

SOUTH AUSTRALIA

Report
of the
Auditor-General
for the
Year ended 30 June 2004

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2004

Report of the Auditor-General 2003-04

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REFERENCES TO MATTERS OF SIGNIFICANCE

Issues of importance which are included in this Part of the Report include matters which arose during the course of audit which have been referred to senior agency management, and other matters which are of public interest.

Those matters which are regarded as being more significant are listed below, together with a reference to the appropriate page number. That list is not exhaustive as many other issues are reported in Volumes I, II, III, VI and V of Part B of this Report.

Reference should also be made to Part A — Audit Overview which also contains comments on specific matters of importance and interest.

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PORTFOLIO – JUSTICE

MINISTER FOR POLICE; MINISTER FOR EMERGENCY SERVICES; ATTORNEY-GENERAL; MINISTER FOR JUSTICE; MINISTER FOR CONSUMER AFFAIRS; MINISTER FOR MULTICULTURAL AFFAIRS; MINISTER FOR CORRECTIONAL SERVICES

INTRODUCTION

The section of this Part of the Report contains the financial statements of, and comments concerning, the operations of those agencies under the direction and control of the following Ministers, namely the:

- Minister for Police
- Minister for Emergency Services
- Attorney-General
- Minister for Justice
- Minister for Consumer Affairs
- Minister for Multicultural Affairs
- Minister for Correctional Services

The agencies included herein relating to the portfolio of Justice are:

- Justice – Department of
- Attorney-General’s Department
— Public Trustee
- Correctional Services – Department for
- Country Fire Service Board
- Courts Administration Authority
- Emergency Services Administrative Unit
- Legal Services Commission
- Police Department
- South Australian Metropolitan Fire Service
- State Electoral Office

SUPPLEMENTARY REPORT

There are bodies whose financial statements have not been finalised or the audit has not been completed in time for inclusion in this Report. The financial statements for, and commentary on the operations of, the:

- Attorney-General’s Department
— Residential Tenancies Fund
- Courts Administration Authority

will be included in a Supplementary Report to be presented to Parliament later in this financial year.

DEPARTMENT OF JUSTICE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department of Justice was established as an administrative unit pursuant to the *Public Sector Management Act 1995*.

Functions

The Department of Justice has no assigned functions.

The Department of Justice was, however, from 1999-2000 to 2002-03 appropriated funds for payment to the Attorney-General's Department, Courts Administration Authority, Department for Correctional Services, Police Department and State Electoral Office. These funds were transferred to the relevant agencies through a Special Deposit Account for the Department of Justice. The Special Deposit Account was established to:

... record all activities of the Department and various activities within the Justice Portfolio including the transfer of funds to other agencies within the Portfolio, operating and investing expenditures, revenue from various activities and injections of funds provided from the Consolidated Account including from borrowings.

The Department of Justice was not appropriated these funds in 2003-04 as they were paid directly to the relevant agencies. No other transactions were processed through the Special Deposit Account in 2003-04 and in August 2004 the Special Deposit Account was closed, with the approval of the Treasurer.

Structure

The Chief Executive is the only appointment to the Department of Justice.

FINANCIAL STATEMENTS

As there was no activity through the Special Deposit Account for the Department of Justice in 2003-04, financial statements have not been prepared for the year ended 30 June 2004.

The Chief Executive of the Department of Justice is also the Chief Executive of the Attorney-General's Department.

For further details, refer to the Attorney-General's Department Financial Statements.

ATTORNEY-GENERAL'S DEPARTMENT

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Attorney-General's Department is an Administrative Unit established pursuant to the *Public Sector Management Act 1995*.

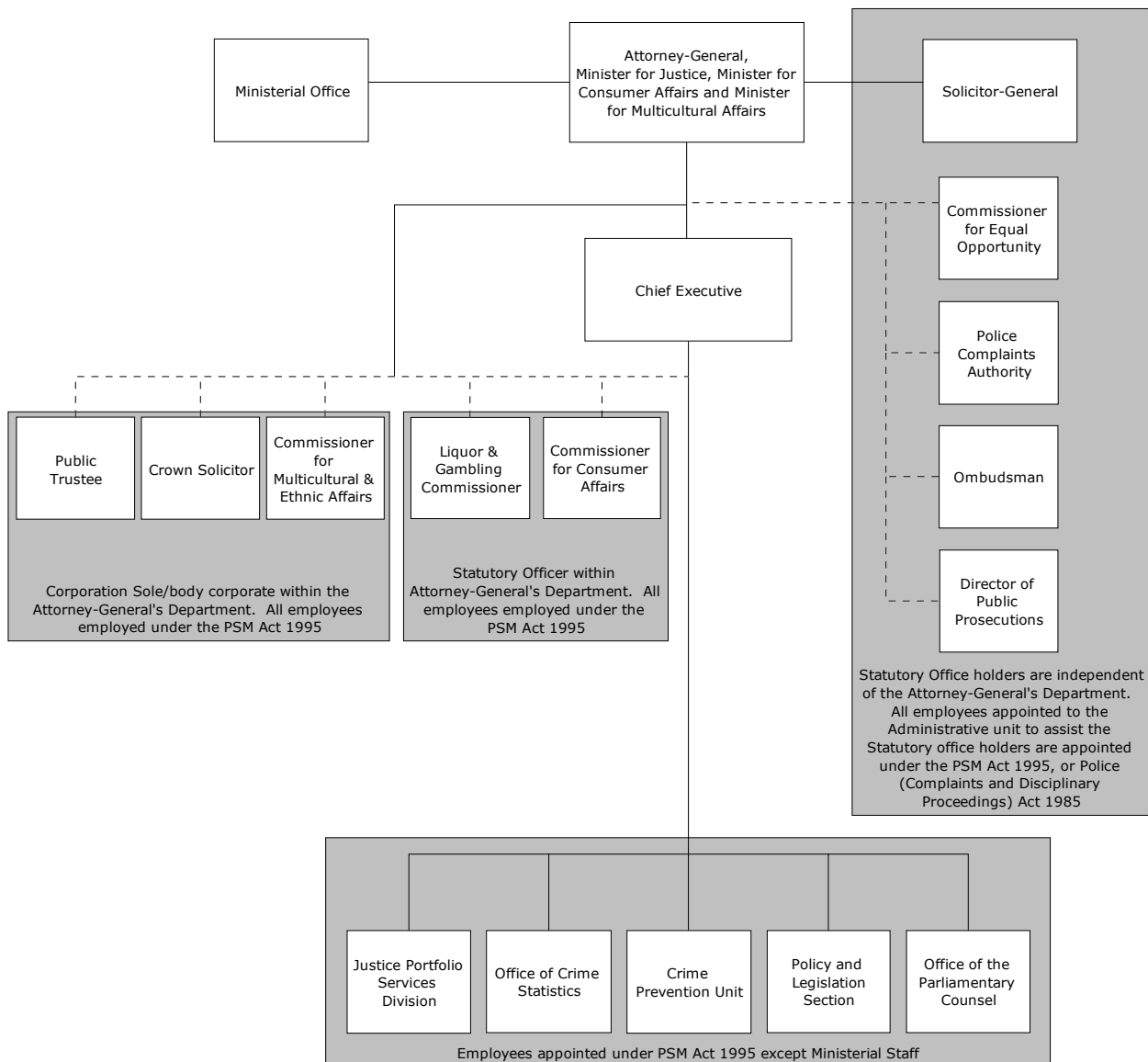
Functions

The functions of the Attorney-General's Department are as follows:

- Provide professional, legal and associated services to Ministers of the Crown and government agencies.
- Service the people of South Australia by upholding their legal and property rights and maintaining community and business standards.
- Provide strategic policy advice to the agencies comprising the Justice portfolio.

Structure

The structure of the Attorney-General's Department is illustrated in the following organisation chart.



STATUS OF FINANCIAL STATEMENTS

The matters discussed herein were raised with me by the Chief Executive of the Department who was appointed in June 2004. The particular matters, because of their nature, are detailed herein to explain why the Department's financial report for the year ended 30 June 2004 is not presented at this time.

Summary of the Transactions

The Chief Executive has identified a series of transactions undertaken by the Department and other agencies. The Departmental transactions involved payment of monies from its Operating Account to the Crown Solicitor's Trust Account. The payments were not made with respect to goods or services received by the Department but were to transfer funds, unspent in one year, to the Crown Solicitor's Trust Account from which they could be expended in the following year. The payments to the Crown Solicitor's Trust Account in the year ended 30 June 2003 amounted to \$3.1 million and in the year ended 30 June 2004 amounted to \$2.8 million.

In the year ended 30 June 2004 the Department used funds amounting to \$2.2 million from the Crown Solicitor's Trust Account to meet the operating expenses of the Department.

The initial payments by the Department to the Crown Solicitor's Trust Account were recognised as 'expenses' in the Department's ledgers and in the financial report for the year ended 30 June 2003. The Department has reversed the transactions in the financial report for the year ended 30 June 2004.

Documentation provided to Audit by the Chief Executive demonstrates that the payments were authorised by the previous Chief Executive and other senior executives of the Department and were received into the Crown Solicitor's Trust Account with the knowledge and consent of the then Crown Solicitor. It is also evident that the Department had established a procedure for managing the balance of funds held in the Crown Solicitor's Trust Account and that implementation of these arrangements occurred with the knowledge of Departmental finance staff.

The documentation provided to Audit demonstrates that the practice of paying unspent funds into the Crown Solicitor's Trust Account was motivated by an intention to avoid disclosure to the Department of Treasury and Finance, the underspending of funds appropriated to the Department. It is understood that this reflected an assessment by the Department that the Department of Treasury and Finance was unlikely to approve the carry over of unspent monies and that the unspent funds would consequently not be available to the Department in the future.

The Significance of the Department's Action

The Department's action in paying the monies to the Crown Solicitor's Trust Account was to operate a fund outside of the reporting and control framework established by the *Public Finance and Audit Act 1987*. This arrangement was not in compliance with requirements of the Act and relevant Treasurer's Instructions. The Department's Operating Account is the account, authorised by the Treasurer, to be used to hold the Department's unspent funds and to meet the expenses of the Department. Holding the unspent funds of Departments, and meeting expenses other than those associated with the matters in which the Crown Solicitor is acting, is not, in my opinion, an authorised purpose of the Crown Solicitor's Trust Account as the operation of the account was historically understood by the Treasurer and his Department.

The effect of the Department's action was to publish a financial report for the year ended 30 June 2003 which:

- recognised expenses in the Statement of Financial Performance which had not been incurred;
- understated, in the Statement of Financial Position, the balance of cash controlled by the Department and held within the Crown Solicitor's Trust Account;
- incorporated a Statement of Cash Flows which overstated cash outflows from operations following the recognition of expenses which were not incurred.

Audit understand that the Department of Treasury and Finance receive special purpose financial reports from the Attorney-General's Department which are used to monitor financial performance against approved budgets in the Hyperion system. Audit have verified that the item of expense which was misstated in the Statement of Financial Performance was also misstated within the special purpose financial report provided by the Attorney-General's Department to the Department of Treasury and Finance for the year ended 30 June 2003 and reflected in the Hyperion system.⁴ In summary cash balances were held by the Attorney General's Department which were not disclosed to the Department of Treasury and Finance.

⁴ Hyperion is the system operated by the Department of Treasury and Finance to monitor Agencies' revenues and expenses against approved budgets.

Treasurer's Instruction 19 'Financial Reporting' provides that:

19.5 The Chief Executive of each public authority is responsible for the preparation of annual financial statements. Those statements shall comply with generally accepted accounting principles and any accounting policy statements issued by the Treasurer pursuant to this instruction. The preferred form and content of financial statements for the public sector is incorporated in the model financial report issued by the Department of Treasury and Finance.

Section 23(2) of the *Public Finance and Audit Act 1987* provides that:

The Chief Executive Officer, and the officer responsible for the financial administration, of each public authority must provide the Auditor-General (or the Treasurer in the case of the administrative unit established to assist the Auditor General) with a certificate that the statements are in accordance with the accounts and records of the authority and give an accurate indication of the financial transactions of the authority for that year and, in the case of a prescribed public authority, the financial position of the authority at the end of that year.

The Chief Executive of the Department, and the Manager, Business and Financial Services, prepared and certified Departmental financial statements for the year ended 30 June 2003 which characterised payments to the Crown Solicitor's Trust Account as 'expenses' when no expense was incurred. The financial statements for 2002-03 were not prepared in accordance with generally accepted accounting principles in that expenses were overstated and cash, reflecting funds deposited in the Crown Solicitor's Trust Account, was understated.

The intended effect of the provision of this misleading information was to remove a significant component of the Department's financial activity from established controls over Departmental funding and expenditure. It enabled the Department to retain funds received for specific initiatives, but not spent in 2002-03, and to reallocate those funds at the discretion of the Department to be spent in subsequent financial years. In doing so the Department breached Treasurer's Instruction 3 'Appropriations'.

