21.0%	-	9.4%	22.5%	-
Market neutral hedge funds	10.0%	10.0%	10.0%	10.0%	-	-	-	-	-	-	-	-	-	-	-
International equity	27.0%	31.0%	27.0%	31.0%	-	-	-	-	21.0%	25.0%	25.0%	-	18.4%	1.9%	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-	-	1.6%	1.5%	-
Property	13.0%	12.0%	13.0%	12.0%	-	-	-	-	13.0%	12.0%	12.0%	-	8.1%	10.0%	-
Private equity	-	-	-	-	-	-	-	-	8.0%	8.0%	8.0%	-	11.4%	6.4%	-
Credit	7.0%	7.0%	7.0%	7.0%	-	-	-	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-	18.3%	15.1%	-
International bonds	5.0%	5.0%	5.0%	5.0%	-	-	-	-	-	-	-	-	0.0%	0.1%	-
Diversified growth funds	-	-	-	-	-	-	-	-	-	-	-	-	0.3%	0.3%	-
Other	5.0%	5.0%	5.0%	5.0%	-	-	-	-	19.0%	17.0%	17.0%	-	29.8%	26.5%	-
Cash	9.0%	5.0%	9.0%	5.0%	-	-	-	-	21.0%	17.0%	17.0%	-	2.7%	15.7%	-

Total expense recognised

The amount recognised in the operating statement for the year ended 30 June is as follows:

Scheme	CSS			PSS			DFRDB			MSBS			Other		
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2016	2015	2015	2016	2015	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Current service cost	193	233	2,865	2,761	175	166	166	166	3,225	2,391	2,391	-	398	319	-
Net interest	2,777	2,863	2,744	2,638	1,563	1,664	1,664	1,664	1,939	1,742	1,742	-	63	98	-
Past service cost	-	-	-	-	-	-	-	-	-	-	-	-	-	(91)	-
Superannuation expense	2,970	3,096	5,609	5,398	1,738	1,830	1,830	1,830	5,164	4,133	4,133	-	461	325	-

Principal actuarial assumptions

The principal actuarial assumptions at 30 June are as follows:

Scheme	CSS		PSS		DFRDB		MSBS		Other	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Discount rate (active members)	2.7%	3.7%	2.7%	3.7%	2.7%	3.7%	2.7%	3.7%	2.7-3.6%	3.6-4.9%
Discount rate (pensioners)	2.7%	3.7%	2.7%	3.7%	2.7%	0.0%	2.7%	0.0%	2.7%	3.7%
Expected rate of return on plan assets (active members)	-	-	-	-	0.0%	0.0%	2.7%	3.7%	-	-
Expected salary increase rate (a)	2.0%	1.5%	2.0%	1.5%	4.0%	4.0%	4.0%	4.0%	2.0-4.0%	1.5-5.0%
Expected pension increase rate (b)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.4-4.0%	2.5-4.0%

(a) For CSS and PSS general salary increases of 2 per cent pa apply to June 2019 then 4.0 per cent pa thereafter.

(b) Not relevant for all schemes. See notes below for more information.

For the defined benefit obligation, assumptions have been made regarding rates of retirement, death (for active, preserved and pension members), mortality improvements, invalidity, resignation, retrenchment, retention and take up rates of pensions in the schemes. Assumptions have also been made for the ages of spouses and rates of member contributions.

Membership data for the CSS, PSS, DFRDB and MSBS as at 30 June 2015 was projected forward allowing for assumptions in accordance with the 2014 Long Term Cost Report. The data was then adjusted for the difference between actual benefit payments and those based on the assumed decrements. Members' account balances were increased to be consistent with the estimated level of earning rates prevailing at 30 June 2016.

For the fair value of plan assets, assumptions have been made as to the expected rate of return. For certain schemes, the fair value of scheme assets as at 30 June 2016 was estimated using the audited fair value of scheme assets at 30 June 2015 rolled forward to 30 June 2016 adjusted for cash flows during the year.

Sensitivity analysis for significant actuarial assumptions

The impact of a change in the defined benefit obligation reported as at 30 June 2016 under several scenarios is presented below. The defined benefit obligation has been recalculated by changing the assumptions as outlined below, whilst retaining all other assumptions.

		Impact on defined benefit obligation	
	Change in assumption	Increase in \$m	Decrease in \$m
CSS			
Discount rate	0.5%	(5,581)	6,221
Salary growth rate	0.5%	125	(164)
Rate of CPI increase	0.5%	5,472	(4,979)
PSS			
Discount rate	0.5%	(11,561)	13,471
Salary growth rate	0.5%	3,227	(3,005)
Rate of CPI increase	0.5%	8,542	(7,661)
DFRDB and MSBS			
Discount rate	0.5%	(14,260)	17,251
Salary growth rate	0.5%	6,559	(6,090)
Rate of CPI increase	0.5%	9,342	(9,303)
Other			
Discount rate(a)	0.5%	(149)	180
Salary growth rate(b)	0.5%	170	(141)
Rate of CPI increase(c)	0.5%	7	(7)
Discount rate(d)	1.0%	(249)	287
Salary growth rate(e)	1.0%	240	(209)
Pensioner mortality rate(f)	5.0%	0	(0)
Discount rate(g)	0.3%	(76)	82
Salary growth rate(h)	0.3%	21	(20)
Pension growth rate(i)	0.3%	56	(53)

(a) Relates to the percentage change in discount rate applied to PCSS, Governor-General Pension Scheme (G-GPS), JPS, Federal Circuit Court Judges Death and Disability Scheme (FCCJDDS), ASCSF and other.

(b) Relates to the percentage change in salary growth rate applied to G-GPS, JPS, FCCJDDS, ASCSF, SASS, SSS, SANCS and other.

(c) Relates to the percentage change in CPI rate applied to SASS, SSS, SANCS and other.

(d) Relates to the percentage change in discount rate applied to APSS, SASS, SSS and SANCS.

