

Financial statements



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

RENTAL BOND BOARD

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Rental Bond Board:

- (a) presents fairly the Rental Bond Board's financial position as at 30 June 2003 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Role of the Members of the Board

The financial report is the responsibility of the members of the Board of the Rental Bond Board. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

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

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

- evaluated the accounting policies and significant accounting estimates used by the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

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

My opinion does *not* provide assurance:

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



Audit Independence

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

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

A handwritten signature in cursive script, appearing to read 'S R Stanton'.

S R Stanton CPA
Assistant Director of Audit

SYDNEY
17 October 2003



STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41C of the Public Finance and Audit Act 1983 we declare, on behalf of the Board, that in our opinion:-

- (1) the accompanying financial statements exhibit a true and fair view of the financial position of the Rental Bond Board as at 30 June 2003 and transactions for the period 1 July 2002 to 30 June 2003;
- (2) the statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000 and the Treasurer's Directions.

Further, the Members of the Board are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

On behalf of the Board.

DAVID O'CONNOR, Chairperson

BRIAN WADDINGTON, Member

Dated at Sydney 16.10.03



RENTAL BOND BOARD

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 \$'000	2002 \$'000
Revenue from Ordinary Activities			
Interest income	1(c),7	33,400	33,158
Total Revenue		33,400	33,158
Expenses from Ordinary Activities			
Administrative Assistance:			
Operating Expenses	1(a),8	16,436	17,284
Grants and subsidies	8(b)	10,960	9,975
Other operating expenses	8(a)	630	668
Interest on rental bonds	1(f)	70	134
Total Expenses		28,096	28,061
SURPLUS FOR THE YEAR FROM ORDINARY ACTIVITIES		5,304	5,097
NON-OWNER TRANSACTION CHANGES IN EQUITY		-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		5,304	5,097

The accompanying notes form part of these statements.



STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2003

	Notes	2003 \$'000	2002 \$'000
ASSETS			
Current Assets			
Cash	2	14,387	16,649
Receivables	3	201	136
Other financial assets	4	22,613	20,419
Total Current Assets		37,201	37,204
Non Current Assets			
Other financial assets	4	234	313
Total Non Current Assets		234	313
TOTAL ASSETS		37,435	37,517
LIABILITIES			
Current Liabilities			
Payables	6	1,271	6,681
Total Current Liabilities		1,271	6,681
Non Current Liabilities			
Payables	6	24	–
Total Non Current Liabilities		24	–
TOTAL LIABILITIES		1,295	6,681
NET ASSETS		36,140	30,836
EQUITY			
Accumulated funds		36,140	30,836
TOTAL EQUITY		36,140	30,836

The accompanying notes form part of these statements.



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 \$'000	2002 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Maturity of investments		98	177
Interest received		33,325	32,321
Other		679	1,326
Total Receipts		34,102	33,824
Payments			
Investments		(2,194)	(1,071)
Payment of interest on bonds		(70)	(134)
Trade creditors		(17,122)	(18,503)
Grants and subsidies		(16,978)	(9,975)
Total Payments		36,364	(29,683)
NET CASH FLOWS FROM/(USED BY) OPERATING ACTIVITIES	11	(2,262)	4,141
NET INCREASE/(DECREASE) IN CASH		(2,262)	4,141
CASH AT 1 JULY		16,649	12,508
CASH AT 30 JUNE	2	14,387	16,649

The accompanying notes form part of these statements.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Rental Bond Board as a Reporting Entity comprises all activities under its control. The administrative functions for the Board are performed by the Office of Fair Trading and costs associated with these functions are paid for on an operational basis in relation to activities performed (Note 8).

(b) Basis of Accounting

The financial statements are a general purpose financial report which has been prepared on a going concern, accrual and historical cost basis (except as otherwise stated) in conformity with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Urgent Issues Group Consensus Views, to exhibit a true and fair view of the financial position and transactions of the Board. The financial statements of the Board comply with the provisions of the *Public Finance and Audit Act 1983*, its regulation and Treasurer's Directions. The accounting policies adopted are consistent with those of the previous year.