Response by the former Chief Executive and Others

The matters discussed above have been provided to the former Chief Executive for information and comment. A response has been received which addresses the matters detailed above. The former Chief Executive states she understood that use of the Crown Solicitor's Trust Account to hold Departmental funds was lawful and relied upon advice from the Crown Solicitor in this matter. The former Chief Executive further notes that monies were held in the Crown Solicitor's Trust Account and only applied for the purposes of the Department for which the funds were appropriated and that, at all times, the former Chief Executive acted in good faith and in accordance within the principles, aims and ethical framework of the *Public Sector Management Act 1995*. It is the former Chief Executive's view that the Treasury practice of collecting unexpended funds and visiting severe cuts on agencies that declare surpluses leads to the worst possible behaviour by agencies.

The former Crown Solicitor was also provided with the matters detailed above. He has indicated that his consent to the use of the Crown Solicitor's Trust Account for the transactions discussed above reflected his view that this use was lawful. He also acknowledges that, at least by inference, the former Chief Executive was advised of his view that this use was lawful. In his response the former Crown Solicitor has provided a detailed analysis of why he believes use of the Crown Solicitor's Trust Account was lawful.

It is accepted that the former Crown Solicitor's consent to the use of the Crown Solicitor's Trust Account reflected his view that it was lawful. While I accept this was his genuinely held view I do not agree with the former Crown Solicitor's opinion on this matter. I am not persuaded that this view can be accepted having regard to the discussion above.

Audit have also received representations that the misstatement of the Department's financial reports was not material. Accounting Standard AASB '1031 Materiality', provides that information is material if its omission, misstatement or non-disclosure has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report.

In this instance the Department of Treasury and Finance were users of the Attorney-General's Department financial report. As the intent and effect of making payments from the Operating Account to the Crown Solicitor's Trust Account was to represent a false position to the Department of Treasury and Finance, the assertion that the misstatement was not material is not a valid consideration in connection with this matter.

In my opinion 'materiality' is not a concept that is relevant in matters of non-compliance with mandated legislative requirements in circumstances where preparers of the financial statements know the statements are deliberately misstated. As a matter of principle the objectives of a Department and its officers should be compliance. It is contrary to the principles of good public administration to deliberately fail to comply because the amount is small.

Significance of Non-Compliance with the Public Finance and Audit Act 1987

The Parliament has enacted the *Public Finance and Audit Act 1987* to provide a legislative framework for the control, management, and accountability, of the State's finances. The Act incorporates provisions regarding operations of accounts, the preparation of financial statements and specifically provides for the Treasurer to issue Treasurer's Instructions. Compliance with the Treasurer's Instructions is a legal obligation for government agencies.

The Treasurer, with the Department of Treasury and Finance has developed and implemented a framework for administering and controlling the State budget and the funds appropriated by the Parliament. This framework is supported by specific Treasurer's Instructions.

It is not for Chief Executives, or other officers of agencies, to decide which provisions of the *Public Finance and Audit Act 1987*, or which Treasurer's Instructions, they will comply with. They are obliged to seek to comply with the regulatory framework which is lawfully prescribed ie they have no authority to suspend the operation of the law.

Implications for the Audit of the Department

Audit was advised of the transactions described above by the Chief Executive on 11 August 2004. At that time the planned audit of the Department for the year ended 30 June 2004 was substantially complete.

The audit of the Department for the year was planned on the basis of an assessed level of risk and with reliance to be placed by Audit on the controls implemented by the Department. The events disclosed by the Chief Executive now require a fundamental reassessment of the planned audit strategy. This arises because:

- the events now identified reflect upon the risk that Departmental officers may deliberately present misleading information and process transactions which is not in compliance with requirements of the *Public Finance and Audit Act 1987* and the Treasurer's Instructions;
- reliance upon the controls implemented by the Department is inappropriate where senior Departmental executives have initiated transactions which are not in compliance with requirements of the *Public Finance and Audit Act 1987* and the Treasurer's Instructions.

In accordance with professional Auditing Standards, it is appropriate in my view, in the absence of evidence to the contrary, and approaching the audit with appropriate professional scepticism, for Audit to expect that the Chief Executive and other senior executives of public authorities will act lawfully at all times and to reflect this assumption in planning the audit of agencies. There was no evidence to indicate this assumption was invalid when plans were prepared for the audit of the Attorney General's Department for 2002-03 and 2003-04.

In accordance with principles incorporated in professional audit standards, and my Department's audit methodology, the audit strategy has been amended to provide for a substantial increase in the level of detailed transactional testing to be performed. Completion of this additional work was not possible in the time between receiving the Chief Executive's advice and the date by which this report was required to be completed. On completion of the additional testing the Department's financial report will be included in a Supplementary Report to Parliament.

PUBLIC TRUSTEE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Public Trustee is a body corporate established pursuant to the provisions of the *Public Trustee Act 1995*.

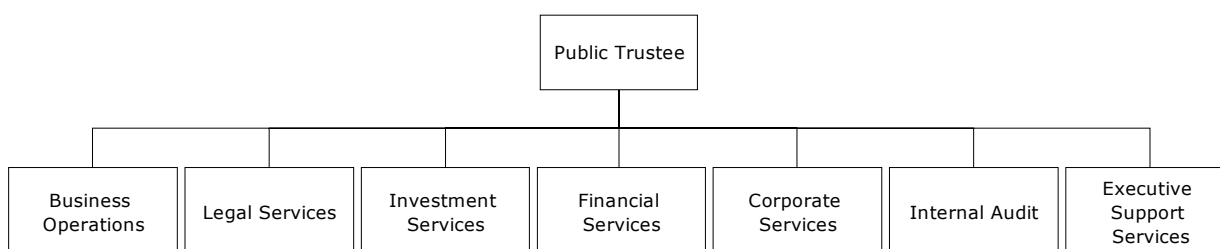
Functions

The powers and functions of the Public Trustee are established by the *Public Trustee Act 1995*. The Public Trustee administers the estates of deceased and protected people which requires the management of assets, preparation of wills, investment of funds and provision of legal representation and advice.

Structure

The Public Trustee is supported by officers employed under the *Public Sector Management Act 1995*.

The structure of the Public Trustee is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 50 of the *Public Trustee Act 1995* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts of the Public Trustee for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Public Trustee in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- Treasury operations
- expenditure
- revenue
- payroll
- fixed assets.

The audit covered the Corporate, Trusts and Common Funds areas of the Public Trustee operations.

The audit also included the finalisation of the review of the implementation of the Public Trustee's Core Business Information System (CBIS).

The work of the internal auditor was considered in designing the audit programs. Reliance was placed on the work of internal audit in assessing the effectiveness of the Public Trustee's internal controls.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable accounting standards and other mandatory professional reporting requirements in Australia, the financial position of the Public Trustee as at 30 June 2004, its financial performance and cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Public Trustee in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Public Trustee have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Public Trustee. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Public Trustee and the related responses are considered herein.

Compliance Reporting

Public Trustee's compliance reporting processes represent a management control which provides for the regular monitoring and reporting of the performance of procedures to the Audit Committee and are a significant element in the Public Trustee's internal control environment.

Audit assessed the policies and procedures supporting the Public Trustee's compliance reporting processes and found that the processes were supported by a number of standards. Audit concluded that the standards could be improved by providing additional detailed guidance.

Public Trustee responded that it is currently in the process of developing and implementing policies and procedures in relation to its compliance reporting processes, including developing standards in relation to the matters raised by Audit.

Core Business Information System (CBIS)

The CBIS project was initiated to replace the existing Public Trustee system used for client accounting. The CBIS project was a significant project for Public Trustee which required the commitment and contribution of staff. The system was implemented on 1 March 2004.

In the latter part of 2002-03, audit commenced a review of key aspects of the development and implementation of Public Trustee's CBIS.

Audit found that Public Trustee had put in place appropriate governance arrangements to manage the project, including a project sponsor and steering committee and had, as part of its development processes, a comprehensive quality assurance process.

The review by Audit of the Cabinet Submission seeking approval for the project noted that some project costs, related to use of existing Public Trustee staff, had not been included in the estimated costs advised to Cabinet.

Audit recommended that the Public Trustee advise Cabinet of revised project costs, including internal staff costs.

In February 2004, a Cabinet Submission including this information was approved by Cabinet.

The review of controls implemented by the Public Trustee identified areas where:

- controls applied in previous years were not applied in 2003-04;
- new control procedures, relevant to the CBIS environment, were not developed and implemented effectively.

Public Trustee responded that the implementation of CBIS had impacted on these controls and that action was being taken to resolve this and ensure that controls would be effectively applied in the future.

Information concerning CBIS is provided later under the heading 'Further Commentary on Operations'.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS (CORPORATE STATEMENTS)

Highlights of Financial Statements

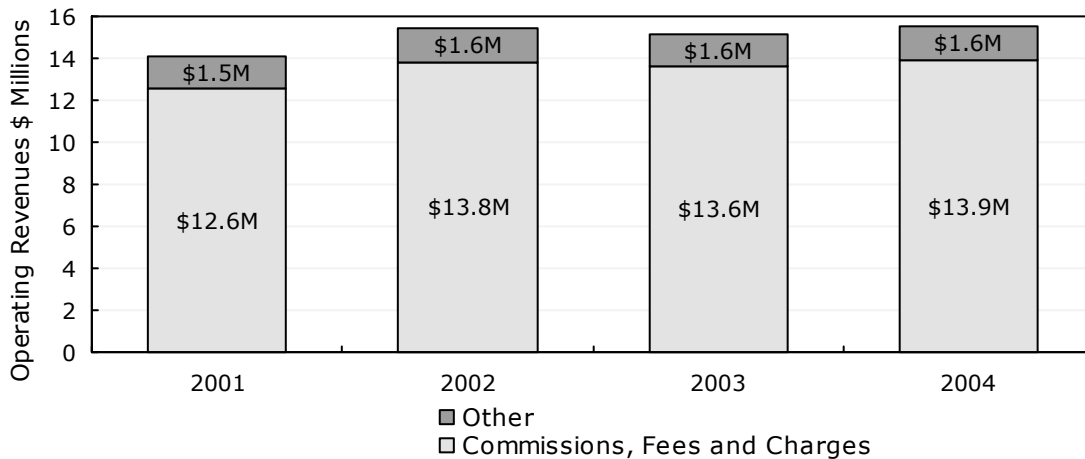
	2004	2003	Percentage
	\$'million	\$'million	Change
<i>OPERATING REVENUE</i>			
Commissions, Fees and Charges	13.9	13.6	2
Other	1.6	1.6	-
Total Operating Revenue	15.5	15.2	2
<i>OPERATING EXPENDITURE</i>			
Employment expenses	9.1	8.5	7
Other expenses	4.8	4.2	14
Total Operating Expenses	13.9	12.7	9
Surplus	1.6	2.5	(36)
Net Cash Flows from Operations	1.4	3.6	(61)
<i>ASSETS</i>			
Current assets	4.2	6.0	(30)
Non-current assets	17.5	15.8	11
Total Assets	21.7	21.8	(0)
<i>LIABILITIES</i>			
Current liabilities	3.3	3.4	(3)
Non-current liabilities	2.0	2.1	(5)
Total Liabilities	5.3	5.5	(4)
<i>EQUITY</i>	16.4	16.2	(1)

Statement of Financial Performance

Operating Revenues

The Public Trustee's main source of revenue is from commissions and fees charged for the management of trusts and related investments. The commissions and fees charged reflect the number and value of trusts managed, throughout the year.

A structural analysis of operating revenues for the Public Trustee in the four years to 2004 is presented in the following chart.



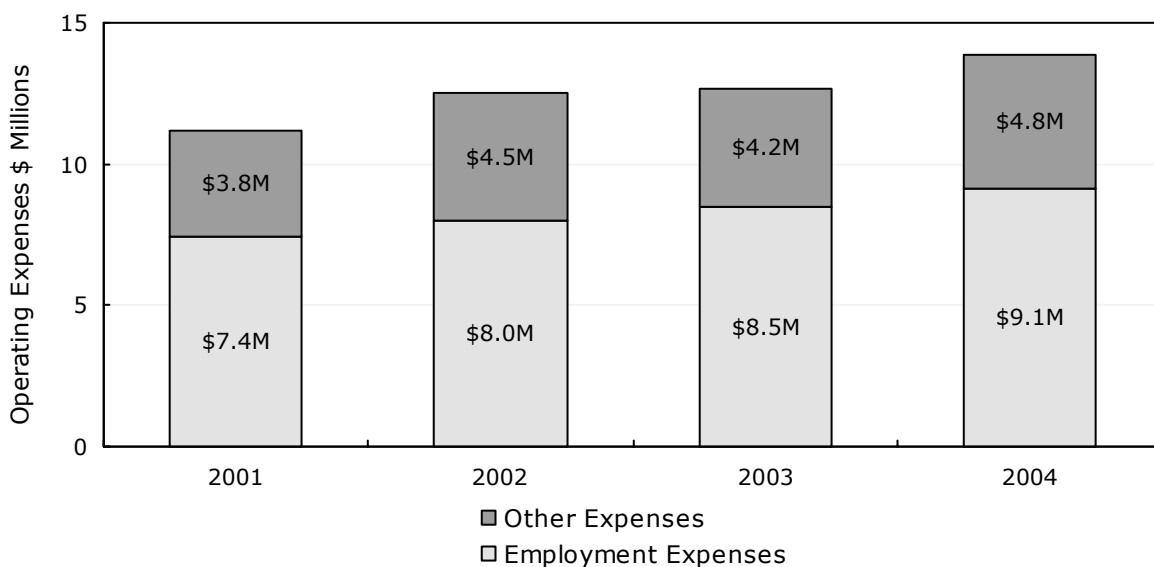
Operating Expenses

For the four years to 2004, a structural analysis of the main operating expense items for the Public Trustee is shown in the following chart. Operating expenses increased by \$1.2 million to \$13.9 million in 2003-04.