(e) Relates to the percentage change in salary growth rate applied to APSS.

(f) Relates to the percentage change in pensioner mortality rate applied to SASS, SSS and SANCS.

(g) Relates to the percentage change in discount rate applied to OSF.

(h) Relates to the percentage change in salary growth rate applied to OSF.

(i) Relates to the percentage change in pension growth rate applied to OSF.

Employer contributions

The following table shows the expected contributions for 2017 by scheme:

Scheme	2017
	\$m
Commonwealth Superannuation Scheme	15
Public Sector Superannuation Scheme	177
Defence Force Retirement and Death Benefits Scheme	120
Military Superannuation Benefits Scheme	1,238
Other schemes	296

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation in years for each of the schemes is outlined below.

Scheme	Weighted average duration of the defined benefit obligation in years
Commonwealth Superannuation Scheme 1976	13.6 years
Commonwealth Superannuation Scheme 1922	8.0 years
Public Sector Superannuation Scheme	22.2 years
Defence Force Retirement and Death Benefits Scheme	18.6 years
Defence Forces Retirement Benefits Scheme	10.0 years
Military Superannuation Benefits Scheme	31.0 years
Other	
AvSuper	10 years
Australia Post Superannuation Scheme	8.5 years
State Authorities Superannuation Scheme	16.8 years
State Superannuation Scheme	16.8 years
State Authorities Non contributory Superannuation Scheme	16.8 years
Australian Submarine Corporation Superannuation Fund	8 years
North American and London, Dublin and New Delhi pension schemes	14.4 years
Reserve Bank of Australia Officers' Superannuation Fund	21 years
UK Pension Scheme	16.4 years
Parliamentary Contributory Superannuation Scheme	17 years
Judges' Pension Scheme	15.3 years
Governor General Pension Scheme	10.0 years
Federal Circuit Court Judges Death and Disability Scheme	2.4 years

Note 12: Events occurring after balance date

In accordance with *AASB 110 Events after the Reporting Period*, reporting entities are required to disclose any event between the balance sheet date and the date the financial statements are authorised for issue that may affect the financial statements. The standard classifies these events as either 'adjusting' or 'non-adjusting'.

No significant events have occurred after reporting date that require the CFS to be adjusted as at 30 June 2016, nor have there been significant non-adjusting events that have occurred after reporting date.

Note 13: Reconciliations and explanations

Prepared in accordance with AASB 1049, the whole of government and GGS financial statements provide users with information about the financial position, performance and cash flows of the Australian Government and its sectors; and information that facilitates assessments of the macro-economic impact of the Australian Government and its sectors.

Reporting at the whole of government and sector level is also distinguished by the following two characteristics:

- the application of two international reporting frameworks, being the accounting standards issued by the International Accounting Standards Board (through the AASB), and the system of GFS issued by the IMF and, in Australia, administered by the ABS; and
- the public release of budget information for the GGS.

To assist the differing users of these whole of government accounts, AASB 1049 requires the following reconciliations and explanations:

- **reconciliation to ABS GFS measures** (refer Note 13A) which compares the key financial measures contained in this financial report to the corresponding measures under the ABS GFS Manual and highlights the remaining differences between the two reporting frameworks;
- **reconciliation to original budget** (refer Note 13B) which compares the reported results to the original budget for 2015-16 as outlined in May 2015 with explanations for key movements; and
- **glossary of key fiscal aggregates** (refer Note 13C) which explains the key technical terms reported in the CFS and which are not common to financial reports prepared by other entities.

Note 13A: Reconciliations to ABS GFS measures

The following tables provide a reconciliation of key fiscal aggregates on the face of the financial statements where the amounts reported differ from the corresponding key fiscal aggregates measured under the ABS GFS Manual as at 1 July 2014(a).

(a) Reconciliation to GFS net operating balance

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Net result from transactions - net operating balance reported in Operating Statement										
Convergence differences:										
Unwinding of concessional interest costs(b)	(106)	(47)	-	-	-	-	-	-	(106)	(47)
Concessional interest costs(b)	675	860	-	-	-	-	-	-	675	860
Seigniorage(c)	(145)	(111)	-	-	-	-	-	-	(145)	(111)
Movement in deferred tax assets and deferred tax liabilities	-	-	(91)	111	(1)	8	92	(119)	-	-
Dividends to GGS from other sectors(d)	(1,338)	(649)	(123)	(110)	(1,955)	(1,549)	3,416	2,308	-	-
Total convergence differences	(914)	53	(214)	1	(1,956)	(1,541)	3,508	2,189	424	702
GFS Net operating balance	(35,572)	(37,714)	(2,924)	(1,819)	(757)	(584)	169	(383)	(39,084)	(40,500)

(a) Under AASB 1049, the financial statements are reconciled to the ABS GFS Manual effective at the beginning of the comparative reporting period (1 July 2014). The amounts reported may differ to the aggregates subsequently reported by the ABS in the 2015-16 GFS publication because of changes in methodology, differences in interpretation and/or updated information availability subsequent to the release of the financial statements.

(b) The financial statements discount concessional loans by a market rate of a similar instrument whereas the ABS GFS Manual uses nominal value.

(c) The financial statements treat the profit between the cost and sale of circulating coin (seigniorage) as revenue whereas the ABS GFS Manual treats circulating coin as a liability and the cost to produce the coins as an expense.

(d) The financial statements treat dividends to the GGS as a distribution to owners whereas the ABS GFS Manual treats dividends to owners as an expense. The financial statements recognise the RBA dividends in the year profit was earned whereas the ABS GFS Manual recognises dividends when the Treasurer makes a determination.