(c) Revenue Recognition

Interest revenue is recognised to the extent that it is probable that the economic benefits will flow to the Board and the revenue can be reliably measured, and control of a right to receive consideration for the provision of, or investment in, assets has been attained.

(d) Insurance

A full comprehensive range of insurances covering areas such as Workers Compensation, Motor Vehicles, Fidelity Guarantee, Public Liability, and Industrial Special Risk is carried by the Office of Fair Trading with the Treasury Managed Fund. This coverage extends to the operations of the Rental Bond Board. These insurance covers are reviewed periodically to ensure they are adequate.

(e) Presentation

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

(f) Interest Received on Investments and Interest Paid on Rental Bonds

Interest received on investments is deposited into the Rental Bond Interest Account. This account is used to fund the Board's operations, half of the operating costs of the tenancy functions of the Consumer Trader and Tenancy Tribunal and certain tenancy support programs. The Board pays interest on rental bonds at the time the bond is refunded. The interest rate paid is linked to the rate paid on a Streamline Account balance of \$1,000 by the Commonwealth Bank of Australia. The rate is cumulative six monthly and paid from the Rental Bond Interest Account in accordance with Section 11A and Section 20(2D) of the *Landlord and Tenant (Rental Bonds) Act 1977*.

(g) Financial Instruments

Financial Instruments give rise to positions that are a financial asset of either the Rental Bond Board or its counterparty and a financial liability (or equity instrument) of the other party. For the Rental Bond Board these include cash, receivables, investments and payables. The specific accounting policy in respect of each class of such financial instrument is stated hereunder.

Classes of instruments recorded at cost comprise:

- cash
- receivables
- payables

Classes of instruments recorded at market value comprise:

- investments

All financial instruments including revenue, expenses or other cash flows arising from instruments are recorded on an accrual basis.



2. CURRENT ASSETS – CASH

Cash at bank is held with the Commonwealth Bank. Interest is earned on daily bank balances and calculated each month. The average interest rate for the period was 4.5% (4.75% 2001/2002). NSW Treasury Corporation interest for Hour-Glass Cash Facility Trust was 4.85% (4.61% 2001/2002).

	2003	2002
	\$'000	\$'000
Cash at Bank	458	101
NSW Treasury Corporation Hour-Glass Cash Facility Trust	13,929	16,548
	<u>14,387</u>	<u>16,649</u>

For the purposes of the Statement of Cash Flows, cash includes money deposited with banks, NSW Treasury Corporation Hourglass 'Cash' Facility Trust and cash on hand.

Cash assets recognised in the Statement of Financial Position are reconciled to cash at the end of financial year as shown in the Statement of Cash Flows as follows:

Cash (per Statement of Financial Position)	14,387	16,649
Closing Cash and Cash Equivalents (per Statement of Cash Flows)	<u>14,387</u>	<u>16,649</u>

3. ASSETS – RECEIVABLES

	2003	2002
	\$'000	\$'000
Items classified as receivables are as follows:		
Accrued Interest	176	121
Debtors	25	15
	<u>201</u>	<u>136</u>

4. OTHER FINANCIAL ASSETS

	2003	2002
	\$'000	\$'000
Current	22,613	20,419
Non-Current	234	313
	<u>22,847</u>	<u>20,732</u>
Funds are invested as follows:		
NSW Treasury Corporation Hour-Glass Bond Market (i)	22,613	20,419
Co-operative Housing Societies (ii)	66	125
Other Housing (iii)	168	188
	<u>22,847</u>	<u>20,732</u>



(i) The Board has investments in NSW Treasury Corporation's Hour-Glass Bond Market facility. The Board's investment is represented by a number of units of a managed investment pool, with each particular pool having different investment horizons and being comprised of a mix of asset classes appropriate to that investment horizon. NSW Treasury Corporation appoints and monitors fund managers and establishes and monitors the application of appropriate investment guidelines.