Employment expenses represents the majority of operating expenses of the Public Trustee. Over recent years, the increases in employment expenses was the consequence of wage parity agreements. In 2003-04, this increase also reflects the payment of Targeted Voluntary Separation Packages, which were funded by Public Trustee.

Other expenses have also increased in 2003-04. This reflects an increase in:

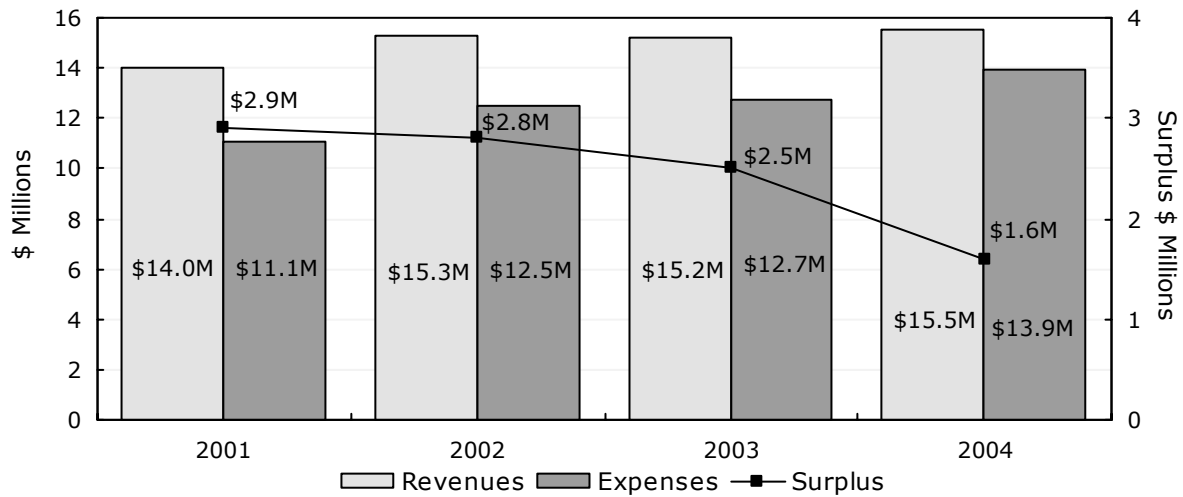
- goods and services (mainly as a result of the cost of continuing to run the old client accounting system while the implementation of an additional module to the new client accounting system is finalised);
- depreciation (mainly as a result of the depreciation of the new client accounting system).



Operating Result

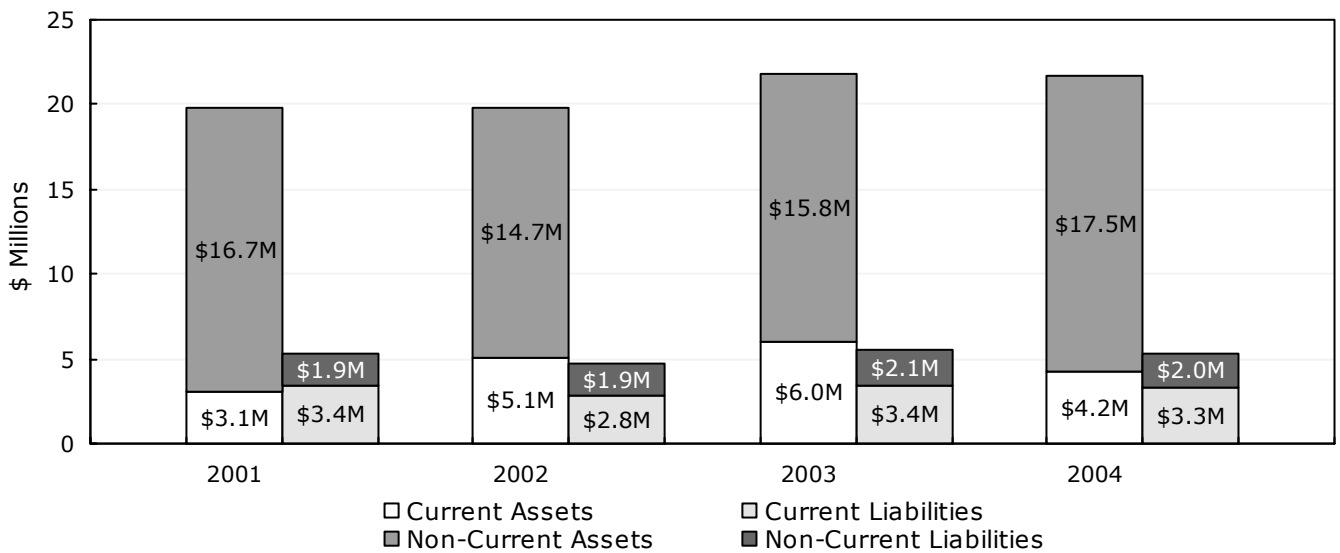
The aggregate revenues of the Public Trustee have been slowly increasing over recent years. The aggregate expenses of the Public Trustee have also been slowly increasing with the exception of 2003-04 where expenses increased by \$1.2 million to \$13.9 million as discussed above.

The following chart shows the operating revenues, operating expenses and surpluses for the four years to 2004.



Statement of Financial Position

For the four years to 2004, a structural analysis of assets and liabilities is shown in the following chart. The decrease in Current Assets and increase in Non-Current Assets mainly reflects the purchase of Public Trustee's new client accounting system and its recognition as Property, Plant and Equipment.



Statement of Cash Flows

Over the past two years Public Trustee has used accumulated cash and cash from operations to fund the investment in CBIS.

The following table summarises the net cash flows for the four years to 2004.

	2004	2003	2002	2001
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	1.4	3.6	3.1	3.0
Investing	(2.3)	(2.5)	1.4	(2.5)
Financing	(1.2)	(1.3)	(1.4)	(1.1)
Change in Cash	(2.0)	(0.2)	3.1	0.6
Cash at 30 June	2.3	4.3	4.5	1.4

INTERPRETATION AND ANALYSIS OF STATEMENT OF TRUSTS BEING ADMINISTERED

The value of trust funds administered by the Public Trustee as at 30 June 2004 was \$759 million (\$641 million).

The trust funds reflecting significant increases are:

- deceased estates (increase of \$17.5 million/17 percent);
- trusts, representing a Will or Deed of Trust (increase of \$29.0 million/35 percent);
- court award orders (increase of \$29.0 million/16 percent);
- protected estates (increase of \$25.9 million/22 percent);
- investors (increase of \$11.7 million/11 percent).

Of the total funds being administered, 72 percent (77 percent) were invested in the common funds with the remaining 28 percent (23 percent) represented by estate assets.

INTERPRETATION AND ANALYSIS OF THE COMMON FUNDS

All common funds made an operating surplus for the year.

The common funds are invested in the following securities:

- Short Term Money Market
- Australian Fixed Interest
- International Fixed Interest
- Australian Equities
- International Equities
- Listed Property Securities
- Other (includes cash at bank and advances).

The major change in the level of holdings of these investments over the last five years is a shift from investments in the Short Term Money Market, representing variable rate short term securities, to investments in Australian Fixed Interest securities, representing fixed rate longer term securities.

FURTHER COMMENTARY ON OPERATIONS

The Core Business Information System (CBIS) replaced Public Trustee's previous client accounting system on 1 March 2004.

In February 2004, Cabinet approved the project with a revised implementation capital cost of \$4.9 million and net recurrent costs of \$1.8 million over 2002-03 and 2003-04. The funding for the project is being provided from Public Trustee's accumulated cash and recurrent surplus.

As at 30 June 2004, expenditure in relation to CBIS totalled \$4.6 million (including \$2.4 million for 2002-03) reflecting capital expenditure of \$3.7 million (including \$1.9 million for 2002-03) and recurrent expenditure of \$900 000 (including \$400 000 for 2002-03).

CORPORATE STATEMENTS

Statement of Financial Performance for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
REVENUE FROM ORDINARY ACTIVITIES:			
Commissions, fees and charges	2.1	13 844	13 586
Other revenue	2.2	1 643	1 599
Total Revenue from Ordinary Activities		15 487	15 185
EXPENDITURE FROM ORDINARY ACTIVITIES:			
Salaries and related payments	3.1, 3.2, 3.3, 3.4	9 060	8 497
Goods and services	3.5, 3.6	3 094	2 571
Building expenses		557	490
Depreciation and amortisation		1 197	981
Unrealised loss on investments		-	171
Total Expenditure from Ordinary Activities		13 908	12 710
PROFIT FROM ORDINARY ACTIVITIES BEFORE NOTIONAL TAX			
		1 579	2 475
Income tax equivalent	1.3	(374)	(794)
PROFIT FROM ORDINARY ACTIVITIES AFTER NOTIONAL TAX			
		1 205	1 681
NET PROFIT			
		1 205	1 681
Net increase in asset revaluation reserve	13	330	654
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		1 535	2 335

**Statement of Financial Position
as at 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash assets		2 347	4 338
Receivables	4	854	670
Investments	5	1 000	1 005
Total Current Assets		4 201	6 013
NON-CURRENT ASSETS:			
Investments	5	6 228	5 894
Property, plant and equipment	7	11 256	9 863
Other	8	-	14
Total Non-Current Assets		17 484	15 771
Total Assets		21 685	21 784
CURRENT LIABILITIES:			
Payables	9	1 149	1 664
Provision for employee benefits	10	763	562
Other provisions	11	1 372	1 175
Total Current Liabilities		3 284	3 401
NON-CURRENT LIABILITIES:			
Payables	9	241	270
Provision for employee benefits	10	1 749	1 865
Total Non-Current Liabilities		1 990	2 135
Total Liabilities		5 274	5 536
NET ASSETS		16 411	16 248
EQUITY:			
Reserves	13	7 407	7 118
Retained profits	16	9 004	9 130
TOTAL EQUITY		16 411	16 248
Contingencies and Commitments	12, 17		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000
Commissions, fees and charges received		13 687	13 577
Rent and sundry income received		773	960
Interest received		366	513
Distributions received		144	54
GST collected on revenue		1 458	1 428
Cash Receipts from Operating Activities		16 428	16 532
Payment to suppliers, clients and employees		(12 978)	(10 683)
Income tax equivalent paid to State Government		(595)	(638)
GST paid to suppliers		(550)	(562)
GST paid to ATO		(864)	(1 000)
Cash Payments in the Course of Operations		(14 987)	(12 883)
Net Cash provided by Operating Activities	14	1 441	3 649
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale/redemption of shares and fixed interest securities		7 007	10 277
Payment for shares and fixed interest securities		(7 004)	(10 012)
Payment for property, plant and equipment		(2 260)	(2 765)
Net Cash used in Investing Activities		(2 257)	(2 500)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend distribution to State Government		(1 175)	(1 342)
Net Cash used in Financing Activities		(1 175)	(1 342)
NET DECREASE IN CASH HELD		(1 991)	(193)
CASH AT 1 JULY		4 338	4 531
CASH AT 30 JUNE	15	2 347	4 338

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Statement of Principal Accounting Policies

1.1 General

The Office of the Public Trustee was established in 1881 and is now constituted under the provisions of the *Public Trustee Act 1995*. The Public Trustee is a statutory officer pursuant to the *Public Trustee Act 1995*. Public Trustee is a corporation sole with the powers of a natural person.

The role of the Public Trustee is to provide all South Australians with access to will making services, powers of attorney preparations, and deceased estate and trust administration. The Public Trustee also has a role in managing the financial affairs of those people in the community who lack the capacity to manage their own affairs as determined by the courts, the Guardianship Board or through activation of powers of attorney.

1.2 Basis of Accounting

The corporate financial statements are a general purpose financial report and have been prepared in accordance with Treasurer's Instructions issued pursuant to the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and Urgent Issues Group Consensus Views. The financial statements have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied, unless otherwise stated. Comparative figures have been adjusted to conform to changes in presentations where required by the above authorities.

1.3 Taxation and Dividends

The *Public Trustee Act 1995*, through the provision of sections 47 and 48, provides for the payment to Government of taxation equivalents and dividends. Under agreement with the Department of Treasury and Finance, the Public Trustee applies the Accounting Profits Tax Model, which includes payment for an Income Tax Equivalent of \$374 000 (\$794 000).