(b) Reconciliation to GFS total change in net worth

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Total change in net worth before transactions with owners in their capacity as owners as reported in Operating Statement	(114,680)	(38,424)	(2,804)	(1,678)	3,270	6,153	(481)	(1,768)	(114,695)	(35,717)
Convergence differences:										
Relating to net operating balance	(914)	53	(214)	1	(1,956)	(1,541)	3,508	2,189	424	702
Relating to change in treatment of defence weapons and inventory(a)	-	43,760	-	-	-	-	-	-	-	43,760
Relating to other economic flows	1,263	658	(4,017)	(3,030)	1,979	(2,614)	715	2,288	(60)	(2,698)
Relating to transactions with owners	-	-	7,035	4,707	(3,293)	(1,998)	(3,742)	(2,709)	-	-
Total convergence differences	349	44,471	2,804	1,678	(3,270)	(6,153)	481	1,768	364	41,764
GFS Total change in net worth	(114,331)	6,047	-	-	-	-	-	-	(114,331)	6,047

(a) Consistent with AASB 1049, the Australian Government elected not to apply Chapter 2 *Amendments to Defence Weapons Platforms* of the ABS publication *Amendments to Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2005 (ABS Catalogue No. 5514.0.55.001) — published on the ABS website on 5 April 2011 — until the 2014-15 reporting period. The 2013-14 period was prepared on the previous basis and impacts the 2014-15 comparative.

(c) Reconciliation to GFS net lending / (borrowing)

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Net lending/(borrowing) as reported in Operating Statement										
Convergence differences:										
Relating to net operating balance	(914)	53	(214)	1	(1,956)	(1,541)	3,508	2,189	424	702
Auction sales of spectrum(a)	-	(1,965)	-	-	-	-	-	-	-	(1,965)
Total convergence differences	(914)	(1,912)	(214)	1	(1,956)	(1,541)	3,508	2,189	424	(1,263)
GFS Net lending/(borrowing)	(38,422)	(42,385)	(7,613)	(4,748)	(826)	(567)	(26)	(370)	(46,887)	(48,070)

(a) The financial statements recognise the disposal of spectrum licences at the point of issue whereas the ABS GFS Manual recognises spectrum licences at the time of auction and the proceeds from their sale at the point of auction, reflected on the balance sheet as a receivable.

(d) Reconciliation to GFS net worth

	General Government		Public non-financial corporations		Public financial corporations		Eliminations and netting		Australian Government	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Net worth as reported in Balance Sheet	(413,514)	(299,302)	19,890	15,639	24,782	24,802	(45,184)	(40,955)	(414,026)	(299,816)
Convergence differences:										
Provision for doubtful debts(a)	28,374	25,076	18	15	1	1	(1)	-	28,392	25,092
Concessionality on loans and investments(b)	7,150	9,435	-	-	-	-	-	-	7,150	9,435
Investment in other sector entities(c)	(1,007)	(707)	-	-	-	-	1,007	707	-	-
Deferred tax assets(d)	-	-	(820)	(909)	(5)	(4)	825	913	-	-
Seigniorage(e)	(4,006)	(3,861)	-	-	-	-	-	-	(4,006)	(3,861)
Deferred tax liability(d)	-	-	468	648	-	-	(468)	(648)	-	-
Dividends(f)	(1,338)	(649)	-	-	1,338	649	-	-	-	-
Shares and other contributed capital(g)	-	-	(19,556)	(15,393)	(26,116)	(25,448)	43,821	39,983	(1,851)	(858)
Total convergence differences	29,173	29,293	(19,890)	(15,639)	(24,782)	(24,802)	45,184	40,955	29,685	29,807
GFS Net worth	(384,341)	(270,009)	-	-	-	-	-	-	(384,341)	(270,009)

(a) The financial statements treat provisions for doubtful debts as an offset to the asset in the balance sheet. The ABS GFS Manual does not consider the creation of a provision to be an economic event and therefore excludes it from the balance sheet.

(b) The financial statements discount concessional loans by a market rate of a similar instrument whereas the ABS GFS manual uses nominal value.

(c) The financial statements apply AASB 13 to the valuation of the GGS's investment in public corporations whereas the ABS GFS Manual values public corporations at their net assets unless the shares in a public corporation are publicly traded. A convergence difference arises where the application of AASB 13 results in a valuation other than net assets.

(d) Deferred tax assets and deferred tax liabilities are reported in the financial statements whereas the ABS GFS Manual does not recognise these items.

(e) The financial statements treat the profit between the cost and sale of circulating coin (seigniorage) as revenue whereas the ABS GFS Manual treats circulating coin as a liability and the cost to produce the coins as an expense.

(f) The financial statements recognise the RBA dividends in the year profit was earned whereas the ABS GFS Manual recognises dividends when the Treasurer makes a determination.

(g) The financial statements treat shares and other contributed capital in public corporations as part of net worth whereas the ABS GFS Manual deducts shares and other contributed capital in the calculation of net worth (with net worth calculated as assets less liabilities less shares and other contributed equity).

The ABS GFS Manual measures inventory at market value (rather than the lower of cost and net realisable value). It also does not recognise the provision for decommissioning/restoration costs. The above reconciliation has not been adjusted for these items on the basis of materiality and information availability.

Reconciliation to GFS cash surplus/(deficit) is disclosed on the face of the cash flow statement.

Note 13B: Reconciliation to original budget

The following tables provide a comparison of the original 2015-16 Budget to the final actual results for the GGS. Explanations are provided for major variances, which are typically those amounts greater than \$1 billion.

The Australian Government does not present budgets at the whole of government level, and therefore, only the GGS is presented in this note. The Budget is not audited.