The investments are generally able to be redeemed with seven days notice (dependent upon the facility). The value of the investments held can decrease as well as increase depending upon market conditions. The value that best represents the maximum credit risk exposure is the net fair value. The value of the investments represents the Board's share of the value of the underlying assets of the facility and those assets are stated at net fair value, as advised by NSW Treasury Corporation as at 30 June 2003, with an effective interest rate of 7.6% (5.53% 30 June 2002).

(ii) Funds made available to Co-operative Housing Societies for the purpose of providing low interest housing loans to low income earners were advanced prior to June 1986. Interest rates commenced at a minimum of 5% pa and increased at a rate of 0.5% pa. until the interest rate reached a level 1% pa below the Commonwealth Bank Home Lending Rate. The loan period is 31 years. The Board holds the Certificates of Registration of Charges with respect to these loans.

(iii) The Board has made funds available via arrangements with councils and community organisations to provide rental accommodation to low income and retired persons. All legal documents relating to these loans are held by the Department of Housing. Interest rates vary from 7.5% pa to 9.5% pa, with loan periods up to 31 years.

5. RENTAL BONDS

In accordance with Section 8 of the *Landlord and Tenant (Rental Bonds) Act 1977*, and Regulations to the Act, bonds received by landlords or their agents must be deposited with the Board's Rental Bond Account within seven days of receipt. The Board invests funds from the Rental Bond Account in accordance with Sections 19(3) and 7E(2) of the *Landlord and Tenant (Rental Bonds) Act 1977* and the *Public Authorities (Financial Arrangements) Act 1987*. Interest received on investments is paid into the Rental Bond Interest Account. Funds awaiting disbursement are invested on the short-term money market in accordance with the Board's legislation for periods not exceeding 180 days.

Rental Bond Trust Funds

	2003 \$'000	2002 \$'000
Trust Investments (i)	534,968	505,627
	534,968	505,627
Less: Unpresented Cheques	(4,116)	(4,960)
Rental Bonds	<u>530,852</u>	<u>500,667</u>



	2003 \$'000	2002 \$'000
(i) Rental Bonds are invested as follows:		
NSW Treasury Corporation Hour-Glass Facility Trust	46,001	31,025
Direct Fixed Interest Portfolio(a)	485,910	470,992
Private Shared Equity Scheme (b)	3,057	3,610
	534,968	505,627

(a) Treasury Corporation restructured the Rental Bond Board Trust investments to include a direct fixed interest portfolio, which is being managed with a buy and hold strategy, so that capital losses within the portfolio are minimised. In addition to this, Treasury Corporation is managing an overlay and stock lending portfolio with the view of adding value to the 'physical' fixed interest portfolio.

(b) The Private Shared Equity Rent/Buy Scheme was established to assist low income tenants and those on the public housing waiting list, to achieve home ownership. The Board initially invested \$20 million with a yield of 4% plus the CPI per annum. For the year to 30 June 2003, the return was 1.38% (2.4% – 30 June 2002).

Market Valuation of Rental Bond Investments

Market valuations were obtained on the investments listed below:

NSW Treasury Corporation Hour-Glass Facility	46,001	31,025
Direct Fixed Interest Portfolio	505,900	472,434
Private Shared Equity Scheme	3,099	3,726
	555,000	507,185

Market values as at 30 June 2003 were either equal to book values or book values plus interest accrued as at 30 June 2003.

6. CURRENT /NON-CURRENT LIABILITIES – PAYABLES

Office of Fair Trading	772	144
Grants (i)	381	6,400
Other Accrued Charges	142	137
	1,295	6,681

(i) The final instalment of the Board's contribution toward the Affordable Housing Initiative was paid during the year to the Department of Housing.