Public Trustee is liable for payroll tax, fringe benefits tax, goods and services tax, emergency services levy, land tax equivalents and local government rate equivalents.

1.4 Basis of Valuation

Non-current assets and liabilities with the exception of plant and equipment are carried at fair value.

Property

Property is brought to account at independent valuation, less, where applicable, any accumulated depreciation or amortisation.

Plant and Equipment

Plant and equipment are brought to account at cost or at independent valuation, less, where applicable, any accumulated depreciation or amortisation. The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. In accordance with Accounting Policy Statement 3 'Valuation of Non-Current Assets', a revaluation of Non-Current Assets or group of assets is only to be performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years. It is the intention that these assets will be revalued in the future to fair value. The recoverable amount is assessed on the basis of the expected net cash flows, which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining the recoverable amount.

Property, plant and equipment excluding land are depreciated or amortised on a straight-line basis over their estimated useful lives, commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:	Depreciation Rate Percent
Class of Fixed Assets:	
Building	2.17
Machines and equipment	20-27
Office furniture and fittings	33.33

Financial Instruments

Financial instruments are carried at market value determined as below:

Cash – is valued at nominal amounts. This asset consists of cash at bank and on hand.

Investments – on acquisition are brought to account at cost and subsequently revalued at the balance date to market value. Fixed Interest Investments are valued at their current market value based on independently obtained market yields applying at the balance date. Australian and International Equities are valued at the redemption prices established by the managers of the collective investment vehicles in which Public Trustee has invested.

Other Non-Current Assets – are valued at market value based on the present value of expected future cash flows.

Receivables and Creditors – are valued on a historical cost basis and it is considered that carrying value approximates market value.

1.5 Employee Benefits

Provision has been made in the Financial Statements, where stated, for Public Trustee's liability for employee benefits arising from services rendered by employees to balance date. Related on-costs consequential to the employment of employees (viz payroll tax and superannuation contributions) have been included as payables (Refer Note 9).

Annual Leave

Provision has been made for the unused component of annual leave to balance date. The provision has been calculated at nominal amounts based on current salary rates plus 4 percent inflation rate as recommended in Accounting Policy Statement 9 'Employee Benefits'.

Long Service Leave

Long service leave is recognised on a pro-rata basis in respect of services provided by Public Trustee employees up to balance date. The liability has been calculated at nominal amounts based on current salary rates. Accounting Policy Statement 9 'Employee Benefits' has recommended that a benchmark of seven years (seven years) can be used for a shorthand estimation of long service leave liability. This advice has been adopted and the long service leave liability has been calculated on that basis. The current liability portion has been based on the past history of annual payments.

Sick Leave

No provision has been made in respect of sick leave as entitlements are non-vesting. As sick leave taken by employees is considered to be taken from the current year's accrual, no liability is recognised.

1.6 Insurance

Public Trustee has insured for risks through the State Government's insurers SAICORP.

1.7 Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

The net GST payable to the Australian Taxation Office has been recognised as a payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of the cash flows arising from investing or financing activities, which are recoverable from, or payable to, the Australian Taxation Office have however been classified as operating cash flows.

1.8 Rounding

Amounts have been rounded to the nearest \$1 000.

1.9 Changes in Accounting Policies - Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. Public Trustee will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting' the Public Trustee is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). Public Trustee has analysed the exposure drafts issued by the AASB and has identified a number of potential issues that may need to be addressed. Public Trustee is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems; and
- key dates for monitoring and reviewing progress.

Public Trustee is keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements by attending exposure draft reference group meetings (facilitated by the Department of Treasury and Finance) and information forums organised by the Department of Treasury and Finance and professional accounting bodies.

Changes in Accounting Policy

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Non-Current Asset Acquisition and Recognition

The Australian equivalent to IAS 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life is greater than three years) will continue to apply.

Employee Benefits

Employee benefits payable later than 12 months from year-end will be measured at present value rather than at nominal amounts.

Income Tax

The Australian equivalent to IAS 12 is proposing a comprehensive method/balance sheet approach to account for income tax. It is anticipated that a TI or APS will continue to mandate the profit and loss approach. Therefore it is not anticipated that there will be a change in income tax accounting policy for Public Trustee.

2. Revenue		2004	2003
2.1 Commissions, Fees and Charges		\$'000	\$'000
Commissions ⁽¹⁾		7 528	7 494
Fees and charges ⁽¹⁾		1 344	1 422
Management fees ⁽²⁾		4 972	4 670
		13 844	13 586
		<hr/>	
(1) Commissions and fees are charged against estates pursuant to Section 45 of the <i>Public Trustee Act 1995</i> .			
(2) A management fee is charged against common funds at the rate of one-twelfth of one percent of the value of each fund as at the first business day of the month.			
2.2 Other Revenue		2004	2003
		\$'000	\$'000
Rent and other building income		769	766
Sundry income		3	10
Insurance recovery		-	181
Interest on operating and reserve accounts		153	176
Interest on fixed term investments ⁽¹⁾		203	318
Distributions from trusts ⁽²⁾		182	98
Gain on disposal of investments		-	50
Unrealised gain on investments		333	-
		1 643	1 599
		<hr/>	
(1) Interest on Fixed Interest Investments includes amortisation of acquisition discounts and premiums on a straight-line basis.			
(2) Distributions from trusts are recognised on a present entitlement basis.			
3. Expenditure			
3.1 Superannuation			
During 2003-04 Public Trustee paid an amount of \$823 000 (\$815 000) to the Department of Treasury and Finance towards the accruing Government liability for superannuation in respect of its employees.			
3.2 Remuneration of Employees		2004	2003
The number of employees whose remuneration received or receivable fell within the following bands was:		Number of Employees	Number of Employees
\$100 001 - \$110 000		1	1
\$110 001 - \$120 000		-	1
\$120 001 - \$130 000		1	-
\$170 001 - \$180 000		1	1
Total normal remuneration received or due and receivable by employees was \$402 000 (\$387 000).			
3.3 Targeted Voluntary Separation Packages (TVSPs)		2004	2003
		\$'000	\$'000
TVSPs paid to employees during the reporting period		219	-
Annual and long service leave accrued over the period of employment paid to the employees who received TVSPs		50	-
The number of employees who were paid TVSPs during the reporting period totalled 4 (nil). TVSPs paid during the reporting period were fully self funded by Public Trustee.			
3.4 Full Time Equivalent Employees			
As at reporting date Public Trustee employed 137.19 (150.81) FTE's.			
3.5 Auditors' Remuneration		2004	2003
		\$'000	\$'000
Amounts paid to auditors during the year for auditing the accounts		120	91
		<hr/>	
3.6 Payments to Consultants			
Below \$10 000: 5 (31) consultancies		32	17
Between \$10 000 and \$50 000: nil (1) consultancies		-	12
		32	29
		<hr/>	
4. Receivables			
Debtors		586	431
Accrued investment income		166	124
Prepayments		102	115
		854	670
		<hr/>	

5. Investments

Public Trustee is required pursuant to Subsection 46(2)(c) of the *Public Trustee Act 1995* to obtain the Treasurer's approval as to the manner of investment of corporate funds.

	2004	2003
	\$'000	\$'000
Current Assets:		
Short term investments	1 000	1 005
Non-Current Assets:		
Australian fixed interest	3 041	3 108
International equities	1 179	1 015
Australian listed property	395	364
Australian equities	1 613	1 407
	6 228	5 894

6. Financial Instruments**6.1 Market Value of Financial Assets and Liabilities**

Financial instruments are carried at market value based upon the valuation policies set out in Note 1.4. The aggregate carrying amounts for each class of financial instrument are as disclosed within the Notes to the Financial Statements.

Investments in Australian Fixed Interest are readily traded on organised markets in standardised form. The value of these investments is disclosed in Note 5.

Other classes of financial instruments are not readily traded on organised markets in standardised form.

6.2 Investment in Collective Investment Vehicles

In addition to holding financial instruments directly, Public Trustee has invested in collective investment vehicles for the purpose of gaining exposure to Australian and International Equities. The managers of such vehicles will have invested in a variety of financial instruments, including derivatives, which expose Public Trustee to investment risks, including market risk, credit risk, interest risk and currency risk. The Public Trustee has assessed the investment rules of these collective investments and determined their suitability as investments.

Disclosures in subsequent subsections of this Note do not include exposures to financial instruments held within these collective investment vehicles.

6.3 Credit Risk

The maximum exposure to credit risk, excluding any collateral or other security, at the balance date to financial instruments is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

Public Trustee has no direct exposure to derivative instruments.

Credit risk arises primarily with the following classes of counterparties: Banking Corporations.

6.4 Interest Rate Risk

Financial assets and liabilities subject to interest rate risk are disclosed below. All other financial instruments are non-interest bearing.

	Weighted Average		Instruments Maturing or Re-pricing Within					
	Interest Rate		1 Year or Less		1 -5 Years		Over 5 Years	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash	5.05	4.10	2 347	4 338	-	-	-	-
Short term investments	5.36	4.70	1 000	1 005	-	-	-	-
Australian fixed interest	6.30	5.44	1 009	1 000	-	-	-	-

7. Property, Plant and Equipment

	Opening			Depreci-	Revalu-	Closing
	Balance	Additions	Disposals	ation	ation	Balance
	01.7.03	\$'000	\$'000	\$'000	\$'000	\$'000
Land and Building:						
Building at valuation ⁽¹⁾	5 450	290	-	(119)	5	5 626
Land at valuation	1 050	-	-	-	325	1 375
Total Land and Building	6 500	290	-	(119)	330	7 001
Plant and Equipment:						
Machines and equipment at cost	5 229	2 851	(11)	-	-	8 069
Furniture and fittings at cost	1 585	55	(1)	-	-	1 639
Work in progress at cost	936	(936)	-	-	-	-
Total Plant and Equipment	7 750	1 970	(12)	-	-	9 708
Less: Accumulated Depreciation						

7. Property, Plant and Equipment (continued)	Opening Balance 01.7.03 \$'000	Additions \$'000	Disposals \$'000	Depreci- ation \$'000	Revalu- ation \$'000	Closing Balance 30.6.04 \$'000
Plant and Equipment:						
Machines and equipment at cost	(3 002)	-	11	(927)	-	(3 918)
Furniture and fittings at cost	(1 385)	-	1	(151)	-	(1 535)
Total Accumulated Depreciation	(4 387)	-	12	(1 078)	-	(5 453)
Net Property, Plant and Equipment	9 863	2 260	-	(1 197)	330	11 256

(1) The Public Trustee building was revalued to fair value. The value of land and building was established by an independent valuation performed by Colliers Jardine as at 30 June 2004. The revaluation has been brought to account on a net basis.

8. Other Non-Current Assets

During 1995-96 an amount of \$14 000 became payable to Public Trustee from the State Superannuation Fund for superannuation held on behalf of an ex-employee. These funds were collected during the 2003-04 year.

9. Payables

	2004 \$'000	2003 \$'000
Current Liabilities:		
Trade creditors	600	973
Goods and Services Tax	221	176
On-costs on employee benefits	153	119
Income tax equivalent due	175	396
	1 149	1 664

Non-Current Liabilities:

On-costs on employee benefits	241	270
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10. Provision for Employee Benefits and On-Costs

10.1 Provision for Employee Benefits

Current Liabilities:

Provision for long service leave at 1 July	132	167
Add: Additional provision recognised	140	97
Less: Payments to employees	132	132
Provision for long service leave at 30 June	140	132

Accrued salaries	152	93
Accrued recreation leave	471	337
	763	562

Non-Current Liabilities:

Provision for long service leave at 1 July	1 865	1 671
Add: Additional provision recognised	116	194
Less: Payments to employees	232	-
Provision for long service leave at 30 June	1 749	1 865

10.2 Employee Benefits and Related On-Cost Liabilities

Current:

On-costs included in Payables (Note 9)	153	119
Provision for Employee Benefits (Note 10)	763	562
	916	681

Non-Current:

On-costs included in Payables (Note 9)	241	270
Provision for Employee Benefits (Note 10)	1 749	1 865
	1 990	2 135

Aggregate Employee Benefits and Related On-Cost Liabilities	2 906	2 816
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11. Dividend

Current Liabilities:

Provision for Dividend to State Government at 1 July	1 175	1 342
Add: Additional provision recognised	1 372	1 175
Less: Payments to State Government	1 175	1 342
Provision for Dividend at 30 June	1 372	1 175

12. Contingencies

Public Trustee had no contingent assets or liabilities as at balance date.