General government sector operating statement 2015-16

	2016 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Revenue from transactions				
Taxation revenue	368,937	380,074	(11,137)	371,923
Sales of goods and services	7,619	9,542	(1,923)	7,697
Interest income	2,931	4,083	(1,152)	3,506
Dividend income	6,240	3,143	3,097	5,564
Other	9,326	8,508	818	7,706
Total revenue	395,053	405,350	(10,297)	396,396
Expenses from transactions				
<i>Gross operating expenses</i>				
Wages and salaries	18,675	19,801	(1,126)	19,767
Superannuation	7,854	4,760	3,094	7,052
Depreciation and amortisation	8,132	7,182	950	7,165
Supply of goods and services	84,395	85,046	(651)	81,414
Other operating expenses	6,332	5,510	822	5,483
<i>Total gross operating expenses</i>	<i>125,388</i>	<i>122,299</i>	<i>3,089</i>	<i>120,881</i>
Superannuation interest expense	9,106	9,869	(763)	9,167
Interest expenses	16,673	17,270	(597)	16,774
<i>Current transfers</i>				
Current grants	126,135	128,415	(2,280)	128,393
Subsidy expenses	12,053	12,654	(601)	12,763
Personal benefits	131,574	133,123	(1,549)	133,416
<i>Total current transfers</i>	<i>269,762</i>	<i>274,192</i>	<i>(4,430)</i>	<i>274,572</i>
<i>Capital transfers</i>				
Mutually agreed write-downs	1,193	2,199	(1,006)	1,722
Other capital grants	7,589	8,641	(1,052)	8,354
<i>Total capital transfers</i>	<i>8,782</i>	<i>10,840</i>	<i>(2,058)</i>	<i>10,076</i>
Total expenses	429,711	434,470	(4,759)	431,470
Net operating balance	(34,658)	(29,120)	(5,538)	(35,074)
Other economic flows included in operating result				
Net write-downs of assets	(8,747)	(8,638)	(109)	(7,106)
Assets recognised for the first time	283	335	(52)	296
Net gain/(loss) from the sale of assets	6,222	-	6,222	-
Net foreign exchange gains	429	46	383	(9)
Net swap interest gains/(losses)	(508)	-	(508)	(437)
Other gains/(losses)	(20,911)	9,229	(30,140)	(3,960)
Amortisation of non-produced assets	(55)	-	(55)	-
Net result from associates and joint ventures	15	-	15	-
Total Other economic flows	(23,272)	972	(24,244)	(11,216)
Operating Result	(57,930)	(28,148)	(29,782)	(46,290)
Other non-owner movements in equity				
Revaluation of equity investments	(2,970)	(2,221)	(749)	(3,026)
Revaluation of non-financial assets	2,866	-	2,866	-
Actuarial revaluations of superannuation	(56,913)	105	(57,018)	1,032
Other economic revaluations	267	135	132	371
Total other economic flows included in equity	(56,750)	(1,981)	(54,769)	(1,623)
Comprehensive result - Total change in net worth	(114,680)	(30,129)	(84,551)	(47,913)
Net operating balance	(34,658)	(29,120)	(5,538)	(35,074)
less Net acquisition of non-financial assets				
Purchases of non-financial assets	11,141	11,408	(267)	11,559
less Sales of non-financial assets	477	491	(14)	404
less Depreciation and amortisation	8,132	7,182	950	7,165
plus Change in inventories	413	352	61	310
plus Other movements in non-financial assets	(95)	(234)	139	56
Total net acquisition of non-financial assets	2,850	3,853	(1,003)	4,356
Fiscal balance (net lending/borrowing)	(37,508)	(32,973)	(4,535)	(39,430)

(a) Original budget for 2015-16 as presented in the 2015-16 Budget papers released in May 2015.

(b) Revised budget for 2015-16 as presented in the 2016-17 Budget papers released in May 2016.

Revenue

Line item	Variance	Explanation
Taxation revenue	(\$11.1b)	Total taxation revenue was \$11.1 billion lower than the original budget, primarily driven by: - lower company tax of \$6.3 billion, reflecting weaker than expected corporate profitability and lower than expected capital gains; - lower individuals and other withholding tax of \$4.3 billion, due to weaker than expected growth in wages and salaries; - lower superannuation fund tax of \$2.3 billion, driven by lower than expected net capital gains, higher foreign exchange losses and dividend franking credits; - higher customs duty of \$4.6 billion, partially offset by lower excise duty of \$3.3 billion as result of the greater than anticipated shift from domestic tobacco production to imported tobacco products; and - higher Visa Application Charges (VAC) of \$1.9 billion due to the reclassification of VAC revenue from non-taxation to taxation revenue at the 2015-16 Mid-Year Economic Fiscal Outlook (MYEFO) to reflect the sustained change of the nature of this revenue.
Sales of goods and services	(\$1.9b)	Sales of goods and services was \$1.9 billion lower than the original budget, primarily due to the reclassification of VAC revenue to taxation revenue at the 2015-16 MYEFO (refer to the Taxation Revenue explanation above).
Interest income	(\$1.2b)	Dividend income was \$3.1 billion higher than the original budget, primarily driven by higher revenue of \$2.8 billion from the Reserve Bank of Australia (RBA). This was the result of higher RBA earnings from realised foreign exchange gains in 2015-16.
Dividend income	\$3.1b	In addition, the investment portfolio held by the Future Fund ⁶ returned higher dividend revenue of \$0.3 billion and lower interest income of \$1.2 billion compared to the original budget.

Expenses

Line item	Variance	Explanation
Wages and salaries	(\$1.1b)	Total employee expenses (wages and salaries, and other operating expenses) were \$0.3 billion lower than the original budget. This was attributable to variances across a number of entities, with the most significant contributor being the Australian Taxation Office (ATO), due to unexpected delays in recruiting additional staff at lower classification levels.
Other operating expenses	\$0.8b	

6 The 2015-16 Budget was based on the assumption that the mandated return for the Future Fund is achieved for each forward estimates year. CPI is estimated in the Budget numbers. In that context, the original budget, including related investment costs, was based on the estimated mandated return. Therefore, the actual results will always deviate from these assumed returns. For 2015-16, the Future Fund generated a net of costs return of \$5.59 billion (4.8 per cent), a 33 per cent decrease from the budgeted amount. For comparative purposes, the mandated return used for budget purposes for the equivalent period was 7.2 per cent. For further information on the Future Fund, refer to <http://www.futurefund.gov.au/About-us/annual-reports>.