7. INTEREST

	2003 \$'000	2002 \$'000
Rental Bond Trust Account	35,388	37,052
Amortisation of Premium/Discounts on Trust Account Investments	(4,215)	(5,499)
	<u>31,173</u>	<u>31,553</u>
Rental Bond Interest Account	2,227	1,605
	<u>2,227</u>	<u>1,605</u>
	<u>33,400</u>	<u>33,158</u>

Interest is derived from a number of sources. These include interest on bank accounts, TCorp Hourglass Cash, Cash Plus and Bond Market Facility Trusts, Private Shared Equity Scheme and interest on loans.

8. EXPENSES

As mentioned in Note 1(a), the Office of Fair Trading has applied an Administrative Assistance Charge of \$16,436,000 (\$17,284,000 2001/2002) for the recovery of expenses that it has incurred on behalf of the Board, ie. associated employee related costs and other operating expenses. Included in the administrative assistance charge for the period ended 30 June 2003 is an amount of \$1,730,000 for the Board's share of capital expenditure (\$2,390,000 – 30 June 2002).

	Notes	2003 \$'000	2002 \$'000
(a) Other operating expenses:			
Auditor's remuneration		46	44
Bank charges		145	148
Bad and doubtful debts		17	24
Investment Management Fee		422	452
		<u>630</u>	<u>668</u>
(b) Grants and Subsidies:			
Tenancy Services	9(a)	300	334
Tenants' Advice and Advocacy Program	9(b)	3,243	2,628
Tenancy Function of Consumer Trader and Tenancy Tribunal	9(c)	6,817	7,013
Tenancy Guarantee Pilot Project	9(d)	600	–
		<u>10,960</u>	<u>9,975</u>



9. GRANTS AND SUBSIDIES

(a) Tenancy Services

Within the framework of the *Residential Tenancies Act 1987* and the *Retirement Villages Act 1999*, the Tenancy Services provides impartial information, mediation and education services to tenants, village residents, landlords, their agents and village management about their rights and obligations under this legislation.

The Rental Bond Board funds Tenancy Services in accordance with the *Landlord and Tenant (Rental Bonds) Act 1977*.

(b) Tenants' Advice and Advocacy Program

The Tenants' Advice and Advocacy Program was implemented to provide advice, information and advocacy to public and private tenants, and where appropriate to people seeking to become tenants. The service also undertakes community education on the issues of tenants' rights.

The Program is jointly funded by the Office of Fair Trading and the Rental Bond Board in accordance with the *Property, Stock and Business Agents Act 1941*, and the *Landlord and Tenant (Rental Bonds) Act 1977*.

(c) Tenancy Functions of the Consumer Trader and Tenancy Tribunal

The Consumer Trader and Tenancy Tribunal has the jurisdiction to determine matters under the *Residential Tenancies Act 1987* and the *Retirement Villages Act 1989*. These matters include requests to terminate tenancy agreements, payment of rental bonds on termination of tenancies, breaches relating to terms of the tenancy agreement and payment of compensation.

This function is jointly funded by the Office of Fair Trading and the Rental Bond Board.

(d) Tenancy Guarantee Pilot Project

At a meeting on 5 September 2002 the Rental Bond Board approved a grant of \$600,000 to the Department of Housing for the Tenancy Guarantee Pilot Project.

10. CONTINGENT LIABILITIES

The Rental Bond Board is not aware of any contingent liabilities at the date of this report.



11. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO OPERATING SURPLUS

	2003	2002
	\$'000	\$'000
OPERATING SURPLUS	5,304	5,097
Increase (Decrease) in Liabilities		
Creditors and accrued charges	(5,386)	(526)
(Increase) Decrease in Assets		
Other financial assets	(2,115)	(920)
Accrued interest receivable	(55)	500
Accounts receivable	(10)	(10)
Net Cash from/(used in) Operating Activities	(2,262)	4,141

12. AFTER BALANCE DATE EVENTS

The Rental Bond Board is not aware of any circumstances that occurred after balance date which would render particulars included in the financial statements to be misleading.

END OF AUDITED FINANCIAL STATEMENTS