13. Reserves

The balance of reserves, and the transfers to (from) reserves, which were brought through the Statement of Financial Position, is as follows:	Balance	Transfers	Balance
	01.7.03	to (from)	30.6.04
Other reserves comprise:	\$'000	\$'000	\$'000
Reserve for deficits and other losses ⁽¹⁾	723	(28)	695
Workers compensation reserve ⁽²⁾	298	(13)	285
Transferred to retained profits	1 021	(41)	980
Revaluation Reserve comprises:			
Land and building revaluation reserve ⁽³⁾	5 238	330	5 568
Machines and equipment revaluation reserve	859	-	859
Total Reserves	7 118	289	7 407

(1) Payments amounting to \$35 000 (\$15 000) were made from the Reserve for Deficits and Other Losses and recoupment of previous years' payments amounting to \$7 000 (\$181 000) were made to the reserve.

(2) Public Trustee has established a reserve for workers compensation to cover the expenses incurred during the first two years of any claim, the balance being met by Government Workers Rehabilitation and Compensation Office. Claims from the reserve for the year totalled \$13 000 (\$58 000).

(3) Land and Building was revalued to fair value as at 30 June 2004.

14. Reconciliation of Net Cash provided by Operating Activities to Operating Profit after Notional Tax

	2004	2003
	\$'000	\$'000
Operating Profit after Notional Tax	1 205	1 681
Non-cash flows in operating profit after notional tax:		
Depreciation and amortisation	1 197	981
Unrealised (gain) loss on revaluation of investments	(333)	171
Net gain on sale of investments	-	(50)
Change in assets and liabilities:		
Increase in sundry debtors	(184)	(116)
(Decrease) increase in sundry creditors	(313)	589
Increase in provision for employee benefits and on-costs	90	237
(Decrease) Increase in provision for income tax	(221)	156
Net Cash provided by Operating Activities	1 441	3 649

15. Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash comprises the Statement of Financial Position item of Cash.

16. Retained Profits

Retained profits at 1 July	9 130	8 732
Net profit	1 205	1 681
Transfers from (to) reserves	41	(108)
Special dividend provided for	(1 372)	(1 175)
Retained Profits at 30 June	9 004	9 130

17. Commitments

By Type:		
Plant and equipment ⁽¹⁾	567	2 082
Net Commitment	567	2 082
By Maturity:		
One year or less	567	2 082
Net Commitment	567	2 082

(1) Outstanding contractual arrangements for asset management system software.

**Statement of Trusts being Administered
as at 30 June 2004**

	Note	2004 \$'000	2003 \$'000
TRUST FUNDS UNDER ADMINISTRATION WERE:	3		
Deceased estates		118 328	100 784
Trusts		112 878	83 860
Administration matters		4 370	4 672
Court award orders		205 242	176 198
Protected estates		145 952	120 025
Workers compensation awards		247	198
Powers of attorney		54 851	49 086
Investors		117 502	105 790
Suspense		104	1
Total Funds		759 474	640 614
THESE FUNDS WERE REPRESENTED BY: INVESTMENT IN COMMON FUNDS:	1.3, 2		
NON-CURRENT ASSETS:			
Australian equities		128 588	103 022
International equities		78 851	55 054
Listed property securities		30 841	31 973
Australian fixed interest investments		124 699	120 366
International fixed interest investments		22 261	23 419
		385 240	333 834
CURRENT ASSETS:			
Cash at bank		751	322
Short term money market		4 000	13 972
Australian fixed interest investments		151 650	138 624
Advances to estates		2 742	1 732
Sundry debtors		7 537	7 602
		166 680	162 252
CURRENT LIABILITIES:			
Bank overdraft		2 964	1 849
Income distribution payable		953	1 553
Sundry creditors		637	396
		4 554	3 798
NET INVESTMENT IN COMMON FUNDS		547 366	492 288
ESTATE ASSETS:	1.2		
NON-CURRENT ASSETS:			
Real estate		179 512	119 671
Personal chattels		14 386	12 338
Equities		7 886	6 356
Fixed interest and cash assets		11 789	12 849
Mortgages		921	719
		214 494	151 933
CURRENT ASSETS:			
Sundry debtors		1 400	764
CURRENT LIABILITIES:			
Sundry creditors		3 786	4 371
NET ESTATE ASSETS		212 108	148 326
NET ASSETS		759 474	640 614

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENT

1. Statement of Principal Accounting Policies

1.1 Format of the Accounts

The Statement of Trusts being Administered and related notes are a special purpose financial report prepared to provide information on the value and nature of trusts being administered. The Statement consolidates all trusts being administered by Public Trustee. As this Statement is a special purpose financial report, there is no requirement to apply Accounting Standards and other mandatory reporting requirements in the preparation and presentation of this statement.

Public Trustee has prepared the Statement in accordance with Treasurer's Instructions issued pursuant to the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and Urgent Issues Group Consensus Views with the exception of:

AASB 1018	Statement of Financial Performance
AASB 1026	Statement of Cash Flows
AASB 1040	Statement of Financial Position

Statements required by these standards are not prepared.

The Statement of Trusts being Administered has been prepared using the accrual basis of accounting. Dividend income is recognised on the date that shares are quoted as ex-dividend. Distributions from trusts are recognised on a present entitlement basis.

1.2 Basis of Valuation for Estate Assets

Real Estate – for deceased estates, valuation as at date of death; in other matters, valuation as at date of Public Trustee being appointed manager, administrator or new trustee. Public Trustee revalues all real estate other than accommodation bonds every three years wherever a current valuation is not held. Such revaluations are determined by reference to valuations established by the Valuer-General, with a revaluation last being carried out as at 30 June 2004. Accommodation bonds are revalued annually by reference to the terms of the Residential Services Agreements.

Personal Chattels – for deceased estates, valuation as at date of death; in other matters, valuation as at date of Public Trustee being appointed manager, administrator or new trustee. In the case of some sundry minor assets, nominal values are used for valuation purposes.

Investment by Estates in Common Funds – valuation of estate investment in common funds is based on the underlying net fair value of common funds as at balance date.

Other Estate Investments – investments other than equities are shown at their face value. Valuation is performed at the date of the Public Trustee being appointed manager, administrator, new trustee or at the date of death in the case of deceased estates. Equities are valued at net fair value as at the balance date.

1.3 Basis of Valuation of Common Fund Assets and Liabilities

Australian Equities and Listed Property Securities – are valued at market value based on the Australian Stock Exchange listed last sale price at the balance date. Investments in pooled investment funds are valued in accordance with unit prices at the balance date as advised by the managers of the funds.

International Equities – discretely held investments are valued at market value by Public Trustee's external custodian using independently sourced prices and foreign exchange rates. Investments in pooled investment funds are valued in accordance with unit prices at the balance date as advised by the managers of the funds.

Australian Fixed Interest Investments – are valued at market value based on independently obtained market yields applying at the balance date.

International Fixed Interest Investments – consist of investments in pooled funds which are valued in accordance with prices at the balance date as advised by the managers of the funds.

Advances to Estates – are carried at their nominal amounts. Public Trustee is authorised by the *Public Trustee Act 1995* to advance monies where an estate has insufficient monies to make payments as authorised or required to administer the estate, usually on a short term basis. Funds advanced are a first charge on the estate's property vested under the control of the Public Trustee. The interest rate on advances was last fixed on 5 December 2003 by the Public Trustee.

Cash at Bank – is carried at nominal amounts, translated at prevailing exchange rates where applicable. This asset consists of cash at bank and on hand.

Short Term Money Market – deposits are carried at their nominal amounts. Bills of exchange are valued at net fair value, based on independently sourced market yields prevailing at the balance date.

Sundry Debtors and Creditors – are carried at their nominal amounts.

1.3 Basis of Valuation of Common Fund Assets and Liabilities (continued)

Derivative Instruments – open positions in derivative instruments such as futures, options and forward exchange contracts are valued at market prices prevailing at the balance date. Derivative instruments are recorded in the common funds' Statements of Financial Position against the asset classes appropriate to the nature of asset they are replicating. Unrealised gains and losses arising on the revaluation of derivative instruments are brought to account as part of change in the net market value of investments in the common funds' Statements of Financial Performance.

1.4 Changes in Accounting Policies - Impact of Adopting Australian Equivalents to International Accounting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. Public Trustee will adopt these standards for the first time for trusts financial reporting for the year ended 30 June 2006.

Managing the Process

Public Trustee is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- Major areas of accounting and reporting differences resulting from adoption of the new standards;
- Potential changes required to financial systems; and
- Key dates for monitoring and reviewing progress.

Public Trustee is keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements by reviewing information published by the Department of Treasury and Finance and the professional accounting bodies, and attending information forums organised by the professional accounting bodies.

Expected Differences in Accounting Policies

- *Changes in Accounting Policy*
A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

2. Operation of the Common Funds

Common funds managed by Public Trustee have been established pursuant to section 29 of the *Public Trustee Act 1995*, or its predecessor legislation. Financial Statements for each common fund operated by Public Trustee are presented within the annual report of the Public Trustee.

Investment in common funds (with the exception of direct investment in the Cash Common Fund) is by way of notional unit holdings in the common funds. Contributors may invest in the Cash Common Fund or alternately invest in a selection of common funds in proportions determined by one or more of the following standard investment strategies provided by Public Trustee:

- Capital stable
- Balanced
- Growth
- Equities

3. Trust Funds under Administration

	Number		Value	
	2004	2003	2004 \$'000	2003 \$'000
Deceased Estates:				
Monies and assets held under the administration of the Public Trustee pursuant to the provision of the <i>Public Trustee Act 1995</i>	1 287	1 155	118 328	100 784
Trusts:				
Monies and assets held under the administration of the Public Trustee pursuant to the terms of a Will or a Deed of Trust	1 276	1 297	112 878	83 860
Administration Matters:				
Monies paid and assets transferred to the Public Trustee on account of minor beneficiaries pursuant to the <i>Public Trustee Act 1995</i>	174	134	4 370	4 672
Court Award Orders:				
Monies directed by the Court to be paid to the Public Trustee on behalf of clients and invested and applied by the Public Trustee as the Court directs, and monies administered by the Public Trustee under the <i>Aged and Infirm Persons' Property Act 1940</i>	899	923	205 242	176 198
Protected Estates:				
Monies administered by the Public Trustee under the <i>Guardianship and Administration Act 1993</i>	2 432	2 437	145 952	120 025

3. Trust Funds under Administration (continued)

	Number		Value	
	2004	2003	2004 \$'000	2003 \$'000
Workers Compensation Awards:				
Monies directed by the Court to be paid to the Public Trustee on behalf of widows and minors and invested and applied by the Public Trustee as the Court directs	8	9	247	198
Powers of Attorney:				
Monies and assets held on behalf of donors who have appointed the Public Trustee to act on their behalf	518	532	54 851	49 086
Investors:				
Monies invested in common funds pursuant to section 29(1) of the <i>Public Trustee Act 1995</i> , by classes of persons approved by the Minister	450	359	117 502	105 790
	7 044	6 846	759 370	640 613

4. Unclaimed Monies

During the reporting period, unclaimed monies totalling \$64 000 (\$32 000) in respect of estates were paid to the Consolidated Account pursuant to section 32(1) of the *Public Trustee Act 1995*.

COMMON FUNDS STATEMENTS
CASH COMMON FUND STATEMENTS

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
INCOME:			
Interest	2	10 197	9 326
Realised gain on disposal of investments	3	99	176
Total Income		10 296	9 502
EXPENDITURE:			
Public Trustee management fees	5	1 940	1 850
Government fees and charges		80	89
Legal and advisory expenses		10	10
Realised loss on disposal of investments	3	77	132
Other expenses		30	43
Total Expenditure		2 137	2 124
Change in the net market value of investments	4	116	614
OPERATING SURPLUS		8 275	7 992
Undistributed income brought forward		10	19
Transfers to funds employed to determine distributable income	10	(138)	(658)
FUNDS AVAILABLE FOR DISTRIBUTION		8 147	7 353
<i>Less:</i> Distributions made	6	8 140	7 343
INCOME HELD AWAITING DISTRIBUTION		7	10

**Statement of Financial Position
as at 30 June 2004**

	Note	2004 \$'000	2003 \$'000
CURRENT ASSETS:			
Cash at bank		62	25
Short-term money market		4 000	13 972
Australian fixed interest investments		140 117	106 287
Advances to estates		2 742	1 732
Advances to other common funds		845	1 920
Sundry debtors		3 045	2 138
		150 811	126 074
NON-CURRENT ASSETS:			
Australian fixed interest investments		54 069	61 569
Total Assets		204 880	187 643
CURRENT LIABILITIES:			
Income distribution payable		7	10
Bank overdraft		2 964	1 849
Sundry creditors		624	392
Total Liabilities		3 595	2 251
NET ASSETS		201 285	185 392
FUNDS EMPLOYED:			
	10		
Contributors funds		190 899	174 660
Funds deposited by other common funds		10 388	10 872
Reserves		(2)	(140)
TOTAL FUNDS EMPLOYED		201 285	185 392