Line item	Variance	Explanation
Superannuation	\$3.1b	Superannuation expenses were \$3.1 billion higher than the original budget, primarily due to the different discount rates used to calculate the CFS and original budget superannuation liability amounts. For the Budget, a discount rate of 6 per cent applied by actuaries in preparing Long Term Cost Reports is used to value the superannuation liability. This reflects the average annual rate estimated to apply over the term of the liability and it reduces the volatility in reported liabilities that would occur from year to year if the long-term government bond rate was used. The long-term government bond rate as at 30 June 2016 (2.7 per cent) is used to calculate the actual superannuation liability for the CFS. This lower discount rate results in a higher superannuation liability, higher superannuation expenses and lower nominal superannuation interest expense in the CFS compared to the budget.
Current grants	(\$2.3b)	Grants expenses were \$3.4 billion lower than the original budget, spread across a number of entities. The largest variance related to lower Financial Assistance Grant payments (\$1.1 billion), due to payments being brought forward in June 2015.
Capital grants	(\$1.1b)	
Personal benefits	(\$1.5b)	Personal benefits expenses were \$1.5 billion lower than the original budget, mainly resulting from a reclassification since the original budget between personal benefits and supply of goods and services expenses reflecting more accurate information on the distinction between benefits provided to households directly in cash (direct personal benefits) and benefits provided in goods and services (indirect personal benefits) for social services and health-related programs.
Mutually agreed write-downs	(\$1.0b)	Mutually agreed write-downs were \$1.0 billion lower than the original budget. This was due to lower penalty and interest charge remission expenses for the ATO, as a result of a restatement for its revised settlement policy (which was amended after the budget estimate was prepared).

Other economic flows

Line item	Variance	Explanation
Net gain/(loss) from the sale of assets	\$6.2b	The net gain from the sale of assets was \$6.2 billion higher than the original budget, primarily attributable to Future Fund ⁷ gains on the sale of investments (\$5.8 billion). This variance is due to the original budget for this amount being reflected in Other gains/(losses).
Other gains/(losses)	(\$30.1b)	Other gains/(losses) were \$30.1 billion lower than the original budget, primarily due to the Australian Government Securities (AGS) yields being lower than anticipated at the time the budget estimate was prepared.
Revaluation of non-financial assets	\$3.1b	Revaluation of non-financial assets were \$3.1 billion higher than the original budget, primarily as a result of the different measurement basis used for SME in the CFS (fair value basis) and original budget (cost basis). Furthermore, the Budget does not include estimates for these revaluations.
Actuarial revaluations of superannuation	(\$57.0b)	Actuarial revaluations of the superannuation liability were \$57.0 billion higher than the original budget, primarily due to the lower discount rate used to calculate the liability in the CFS (refer to the Superannuation expense explanation).

⁷ Refer to footnote 6 on page 158.

General government sector balance sheet as at 30 June 2016

	2016 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Assets				
Financial assets				
Cash and deposits	3,638	3,435	203	3,512
Advances paid	46,898	52,901	(6,003)	52,782
Other receivables	45,043	42,932	2,111	44,000
Investments, loans and placements	149,994	137,947	12,047	153,233
Equity investments	87,230	92,335	(5,105)	84,536
Total financial assets	332,803	329,550	3,253	338,063
Non-financial assets				
Land	10,620	9,144	1,476	9,729
Buildings	25,547	26,927	(1,380)	25,992
Plant, equipment and infrastructure	70,498	59,766	10,732	59,692
Intangibles	7,281	6,547	734	6,881
Investment property	164	195	(31)	200
Inventories	8,567	8,211	356	8,195
Heritage and cultural assets	11,462	10,852	610	11,697
Other non-financial assets	4,638	3,504	1,134	4,972
Total non-financial assets	138,777	125,146	13,631	127,358
Total assets	471,580	454,696	16,884	465,421
Liabilities				
Interest bearing liabilities				
Deposits held	217	211	6	218
Government securities	483,361	464,298	19,063	476,999
Loans and other interest bearing liabilities	16,824	14,148	2,676	16,425
Other borrowing	1,607	1,428	179	1,569
Total interest bearing liabilities	502,009	480,085	21,924	495,211
Provisions and payables				
Superannuation liability	314,228	173,921	140,307	169,308
Other employee liabilities	18,302	16,105	2,197	17,004
Suppliers payable	5,335	4,914	421	5,868
Personal benefits payable	3,820	4,506	(686)	4,514
Subsidies payable	539	784	(245)	492
Grants payable	2,659	2,034	625	2,307
Other payables and provisions	38,202	33,787	4,415	35,744
Total provisions and payables	383,085	236,051	147,034	235,237
Total liabilities	885,094	716,135	168,959	730,448
Net worth	(413,514)	(261,439)	(152,075)	(265,027)

(a) Original budget for 2015-16 as presented in the 2015-16 Budget papers released in May 2015.

(b) Revised budget for 2015-16 as presented in the 2016-17 Budget papers released in May 2016.

Assets

Line item	Variance	Explanation
Advances paid	(\$6.0b)	Advances paid were \$6.0 billion lower than the original budget, mainly due to the different measurement basis used for the advances paid to the International Development Association (IDA) and Asian Development Fund (ADF) in the CFS and budget. In the Budget, IDA and ADF advances are recorded at nominal value while fair value is used for the CFS (refer to Note 1.3 'Basis of accounting' for more detail).
Other receivables	\$2.1b	Other receivables were \$2.1 billion higher than the original budget. This was driven by variances across a number of entities, with the largest variance relating to a higher than expected dividend receivable from the RBA, resulting from higher RBA earnings from realised foreign exchange gains in 2015-16.
Investments, loans and placements	\$12.0b	Investments, loans and placements were \$12.0 billion higher than original budget, primarily due to: - a higher value of deposits and securities (\$9.3 billion) held by the Australian Office of Financial Management (AOFM), primarily due to a more conservative cash management approach and due to imprecisions in projecting the highly volatile daily flows of revenue, expenditure and financing items across the GGS; - residential mortgage-backed securities were higher than projected as a result of the divestment program being suspended due to unfavourable market conditions;
Equity investments	(\$5.1b)	- a higher value of investments (\$5.2 billion) managed by the Future Fund⁸; and - a change in classification in the treatment of the Department of Education's investment in the Australian National University (\$2.1 billion) - this is reported against Investments, loans and placements in the original budget and as an equity investment for the CFS resulting in a corresponding variance between these two balance sheet items. In addition, the Future Fund⁹ managed a lower value of equity investments (\$7.0 billion) than included in the original budget.
Non-financial assets	\$13.6b	Total non-financial assets, excluding Other non-financial assets, were \$12.5 billion higher than the original budget. The key driver was the revaluation of non-financial assets (\$11.1 billion) (refer to the Other economic flows explanation). Other non-financial assets were \$1.1 billion higher than the original budget, mainly driven by higher prepayments to the Foreign Military Sales Account in the United States for purchases of military equipment.

Liabilities

Line item	Variance	Explanation
Government securities (AGS)	\$19.1b	AGS were \$19.1 billion higher than the original budget, driven by the AOFM having a larger financing task than projected and lower yields than anticipated on AGS increased the fair value of the debt on issue.

8 Refer to footnote 6 on page 158.

9 Refer to footnote 6 on page 158.

Line item	Variance	Explanation
Loans and other interest bearing liabilities	\$2.7b	Loans and other interest bearing liabilities were \$2.7 billion higher than the original budget, mainly due to: • higher International Monetary Fund (IMF) promissory notes of \$1.4 billion, primarily as a result of changes in the exchange rate; and • higher swap principal payables of \$0.7 billion managed by the Future Fund¹⁰.
Superannuation liability	\$140.3b	The superannuation liability was \$140.3 billion higher than the original budget, primarily due to the lower discount rate used to calculate the liability in the CFS (refer to the Superannuation expense explanation).
Other employee liabilities	\$2.2b	Other employee liabilities were \$2.2 billion higher than the original budget, primarily due to the provision for military compensation liability. This provision is difficult to estimate due to the uncertainty surrounding the inputs that determine this long-term liability.
Other payables and provisions	\$4.4b	Other provisions and payables were \$4.4 billion higher than the original budget, primarily resulting from: • later than expected Natural Disaster Relief and Recovery Arrangement payments (\$1.4 billion), which are paid on the basis of appropriate acquittals; • additional grant expenditure relating to interest and service costs (\$1.2 billion) stemming from the actuarial review of the Higher Education Superannuation Program; and • higher health care provisions (\$1.2 billion) as a result of an adjustment to the military compensation provisions calculated by the Australian Government Actuary.

10 Refer to footnote 6 on page 158.

General government sector cash flow statement 2015-16

	2016 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
OPERATING ACTIVITIES				
Cash received				
Taxes received	361,962	370,140	(8,178)	364,507
Receipts from sales of goods and services	7,592	9,475	(1,883)	7,686
Interest receipts	2,936	3,334	(398)	2,842
Dividend receipts	5,540	4,623	917	5,332
Other receipts	8,480	8,549	(69)	7,321
Total cash received	386,510	396,121	(9,611)	387,688
Cash used				
Payments for employees	(27,122)	(27,891)	769	(27,893)
Payments for goods and services	(85,115)	(85,076)	(39)	(80,834)
Grants and subsidies paid	(145,866)	(150,792)	4,926	(149,656)
Interest paid	(14,977)	(14,953)	(24)	(14,822)
Personal benefits	(133,822)	(134,744)	922	(134,887)
Other payments	(5,921)	(5,218)	(703)	(5,308)
Total cash used	(412,823)	(418,674)	5,851	(413,400)
Net cash from discontinued operating activities	-	-	-	-
Net cash from/(used by) operating activities	(26,313)	(22,553)	(3,760)	(25,712)
INVESTING ACTIVITIES				
Cash flows from investments in non-financial assets				
Sales of non-financial assets	414	1,859	(1,445)	339
Purchases of non-financial assets	(10,341)	(11,161)	820	(11,559)
Net cash flows from investments in non-financial assets	(9,927)	(9,302)	(625)	(11,220)
Cash flows from investments in financial assets for policy purposes				
Net advances repaid/(paid)	(12,684)	(12,908)	224	(14,553)
Net cash flows from investments in financial assets for policy purposes	(12,684)	(12,908)	224	(14,553)
Cash flows from investments in financial assets for liquidity purposes				
Decrease/(Increase) in investments	(5,255)	(3,129)	(2,126)	(9,396)
Net cash flows from investments in financial assets for liquidity purposes	(5,255)	(3,129)	(2,126)	(9,396)
Net cash from discontinued investing activities	-	-	-	-
Net cash from/(used by) investing activities	(27,866)	(25,339)	(2,527)	(35,169)
FINANCING ACTIVITIES				
Cash flows from financing activities				
Cash received				
Borrowings	57,102	50,790	6,312	63,753
Other financing	-	11	(11)	6
Total cash received	57,102	50,801	6,301	63,759
Cash used				
Other financing	(2,441)	(2,620)	179	(2,522)
Total cash used	(2,441)	(2,620)	179	(2,522)
Net cash from discontinued financing activities	-	-	-	-
Net cash flows from financing activities	54,661	48,181	6,480	61,237
Net (decrease)/increase in cash held	482	289	193	356

General government sector cash flow statement 2015-16 (continued)

	2016 Actual \$m	Original budget(a) \$m	Budget variance \$m	Revised budget(b) \$m
Cash at beginning of year	3,156	(38)	3,194	3,156
Cash at end of year	3,638	251	3,387	3,512
Key fiscal aggregate				
Net cash flows from operating activities	(26,313)	(22,553)	(3,760)	(25,712)
Net cash flows from investments in non-financial assets	(9,927)	(9,302)	(625)	(11,220)
Cash surplus/(deficit)	(36,240)	(31,855)	(4,385)	(36,932)
Finance leases and similar arrangements	(165)	(1)	(164)	(2)
GFS cash surplus/(deficit)	(36,405)	(31,856)	(4,549)	(36,934)

(a) Original budget for 2015-16 as presented in the 2015-16 Budget papers released in May 2015.