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		9 997	9 746
Payments for expenses		(2 058)	(2 000)
Net Cash provided by Operating Activities	11.1	7 939	7 746
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net repayments of advances to estates	11.4	(1 010)	(3)
Payments for Australian fixed interest investments		(151 942)	(62 250)
Proceeds from realisations of Australian fixed interest investments		123 154	56 809
Payments for short term money market investments		(113 000)	(50 965)
Proceeds from realisations of short term money market investments		124 871	56 927
Net Cash (used in) provided by Investing Activities		(17 927)	518
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net contributions from contributors	11.4	16 459	6 421
Net contributions from (to) other common funds	11.4	591	(6 557)
Distributions paid		(8 140)	(7 344)
Net Cash provided by (used in) Financing Activities		8 910	(7 480)
NET (DECREASE) INCREASE IN CASH HELD		(1 078)	784
CASH AT 1 JULY	11.2	(1 824)	(2 608)
CASH AT 30 JUNE	11.2	(2 902)	(1 824)

SHORT-TERM FIXED INTEREST COMMON FUND STATEMENTS**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
INCOME:			
Interest	2	1 773	1 769
Realised gain on disposal of investments		6	-
Total Income		1 779	1 769
EXPENDITURE:			
Public Trustee management fees	5	331	252
Legal and advisory expenses		2	1
Realised loss on disposal of investments	3	70	9
Total Expenditure		403	262
Change in the net market value of investments	4	(222)	406
OPERATING SURPLUS		1 154	1 913
Undistributed income brought forward		1	1
Transfers from (to) funds employed to determine distributable income	10	286	(398)
FUNDS AVAILABLE FOR DISTRIBUTION		1 441	1 516
Less: Distributions made	6	1 440	1 515
INCOME HELD AWAITING DISTRIBUTION		1	1

**Statement of Financial Position
as at 30 June 2004**

	Note	2004 \$'000	2003 \$'000
CURRENT ASSETS:			
Deposits with cash common fund		83	4 910
Australian fixed interest investments		4 513	16 187
Sundry debtors		287	424
		4 883	21 521
NON-CURRENT ASSETS:			
Australian fixed interest investments		28 017	13 962
		28 017	13 962
Total Assets		32 900	35 483
CURRENT LIABILITIES:			
Income distribution payable		1	1
Sundry creditors		1	-
Total Liabilities		2	1
NET ASSETS		32 898	35 482
FUNDS EMPLOYED:	10		
Contributors funds		33 479	35 777
Reserves		(581)	(295)
TOTAL FUNDS EMPLOYED		32 898	35 482

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000
Interest received		2 330	1 877
Payments for expenses		(332)	(255)
Net Cash provided by Operating Activities	11.1	1 998	1 622
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for Australian fixed interest investments		(19 590)	(11 489)
Proceeds from realisations of Australian fixed interest investments		16 503	2 500
Net Cash used in Investing Activities		(3 087)	(8 989)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Contributions from contributors		3 660	4 509
Redemptions paid to contributors		(5 958)	(3 620)
Distributions paid		(1 440)	(1 515)
Net Cash used in Financing Activities		(3 738)	(626)
NET DECREASE IN CASH HELD		(4 827)	(7 993)
CASH AT 1 JULY	11.2	4 910	12 903
CASH AT 30 JUNE	11.2	83	4 910

LONG TERM FIXED INTEREST COMMON FUND STATEMENTS

Statement of Financial Performance for the year ended 30 June 2004

		2004	2003
INCOME:	Note	\$'000	\$'000
Interest	2	3 202	3 666
Realised gain on disposal of investments	3	-	6
Total Income		3 202	3 672
EXPENDITURE:			
Public Trustee management fees	5	565	660
Legal and advisory expenses		3	4
Realised loss on disposal of investments	3	129	32
Total Expenditure		697	696
Change in the net market value of investments	4	(1 728)	2 110
OPERATING SURPLUS		777	5 086
Undistributed income brought forward		2	1
Transfers from (to) funds employed to determine distributable income	10	1 857	(2 084)
FUNDS AVAILABLE FOR DISTRIBUTION		2 636	3 003
Less: Distributions made	6	2 635	3 001
INCOME HELD AWAITING DISTRIBUTION		1	2

Statement of Financial Position as at 30 June 2004

		2004	2003
CURRENT ASSETS:	Note	\$'000	\$'000
Deposits with cash common fund		6 740	3 503
Australian fixed interest investments		7 020	16 150
Sundry debtors		643	787
		14 403	20 440
NON-CURRENT ASSETS:			
Australian fixed interest investments		42 613	44 835
		42 613	44 835
Total Assets		57 016	65 275
CURRENT LIABILITIES			
Income distribution payable		1	2
Sundry creditors		1	1
Total Liabilities		2	3
NET ASSETS		57 014	65 272
FUNDS EMPLOYED:	10		
Contributors funds		57 230	63 632
Reserves		(216)	1 640
TOTAL FUNDS EMPLOYED		57 014	65 272

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000
Interest received		3 841	4 356
Payments for expenses		(568)	(664)
Net Cash provided by Operating Activities	11.1	3 273	3 692
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for Australian fixed interest investments		(7 000)	(7 082)
Proceeds from realisations of Australian fixed interest investments		16 000	7 512
Net Cash provided by Investing Activities		9 000	430
CASH FLOWS FROM FINANCING ACTIVITIES:			
Contributions from contributors		6 148	7 062
Redemptions paid to contributors		(12 549)	(5 878)
Distributions paid		(2 635)	(3 001)
Net Cash used in Financing Activities		(9 036)	(1 817)
NET INCREASE IN CASH HELD		3 237	2 305
CASH AT 1 JULY	11.2	3 503	1 198
CASH AT 30 JUNE	11.2	6 740	3 503

OVERSEAS FIXED INTEREST COMMON FUND STATEMENTS

Statement of Financial Performance for the year ended 30 June 2004

		2004	2003
INCOME:	Note	\$'000	\$'000
Distributions	2	1 684	2 842
Interest		50	20
Other income		5	6
Total Income		1 739	2 868
EXPENDITURE:			
Public Trustee management fees	5	239	268
Legal and advisory expenses		1	2
Realised loss on disposal of investments	3	765	-
Total Expenditure		1 005	270
Change in the net market value of investments	4	(336)	(1 156)
OPERATING SURPLUS		398	1 442
Undistributed income brought forward		-	1
Transfers from funds employed to determine distributable income	10	741	1 156
FUNDS AVAILABLE FOR DISTRIBUTION		1 139	2 599
Less: Distributions made	6	1 139	2 599
INCOME HELD AWAITING DISTRIBUTION		-	-

Statement of Financial Position as at 30 June 2004

		2004	2003
CURRENT ASSETS:	Note	\$'000	\$'000
Deposits with Cash Common Fund		327	-
Sundry debtors		572	2 226
		899	2 226
NON-CURRENT ASSETS:			
International fixed interest investments		22 261	23 419
Total Assets		23 160	25 645
CURRENT LIABILITIES:			
Sundry Creditors		1	-
Borrowings from Cash Common Fund		-	1 540
Total Liabilities		1	1 540
NET ASSETS		23 159	24 105
FUNDS EMPLOYED:	10		
Contributors funds		25 897	26 103
Reserves		(2 738)	(1 998)
TOTAL FUNDS EMPLOYED		23 159	24 105

**Statement of Cash Flows
for the year ended 30 June 2004**

	2004	2003
	Inflows	Inflows
	(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	\$'000	\$'000
Distributions and interest received	3 386	1 754
Payments for expenses	(239)	(270)
Net Cash provided by Operating Activities	3 147	1 484
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for International fixed interest investments	(11 000)	(601)
Proceeds from realisations of International fixed interest investments	11 064	-
Net Cash provided by (used in) Investing Activities	64	(601)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from contributors	2 640	3 011
Redemptions paid to contributors	(2 845)	(2 473)
Distributions paid	(1 139)	(2 599)
Net Cash used in Financing Activities	(1 344)	(2 061)
NET INCREASE (DECREASE) IN CASH HELD	1 867	(1 178)
CASH AT 1 JULY	(1 540)	(362)
CASH AT 30 JUNE	327	(1 540)

AUSTRALIAN SHARES COMMON FUND STATEMENTS

Statement of Financial Performance for the year ended 30 June 2004

		2004	2003
INCOME:	Note	\$'000	\$'000
Dividends	2	4 178	3 875
Distributions	2	1 268	464
Interest	2	47	48
Realised gain on disposal of investments	3	1 895	675
Other income		44	36
Total Income		7 432	5 098
EXPENDITURE:			
Public Trustee management fees	5	1 236	1 070
Legal and advisory expenses		6	6
Realised loss on disposal of investments	3	411	2 384
Total Expenditure		1 653	3 460
Change in the net market value of investments	4	16 126	(6 707)
OPERATING SURPLUS (DEFICIT)		21 905	(5 069)
Undistributed income brought forward		2	1
Transfers (to) from funds employed to determine distributable income	10	(17 552)	9 146
FUNDS AVAILABLE FOR DISTRIBUTION		4 355	4 078
Less: Distributions made	6	4 352	4 076
INCOME HELD AWAITING DISTRIBUTION		3	2

Statement of Financial Position as at 30 June 2004

		2004	2003
CURRENT ASSETS:	Note	\$'000	\$'000
Sundry debtors		1 692	1 073
		1 692	1 073
NON-CURRENT ASSETS:			
Australian equities		128 588	103 022
		128 588	103 022
Total Assets		130 280	104 095
CURRENT LIABILITIES:			
Income distributions payable		3	2
Borrowings from Cash Common Fund		845	380
Sundry creditors		3	1
Total Liabilities		851	383
NET ASSETS		129 429	103 712
FUNDS EMPLOYED:			
Contributors funds	10	98 603	90 439
Reserves		30 826	13 273
TOTAL FUNDS EMPLOYED		129 429	103 712

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Dividends and distributions received	11.3	4 768	3 253
Interest received		47	48
Other income		15	13
Payments for expenses		(1 240)	(1 075)
Net Cash provided by Operating Activities	11.1	3 590	2 239
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for Australian equities		(21 068)	(13 496)
Proceeds from realisations of Australian equities		13 201	11 882
Net Cash used in Investing Activities		(7 867)	(1 614)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Contributions from contributors		17 635	11 314
Redemptions paid to contributors		(9 471)	(8 234)
Distributions paid		(4 352)	(4 076)
Net Cash provided by (used in) Financing Activities		3 812	(996)
NET DECREASE IN CASH HELD		(465)	(371)
CASH AT 1 JULY	11.2	(380)	(9)
CASH AT 30 JUNE	11.2	(845)	(380)

OVERSEAS SHARES COMMON FUND STATEMENTS

Statement of Financial Performance for the year ended 30 June 2004

		2004	2003
INCOME:	Note	\$'000	\$'000
Dividends	2	718	749
Distributions	2	543	409
Interest	2	64	31
Realised gain on disposal of investments	3	2 344	67
Other income		84	65
Total Income		3 753	1 321
EXPENDITURE:			
Public Trustee management fees	5	763	622
Legal and advisory expenses		4	4
Realised loss on disposal of investments	3	368	2 924
Other expenses		122	141
Total Expenditure		1 257	3 691
Change in the net market value of investments	4	8 269	(11 372)
OPERATING SURPLUS (DEFICIT)		10 765	(13 742)
Undistributed income brought forward		3	1
Transfers (to) from funds employed to determine distributable income	10	(10 244)	14 229
FUNDS AVAILABLE FOR DISTRIBUTION		524	488
Less: Distributions made	6	522	485
INCOME HELD AWAITING DISTRIBUTION		2	3

Statement of Financial Position as at 30 June 2004

		2004	2003
CURRENT ASSETS:	Note	\$'000	\$'000
Cash at bank		689	297
Deposits with Cash Common Fund		2 552	705
Sundry debtors		883	479
		4 124	1 481
NON-CURRENT ASSETS:			
International equities		78 851	55 054
Total Assets		82 975	56 535
CURRENT LIABILITIES:			
Income distribution payable		2	3
Sundry creditors		7	2
Total Liabilities		9	5
NET ASSETS		82 966	56 530
FUNDS EMPLOYED:			
Contributors funds	10	92 351	76 160
Reserves		(9 385)	(19 630)
TOTAL FUNDS EMPLOYED		82 966	56 530

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Dividends and distributions received		1 125	1 113
Interest received		64	31
Sundry income		27	13
Payments for expenses		(884)	(766)
Net Cash provided by Operating Activities	11.1	332	391
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for international equities		(41 275)	(13 167)
Proceeds from realisations of international equities		27 461	11 931
Net Cash used in Investing Activities		(13 814)	(1 236)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Contributions from contributors		21 023	6 483
Redemptions paid to contributors		(4 831)	(4 725)
Distributions paid		(523)	(485)
Net Cash provided by Financing Activities		15 669	1 273
NET INCREASE IN CASH HELD		2 187	428
CASH AT 1 JULY	11.2	1 002	595
Effect of exchange rate changes on foreign cash holdings		52	(21)
CASH AT 30 JUNE	11.2	3 241	1 002