(b) Revised budget for 2015-16 as presented in the 2016-17 Budget papers released in May 2016.

The variances for the cash flow statement reflect the movements in the operating statement and balance sheet.

Note 13C: Glossary of key fiscal aggregates

Key technical terms

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the Accrual Uniform Presentation Framework, net debt, net financial worth and net financial liabilities are also reported in the balance sheet.

Comprehensive result (total change in net worth before transactions with owners as owners)

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity, other than transactions with owners as owners.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the GGS to the balance on the current account in the balance of payments.

Mutually agreed bad debts

Financial assets written off where there was prior knowledge and consent by the counterparties.

Net actuarial gains

Includes actuarial gains and losses on defined benefits superannuation plans.

Net financial liabilities

Total liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (for example accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net financial worth

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Net lending/borrowing

This is the net operating balance minus the net acquisition/(disposal) of non-financial assets. It is also equal to transactions in the net acquisition/(disposal) of financial assets minus the net incurrence of liabilities. It indicates the extent to which financial resources are placed at the disposal of the rest of the economy or the utilisation of financial resources generated by the rest of the economy. It is an indicator of the financial impact on the rest of the economy.

Net other economic flows

The net change in the volume or value of assets and liabilities that does not result from transactions.

Net operating balance

This is calculated as income from transactions minus expenses from transactions.

Net result from transactions — net operating balance

The revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net worth

The net worth of the GGS, PNFC and PFC sectors are defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

Operating result

A measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

Transactions

Interactions between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction.

Unilaterally determined bad debts

Financial assets written off without an agreement with the debtor in cases such as bankruptcy of the debtor.

Note 14: Audit expenses

With the exception of a small number of entities, audit services within the reporting entity are provided by the Auditor-General. The cost of these services which include performance and financial statement audits, totalled \$77.1 million (2015: \$76.6 million). The audit of the CFS cost \$1.2 million (2015: \$1.1 million).

Note 15: List of Australian Government reporting entities

The following is a list of Australian Government reporting entities which have been consolidated for the purposes of the financial report. Unless otherwise noted, all such entities are wholly owned. The list is based on the Australian Government Administrative Arrangement Orders in place at 30 June 2016.

Agriculture and Water Resources Portfolio

General Government:

Australian Fisheries Management Authority	Department of Agriculture and Water Resources
Australian Grape and Wine Authority	Fisheries Research and Development Corporation
Australian Pesticides and Veterinary Medicines Authority	Grains Research and Development Corporation
Cotton Research and Development Corporation	Murray-Darling Basin Authority
	Rural Industries Research and Development Corporation

Attorney-General's Portfolio

General Government:

Administrative Appeals Tribunal	Australian Transaction Reports and Analysis Centre (AUSTRAC)
Attorney-General's Department	CrimTrac Agency
Australian Commission for Law Enforcement Integrity	Family Court and Federal Circuit Court
Australian Crime Commission	Federal Court of Australia
Australian Federal Police	High Court of Australia
Australian Financial Security Authority	National Archives of Australia
Australian Human Rights Commission	Office of the Australian Information Commissioner
Australian Institute of Criminology	Office of Parliamentary Counsel
Australian Law Reform Commission	Office of the Director of Public Prosecutions
Australian Security Intelligence Organisation	

Communications and the Arts Portfolio

General Government:

Australia Council	National Film and Sound Archive of Australia
Australian Broadcasting Corporation	National Gallery of Australia
Australia Business Arts Foundation Ltd (Creative Partnerships Australia) (company limited by guarantee)	National Library of Australia
Australian Communications and Media Authority	National Museum of Australia
Australian Film, Television and Radio School	National Portrait Gallery of Australia
Australian National Maritime Museum	Old Parliament House
Bundanon Trust (company limited by guarantee)	Screen Australia
Department of Communications and the Arts	Special Broadcasting Service Corporation

Public Non-Financial Corporations:

Australian Postal Corporation	NBN Co Ltd
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Defence Portfolio

General Government:

AAF Company (company limited by guarantee)	Royal Australian Air Force Veterans' Residences Trust Fund
Army and Air Force Canteen Service	Royal Australian Air Force Welfare Recreational Company (company limited by guarantee)
Australian Military Forces Relief Trust Fund (Army Relief Trust Fund)	Royal Australian Air Force Welfare Trust Fund
Australian Strategic Policy Institute Ltd (company limited by guarantee)	

Australian War Memorial
Defence Housing Australia
Department of Defence
Department of Veterans' Affairs

Royal Australian Navy Central Canteens Board
Royal Australian Navy Relief Trust Fund

Education and Training Portfolio

General Government:

Australian Curriculum, Assessment and Reporting Authority
Australian Institute for Teaching and School Leadership Ltd (company limited by guarantee)
Australian Institute of Aboriginal and Torres Strait Islander Studies

Australian Research Council
Australian Skills Quality Authority (National Vocational Education and Training Regulator)
Department of Education and Training
Tertiary Education Quality and Standards Agency

Employment Portfolio

General Government:

Asbestos Safety and Eradication Agency
Comcare
Department of Employment
Fair Work Commission
Office of the Fair Work Building Industry Inspectorate (Fair Work Building and Construction)

Office of the Fair Work Ombudsman
Safe Work Australia
Seafarers Safety, Rehabilitation and Compensation Authority (Seacare Authority)
Workplace Gender Equality Agency

Public Financial Corporation:

Coal Mining Industry (Long Service Leave Funding) Corporation

Environment Portfolio

General Government:

Australian Renewable Energy Agency
Bureau of Meteorology
Clean Energy Finance Corporation
Clean Energy Regulator
Climate Change Authority

Department of the Environment
Director of National Parks
Great Barrier Reef Marine Park Authority
Sydney Harbour Federation Trust

Finance Portfolio

General Government:

Australian Electoral Commission
Commonwealth Superannuation Corporation

Department of Finance
Future Fund Management Agency

Public Non-Financial Corporation:

ASC Pty Ltd

Foreign Affairs and Trade Portfolio

General Government:

Australian Centre for International Agricultural Research
Australian Secret Intelligence Service
Australian Trade and Investment Commission

Department of Foreign Affairs and Trade
Export Finance and Insurance Corporation (National Interest Account)
Tourism Australia

Public Financial Corporation:

Export Finance and Insurance Corporation

Health Portfolio

General Government:

Australian Aged Care Quality Agency
 Australian Commission on Safety and Quality in Health Care
 Australian Digital Health Agency
 Australian Institute of Health and Welfare
 Australian National Preventive Health Agency
 Australian Organ and Tissue Donation and Transplantation Authority (Organ and Tissue Authority)
 Australian Radiation Protection and Nuclear Safety Agency
 Australian Sports Anti-Doping Authority
 Australian Sports Commission

Australian Sports Foundation Ltd (company limited by guarantee)
 Cancer Australia
 Department of Health
 Food Standards Australia New Zealand
 Independent Hospital Pricing Authority
 National Blood Authority
 National Health and Medical Research Council
 National Health Funding Body
 National Health Performance Authority
 National Mental Health Commission
 Professional Services Review Scheme

Immigration and Border Protection Portfolio

General Government:

Department of Immigration and Border Protection

Industry, Innovation and Science Portfolio

General Government:

Australian Institute of Marine Science
 Australian Nuclear Science and Technology Organisation
 Commonwealth Scientific and Industrial Research Organisation

Department of Industry, Innovation and Science
 Geoscience Australia
 IIF Investments Pty Ltd
 IP Australia
 National Offshore Petroleum Safety and Environmental Management Authority

Public Non-Financial Corporation:

ANSTO Nuclear Medicine Pty Ltd

Infrastructure and Regional Development Portfolio

General Government:

Australian Maritime Safety Authority
 Australian Transport Safety Bureau
 Civil Aviation Safety Authority
 Department of Infrastructure and Regional Development

Infrastructure Australia
 National Capital Authority
 National Transport Commission
 Administration of Norfolk Island

Public Non-Financial Corporations:

Airservices Australia
 Australian Rail Track Corporation Ltd

Moorebank Intermodal Company Ltd

Prime Minister and Cabinet Portfolio

General Government:

Aboriginal Hostels Ltd (company limited by guarantee)
 Australian National Audit Office
 Australian Public Service Commission
 Department of the Prime Minister and Cabinet
 Digital Transformation Office
 Indigenous Business Australia
 Indigenous Land Corporation

Office of National Assessments
 Office of the Commonwealth Ombudsman
 Office of the Inspector-General of Intelligence and Security
 Office of the Official Secretary to the Governor-General
 Outback Stores Pty Ltd
 Torres Strait Regional Authority

National Australia Day Council Ltd (company limited by guarantee)

Public Non-financial Corporation:

Voyages Indigenous Tourism Australia Pty Ltd

Social Services Portfolio

General Government:

Australian Institute of Family Studies
Department of Human Services
Department of Social Services

National Disability Insurance Scheme Launch
Transition Agency (National Disability Insurance Agency)

Public Non-Financial Corporation:

Australian Hearing Services (Australian Hearing)

Treasury Portfolio

General Government:

Australian Bureau of Statistics
Australian Competition and Consumer Commission
Australian Office of Financial Management
Australian Prudential Regulation Authority
Australian Securities and Investments Commission
Australian Taxation Office
Commonwealth Grants Commission

Corporations and Markets Advisory Committee
Department of the Treasury
Inspector-General of Taxation
National Competition Council
Office of the Auditing and Assurance Standards Board
Office of the Australian Accounting Standards Board
Productivity Commission
Royal Australian Mint

Public Financial Corporations:

Australian Reinsurance Pool Corporation

Reserve Bank of Australia

Parliamentary Departments

General Government:

Department of Parliamentary Services
Department of the House of Representatives

Department of the Senate
Parliamentary Budget Office

Entity changes during 2015-16

Entities no longer consolidated

Australian Customs and Border Protection Service (1 July 2015)
Australian Government Solicitor (1 July 2015)
Comsuper (1 July 2015)
Defence Materiel Organisation (1 July 2015)
Migration Review Tribunal and Refugee Review Tribunal (1 July 2015)
Private Health Insurance Administration Council (1 July 2015)
Private Health Insurance Ombudsman (1 July 2015)
Telecommunications Universal Service Management Agency (1 July 2015)

Entities newly controlled/established in 2015-16

Australian Digital Health Agency (30 January 2016)

Digital Transformation Office (1 July 2015)

Entities with name changes

Australian Trade and Investment Commission (previously Australian Trade Commission)

Department of Agriculture and Water Resources (previously the Department of Agriculture)

Department of Communications and the Arts (previously the Department of Communications)

Department of Industry, Innovation and Science (previously the Department of Industry and Science)

The Australian Government Organisations Register (www.finance.gov.au/resource-management/governance/agor/) provides information on the function, composition, origins and other details of more than 1,200 Australian Government entities and bodies, including the reporting-entities consolidated in the financial statements.