LISTED PROPERTY SECURITIES COMMON FUND STATEMENTS

Statement of Financial Performance for the year ended 30 June 2004

		2004	2003
INCOME:	Note	\$'000	\$'000
Distributions	2	2 158	2 397
Interest	2	2	31
Realised gain on disposal of investments	3	243	608
Total Income		2 403	3 036
EXPENDITURE:			
Public Trustee management fees	5	307	335
Legal and advisory expenses		2	2
Realised loss on disposal of investments	3	43	94
Total Expenditure		352	431
Change in the net market value of investments	4	2 906	1 007
OPERATING SURPLUS		4 957	3 612
Undistributed income brought forward		1 535	1 858
Transfers to funds employed to determine distributable income	10	(2 069)	(641)
FUNDS AVAILABLE FOR DISTRIBUTION		4 423	4 829
Less: Distributions made	6	3 484	3 294
INCOME HELD AWAITING DISTRIBUTION		939	1 535

Statement of Financial Position as at 30 June 2004

		2004	2003
CURRENT ASSETS:	Note	\$'000	\$'000
Deposits with Cash Common Fund		686	1 753
Sundry debtors		415	475
		1 101	2 228
NON-CURRENT ASSETS:			
Listed property securities		30 841	31 973
Total Assets		31 942	34 201
CURRENT LIABILITIES:			
Income distributions payable		939	1 535
Total Liabilities		939	1 535
NET ASSETS		31 003	32 666
FUNDS EMPLOYED:			
Contributors funds	10	24 060	27 792
Reserves		6 943	4 874
TOTAL FUNDS EMPLOYED		31 003	32 666

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Distributions and interest received		2 218	2 327
Interest received		2	31
Payments for expenses		(309)	(337)
Net Cash provided by Operating Activities	11.1	1 911	2 021
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for listed property securities		(2 984)	(4 285)
Proceeds from realisations of listed property securities		7 222	4 991
Net Cash provided by Investing Activities		4 238	706
CASH FLOWS FROM FINANCING ACTIVITIES:			
Contributions from contributors		2 872	3 431
Redemptions paid to contributors		(6 604)	(2 879)
Distributions paid		(3 484)	(3 294)
Net Cash used in Financing Activities		(7 216)	(2 742)
NET DECREASE IN CASH HELD		(1 067)	(15)
CASH AT 1 JULY	11.2	1 753	1 768
CASH AT 30 JUNE	11.2	686	1 753

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Statement of Principal Accounting Policies

1.1 Format of the Accounts

The statements of Public Trustee's common funds and related notes are a general purpose financial report and have been prepared in accordance with Treasurer's Instructions issued pursuant to the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and Urgent Issues Group Consensus Views.

The statements of the common funds have been prepared using the accrual basis of accounting.

1.2 Operation of the Common Funds

The common funds have been established pursuant to the *Public Trustee Act 1995* or its predecessor legislation. The following common funds were active for the whole of the current and comparative reporting periods:

- Cash Common Fund
- Short-Term Fixed Interest Common Fund
- Long-Term Fixed Interest Common Fund
- Australian Shares Common Fund
- Overseas Fixed Interest Common Fund
- Overseas Shares Common Fund
- Listed Property Securities Common Fund

The Inflation Linked Investments Common Fund was again dormant throughout 2003-04, has nil assets and liabilities and has not been reported.

1.2 Operation of the Common Funds (continued)

Investment in common funds (with the exception of direct investment in the Cash Common Fund) is by way of notional unit holdings in the common funds. Contributors may invest in the Cash Common Fund or alternately invest in a selection of common funds in proportions determined by one or more of the following standard investment strategies provided by Public Trustee:

- Capital Stable
- Balanced
- Growth
- Equities

Management of common fund investments is undertaken by Public Trustee. External advisers have been appointed to assist with the management of some common fund assets. The following advisers were employed at 30 June 2004:

Adviser:	Assets on which advice is taken:
Allianz Dresdner	International Equities

National Australia Bank Custodial Services was custodian for the period 1 July 2003 to 30 June 2004 and provides accounting and settlement services in relation to those international investments.

Australian and International Equity investments, together with Overseas Fixed Interest investments have also been made using Australian domiciled pooled funds. At 30 June 2004, the following pooled fund investments were held:

- NCIT Capital International - Global Share Trust
- BIAM Australia International Equities Fund
- BIAM Australia Fixed Interest Fund
- Fiduciary Global Bond Fund
- Investors Mutual Australian Smaller Companies Fund
- Perennial Value Smaller Companies Trust

1.3 Basis of Valuation of Common Fund Assets and Liabilities

Australian Equities and Listed Property Securities – are valued at market value based on the Australian Stock Exchange listed last sale price at the balance date. Investments in pooled investment funds are valued in accordance with unit prices at the balance date as advised by the managers of the funds.

International Equities – discretely held investments are valued at market value by Public Trustee's external custodian using independently sourced prices and foreign exchange rates. Investments in pooled investment funds are valued in accordance with unit prices at the balance date as advised by the managers of the funds.

Australian Fixed Interest Investments – are valued at market value based on independently obtained market yields applying at the balance date.

International Fixed Interest Investments – consist of investments in pooled funds which are valued in accordance with prices at the balance date as advised by the managers of the funds.

Advances to Estates – are carried at their nominal amounts. Public Trustee is authorised by the *Public Trustee Act 1995* to advance monies where an estate has insufficient monies to make payments as authorised or required to administer the estate, usually on a short term basis. Funds advanced are a first charge on the estate's property vested under the control of the Public Trustee. Interest rates on advances are fixed from time to time by the Public Trustee.

Cash at Bank – is carried at nominal amounts, translated at prevailing exchange rates where applicable. This asset consists of cash at bank and on hand.

Short Term Money Market – deposits are carried at their nominal amounts. Bills of exchange are valued at market value, based on independently sourced market yields prevailing at the balance date.

Sundry Debtors and Creditors – are carried at their nominal amounts.

Derivative Instruments – open positions in derivative instruments such as futures, options and forward exchange contracts are valued at market prices prevailing at the balance date. Derivative instruments are recorded in the common funds' Statements of Financial Position against the asset classes appropriate to the nature of asset they are replicating. Unrealised gains and losses arising on the revaluation of derivative instruments are brought to account as part of Change in the Net Market Value of Investments in the common funds' Statements of Financial Performance.

1.4 Common Fund Foreign Exchange Gains and Losses

Transactions denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Overseas investments and currency, together with any accrued income, are translated at the exchange rates prevailing at the balance date. Unrealised exchange gains and losses arising on the revaluation of investments are brought to account as part of Change in the Net Market Value of Investments in the common funds' Statements of Financial Performance.

1.5 Changes in Accounting Policies - Impact of Adopting Australian Equivalents to International Accounting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. Public Trustee will adopt these standards for the first time for common fund financial reporting for the year ended 30 June 2006.

Managing the Process

Public Trustee is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- Major areas of accounting and reporting differences resulting from adoption of the new standards.
- Potential changes required to financial systems; and
- Key dates for monitoring and reviewing progress

Public Trustee is keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements by reviewing information published by the Department of Treasury Finance and the professional accounting bodies, and attending information forums organised by the professional accounting bodies.

Expected differences in accounting policies*Changes in Accounting Policy*

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

2. Recognition of Revenue

Dividend income is recognised on the date that shares are quoted as ex-dividend. Distributions from trusts are recognised on a present entitlement basis. Interest income is recognised on a time proportionate basis that takes into account the amortisation of acquisition discounts and premiums on interest bearing investments.

All revenue items including realised and unrealised gains on investments arise from the operating activities of the Common Funds.

3. Realised Gains and Losses on Disposal of Investments

Realised Gains and Losses on Disposal of Investments represents realised gains and losses over the carrying value determined on an average cost basis. Carrying value is marked to market value at the balance date. Consequently, the carrying value of an investment at the time of its disposal is the weighted average of market value at the commencement of the reporting period and acquisition cost of investments acquired during the period.

4. Recognition of Unrealised Gains and Losses

Assets of the common funds have been measured at net market values after allowing for the costs of realisation. The Australian Accounting Standard AASB 1041, 'Revaluation of Non-Current Assets' provides that public sector borrowing/financing entities may recognise unrealised gains or losses arising from the measurement of financial assets at market values as revenues or expenses in the periods in which the changes occur. Public Trustee has brought changes in the net market value of assets to account in the Statements of Financial Performance in the periods in which they occur. Unrealised gains are not distributed and are transferred to Reserves.

5. Management Fees

A management fee is charged against each common fund at a rate of one-twelfth of one percent of the value of the fund as at the first business day of each month and is authorised by the *Public Trustee Act 1995*.

6. Distributions

Common fund distributions are made to contributors as at 31 December and 30 June each year. With the exception of the Listed Property Securities Common Fund, distributions are paid as at these dates. Contributors to the Listed Property Securities Common Fund are presently entitled to the income and capital distributions payable at the balance date. Payment is not made until after the balance date as advice of distribution entitlements from underlying investments is not received by Public Trustee until after the balance date.

Realised capital losses are not distributed to contributors but are retained in Reserves to be offset against any realised capital gains. Where realised capital gains exceed realised capital losses (both losses in the current distribution period and those brought forward from previous distribution periods), the excess is distributed.

In respect of direct client investment in the Cash Common Fund, if the administration of an estate is completed during the year, an income entitlement is determined to the date of completion of the estate. Final entitlements to other common fund distributions are paid at normal distribution dates.

7. Taxation

Under current taxation legislation, the common funds are not liable to income tax as net income is fully distributed to estates and investors each year. No income taxation expense is therefore recognised within the common funds' financial statements.

The common funds are registered entities under the Goods and Services Tax (GST) legislation. Investments in Public Trustee's common funds are classified as input taxed financial supplies and no GST is charged on such supplies. As suppliers of financial supplies, the common funds are able to claim a tax credit for three-quarters of the liability incurred in respect of certain expenses (reduced input tax credits). The majority of expenses incurred by Public Trustee's common funds including Public Trustee management fees, brokerage charges and custody fees are eligible for reduced input tax credits. The net impact of the GST on expenses incurred by the common funds is approximately 2.5 percent rather than the full 10 percent rate.

8. Financial Instruments

8.1 Net Market Value of Financial Assets and Liabilities

All assets and liabilities of the Common Funds are financial instruments as defined by the Australian Accounting Standard AASB 1033, 'Presentation and Disclosure of Financial Instruments'. All assets and liabilities of the common funds are carried at net market value based upon the valuation policies set out in Note 1.3. The aggregate carrying amounts for each class of financial instrument are as disclosed in the Statements of Financial Position.

The following classes of financial instruments are readily traded on organised markets in standardised form:

- Short Term Money Market
- Australian Fixed Interest Investments
- Australian Equities other than investments of \$14 306 000 (\$12 343 000) in a collective investment vehicle, disposal of which is by means of redemption by the vehicle manager
- Listed Property Securities
- International Equities other than investments of \$44 283 000 (\$25 456 000) in collective investment vehicles, disposals of which are by means of redemption by the vehicle managers.

Other classes of financial instruments are not readily traded on organised markets in standardised form.

8.2 Investment in Collective Investment Vehicles

In addition to holding financial instruments directly, common funds may also invest in collective investment vehicles such as unit trusts or other common funds operated by Public Trustee. The manager of such vehicles will have invested in a variety of financial instruments, including derivatives, which expose the common funds to investment risks, including market risk, credit risk, interest risk and currency risk. The Public Trustee has assessed the investment rules of collective investments held by the Common Funds and determined their suitability as investments of the Common Funds.

Disclosures in subsequent sub-sections of this note do not include the common fund's exposures to financial instruments held by the collective investment vehicles in which they have invested.

8.3 Credit Risk

The maximum exposure to credit risk, excluding any collateral or other security, at the balance date to financial instruments is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Statements of Financial Position and Notes to the Financial Statements.

Credit risk for derivative instruments arises from the potential failure by counterparties to the contracts to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of these contracts as disclosed in Note 8.6.

Credit risk arises primarily with the following classes of instruments and counterparties:

Sovereign debt of the Australian Commonwealth and State Governments;
Sovereign debt of the foreign governments;
Banking corporations;
Corporate debt of investment grade;
Futures contracts conducted on recognised exchanges;
Pooled Investment Funds.

Internal operating guidelines have been established to manage credit exposure to any one counterparty or groups of counterparties with similar characteristics.

8.4 Interest Rate Risk

Financial assets and liabilities subject to interest rate risk are disclosed below. All other assets and liabilities of the common funds are non-interest bearing.

	Weighted Average Interest Rate		Instruments Maturing or Re-ricing Within					
	2004 Percent	2003 Percent	1 Year or Less		1 to 5 Years		Over 5 Years	
			2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<i>Cash Common Fund</i>								
Cash at bank	-	-	62	25	-	-	-	-
Short-term deposits	5.20	4.71	4 000	6 000	-	-	-	-
Bank bills	-	4.72	-	7 972	-	-	-	-
Floating rate notes	6.08	5.28	57 085	40 593	-	-	-	-
Australian fixed interest	5.54	4.71	137 101	101 337	-	25 926	-	-
Advances to common funds	4.70	4.10	845	1 920	-	-	-	-
Advances to estates	7.75	7.25	2 742	1 732	-	-	-	-
			201 835	159 579	-	25 926	-	-
Bank overdraft	8.50	8.00	2 964	1 849	-	-	-	-
<i>Short-Term Fixed Interest Common Fund:</i>								
Deposits with Cash Common Fund	4.70	4.10	83	4 910	-	-	-	-
Australian fixed interest	5.44	4.58	15 915	16 187	-	13 962	-	-
Floating rate notes	6.25	-	16 615	-	-	-	-	-
			32 613	21 097	-	13 962	-	-
<i>Long-Term Fixed Interest Common Fund:</i>								
Deposits with Cash Common Fund	4.70	4.10	6 740	3 503	-	-	-	-
Australian fixed interest	5.69	4.75	11 042	16 150	21 618	15 398	14 957	29 437
Floating rate notes	5.88	-	2 016	-	-	-	-	-
			17 782	19 653	21 618	15 398	14 957	29 437
<i>Overseas Fixed Interest Common Fund:</i>								
Deposits with Cash Common Fund	4.70	-	327	-	-	-	-	-
Borrowings from Cash Common Fund	-	4.10	-	1 540	-	-	-	-
<i>Australian Shares Common Fund:</i>								
Borrowings from Cash Common Fund	4.70	4.10	845	380	-	-	-	-
<i>Overseas Shares Common Fund:</i>								
Deposits with Cash Common Fund	4.70	4.10	2 552	705	-	-	-	-
Cash at bank	4.00	0.36	689	297	-	-	-	-
			3 241	1 002	-	-	-	-
<i>Listed Property Securities Common Fund:</i>								
Deposits with Cash Common Fund	4.70	4.10	686	1 753	-	-	-	-

8.5 Derivative Instruments

Derivative instruments may be used by the Australian Shares, Overseas Shares and Overseas Fixed Interest Common Funds for purposes of investing funds or for hedging or otherwise managing risks associated with share and fixed interest markets. Where used for the purpose of investing funds, the notional exposure created by the holding of derivatives may not exceed the amount held as cash or an equivalent such as short term money market investments or deposits with other common funds.

No common fund held open futures contracts at the balance dates of the current or prior periods.

8.6 Forward Exchange Contracts

The investment objectives of the Overseas Shares Common Fund provide for the Fund to normally operate in an unhedged manner, that is, there is an intended exposure to exchange rate movements between the Australian dollar and other currencies. Within the discretely managed portion of the Fund, forward exchange contracts may be used to manage currency exposures between foreign currencies, for example between the United States dollar and the Japanese yen. No forward exchange contracts were held at the balance dates of the current or prior periods.

9. Common Fund Unit Prices

Unit prices are based upon the net asset valuations of the common funds. A spread between purchase and redemption prices may be applied to reflect transaction costs associated with the investment of contributions or the disposal of investments to fund redemptions. The Cash Common Fund operates on a deposit at call basis. All redemptions during the current and prior financial years were made at entry value.

	2004		2003	
	Purchase Price	Redemption Price	Purchase Price	Redemption Price
Common Fund Unit Prices at 30 June:	\$	\$	\$	\$
Short-term fixed interest	1.0029	0.9999	1.0113	1.0083
Long-term fixed interest	1.0173	1.0143	1.0506	1.0474
Overseas fixed interest	0.9388	0.9378	0.9691	0.9681
Australian shares	1.9722	1.9683	1.7012	1.6978
Overseas shares	0.9567	0.9500	0.8355	0.8297
Listed property securities	1.2145	1.2109	1.1335	1.1301

Movements in Common Fund Units

	Short-Term Fixed Interest		Common Fund Long-Term Fixed Interest		Overseas Fixed Interest	
	2004	2003	2004	2003	2004	2003
Contributor Units:						
Opening balance	35 138	34 267	62 224	61 108	24 887	24 383
Contributions	3 650	4 476	5 985	6 793	2 805	2 849
Redemptions	(5 934)	(3 605)	(12 084)	(5 677)	(3 008)	(2 345)
Closing Balance	32 854	35 138	56 125	62 224	24 684	24 887

	Common Fund Australian Shares		Common Fund Overseas Shares		Listed Property Securities	
	2004	2003	2004	2003	2004	2003
Contributor Units:						
Opening balance	61 085	59 334	68 133	66 257	28 905	28 436
Contributions	9 923	6 542	24 748	7 120	2 565	3 043
Redemptions	(5 250)	(4 791)	(5 546)	(5 244)	(5 867)	(2 574)
Closing Balance	65 758	61 085	87 335	68 133	25 603	28 905

10. Movements in Funds Employed

	Cash		Common Fund Short-Term Fixed Interest		Common Fund Long-Term Fixed Interest		Overseas Fixed Interest	
	2004	2003	2004	2003	2004	2003	2004	2003
Contributor Funds:								
Opening balance	\$'000 174 660	\$'000 168 196	\$'000 35 777	\$'000 34 889	\$'000 63 632	\$'000 62 447	\$'000 26 103	\$'000 25 565
Contributions ⁽¹⁾	16 239	6 464	3 660	4 508	6 148	7 062	2 639	3 012
Redemptions	-	-	(5 958)	(3 620)	(12 550)	(5 877)	(2 845)	(2 474)
Closing Balance	190 899	174 660	33 479	35 777	57 230	63 632	25 897	26 103
Reserves:								
Opening balance	(140)	(798)	(295)	(693)	1 641	(443)	(1 998)	(842)
Realised gains	99	176	6	-	-	6	-	-
Realised losses	(77)	(132)	(70)	(9)	(129)	(32)	(765)	-
Capital distributions received	-	-	-	-	-	-	959	1 842
Unrealised gains (losses)	116	614	(222)	407	(1 728)	2 110	(336)	(1 156)
Capital distribution paid/transferred	-	-	-	-	-	-	(598)	(1 842)
Closing Balance	(2)	(140)	(581)	(295)	(216)	1 641	(2 738)	(1 998)

	Common Fund Australian Shares		Common Fund Overseas Shares		Listed Property Securities	
	2004	2003	2004	2003	2004	2003
Contributor Funds:						
Opening balance	\$'000 90 439	\$'000 87 359	\$'000 76 160	\$'000 74 401	\$'000 27 792	\$'000 27 240
Contributions	17 635	11 314	21 022	6 484	2 872	3 431
Redemptions	(9 471)	(8 234)	(4 831)	(4 725)	(6 604)	(2 879)
Closing Balance	98 603	90 439	92 351	76 160	24 060	27 792
Reserves:						
Opening balance	13 273	22 420	(19 630)	(5 400)	4 874	4 233
Realised gains	1 895	675	2 344	67	243	608
Realised losses	(411)	(2 384)	(368)	(2 924)	(43)	(94)
Capital distributions received ⁽²⁾	810	3	-	-	-	-
Unrealised gains (losses)	16 126	(6 707)	8 269	(11 373)	2 906	1 007
Capital distribution paid or payable	(867)	(734)	-	-	(1 037)	(880)
Closing Balance	30 826	13 273	(9 385)	(19 630)	6 943	4 874

10. Movements in Funds Employed (continued)

- (1) A net movement in contributor funds is reported for the Cash Common Fund. This fund is the primary working account for trust administration operations. Contributor funds movements are typically high volume, low value transactions.
- (2) The amounts reported as capital distributions received and capital distributions paid or payable by the Listed Property Securities Common Fund are provisional and may be subject to revision. Public Trustee is not in receipt of detailed information as to the elements of all distributions received or receivable from listed property trusts at the time these statements have been prepared.

11. Statement of Cash Flows	2004	2003
11.1 Reconciliation of Net Cash provided by Operating Activities to Operating Surplus	\$'000	\$'000
<i>Cash Common Fund</i>		
Operating surplus	8 275	7 992
Non-cash flows in operating surplus:		
Change in the net market value of investments	(116)	(614)
Net realised gain on disposal of investments	(22)	(44)
Amortisation of discounts and premiums	477	604
Change in assets and liabilities:		
Increase in sundry debtors	(900)	(184)
Increase (Decrease) in sundry creditors	5	(8)
Net Cash provided by Operating Activities	7 939	7 746
<i>Short-Term Fixed Interest Common Fund</i>		
Operating surplus	1 154	1 913
Non-cash flows in operating surplus:		
Change in the net market value of investments	222	(406)
Net realised loss on disposal of investments	64	9
Amortisation of discounts and premiums	420	306
Change in assets and liabilities:		
Decrease (Increase) in sundry debtors	137	(200)
Increase in sundry creditors	1	-
Net Cash provided by Operating Activities	1 998	1 622
<i>Long-Term Fixed Interest Common Fund</i>		
Operating surplus	777	5 086
Non-cash flows in operating surplus:		
Change in the net market value of investments	1 728	(2 110)
Net realised loss on disposal of investments	129	26
Amortisation of discounts and premiums	495	614
Change in assets and liabilities:		
Decrease in sundry debtors	144	76
Net Cash provided by Operating Activities	3 273	3 692
<i>Overseas Fixed Interest Common Fund</i>		
Operating surplus	398	1 442
Non-cash flows in operating surplus:		
Change in the net market value of investments	336	1 156
Net realised loss on disposal of investments	765	-
Income reinvested and not received in cash	(7)	(6)
Change in assets and liabilities:		
Decrease (Increase) in sundry debtors	1 654	(1 108)
Increase in sundry creditors	1	-
Net Cash provided by Operating Activities	3 147	1 484
<i>Australian Shares Common Fund</i>		
Operating surplus (deficit)	21 905	(5 069)
Non-cash flows in operating surplus:		
Change in the net market value of investments	(16 126)	6 707
Net realised (gain) loss on disposal of investments	(1 484)	1 709
Dividends and other income reinvested and not received in cash	(88)	(789)
Change in assets and liabilities:		
(Increase) in sundry debtors	(619)	(319)
Increase in sundry creditors	2	-
Net Cash provided by Operating Activities	3 590	2 239

11.1 Reconciliation of Net Cash provided by Operating Activities to Operating Surplus (continued)	2004	2003
	\$'000	\$'000
<i>Overseas Shares Common Fund</i>		
Operating surplus (deficit)	10 765	(13 742)
Non-cash flows in operating surplus:		
Change in the net market value of investments	(8 269)	11 372
Net realised (gain) loss on disposal of investments	(1 976)	2 857
Income reinvested and not received in cash	(57)	(71)
Change in assets and liabilities:		
Increase in sundry debtors	(136)	(24)
Increase (Decrease) in sundry creditors	5	(1)
Net Cash provided by Operating Activities	332	391
<hr/>		
<i>Listed Property Securities Common Fund</i>		
Operating surplus	4 957	3 612
Non-cash flows in operating surplus:		
Change in the net market value of investments	(2 906)	(1 007)
Net realised gain on disposal of investments	(200)	(514)
Change in assets and liabilities:		
Decrease (Increase) in sundry debtors	60	(70)
Net Cash provided by Operating Activities	1 911	2 021

11.2 Reconciliation of Cash

For the Cash Common Fund, for the purposes of the Statement of Cash Flows, cash comprises Cash at Bank and Bank Overdraft as disclosed in the Statement of Financial Position.

For other common funds, for the purpose of the Statement of Cash Flows, cash comprises Deposits with or Borrowings from the Cash Common Fund and Cash at Bank or Bank Overdraft as disclosed in the Statements of Financial Position.

11.3 Non-Cash Activities

Within the Cash Common Fund, realisations of financial securities with capital proceeds totalling \$130 218 000 (\$122 616 000) were rolled into other financial instruments without the exchange of cash. Payments made by the Cash Common Fund on behalf of other common funds totalled \$10 000 (\$11 000).

There were no transfers between the Long Term Fixed Interest Common Fund and the Short Term Fixed Interest Common Fund for the period ended 30 June 2004 (\$7 708 000).

Within the Australian Shares Common Fund, dividends totalling \$60 000 (\$764 000) were reinvested under dividend reinvestment plans. Management fee rebates of \$29 000 (\$22 000) received by this vehicle from pooled fund managers were also reinvested without the exchange of cash. A corporate demerger resulted in the acquisition of shares valued at \$688 000 without the exchange of cash.

The Overseas Shares and Overseas Fixed Interest Common Funds received management fee rebates of \$57 000 (\$54 000) and \$7 000 (\$6 000) respectively from pooled fund managers and reinvested these rebates without the exchange of cash.

11.4 Cash Flows presented on a Net Basis

Cash flows arising from the following activities are presented on a net basis in the Statements of Cash Flows:

- Contributor deposits and withdrawals from the Cash Common Fund
- Deposits and withdrawals from the Cash Common Fund made by other common funds
- Advances to estates made by the Cash Common Fund
- Realised Gains and Losses on disposal of investments.

DEPARTMENT FOR CORRECTIONAL SERVICES

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department is an Administrative Unit established pursuant to the *Public Sector Management Act 1995*.

Functions

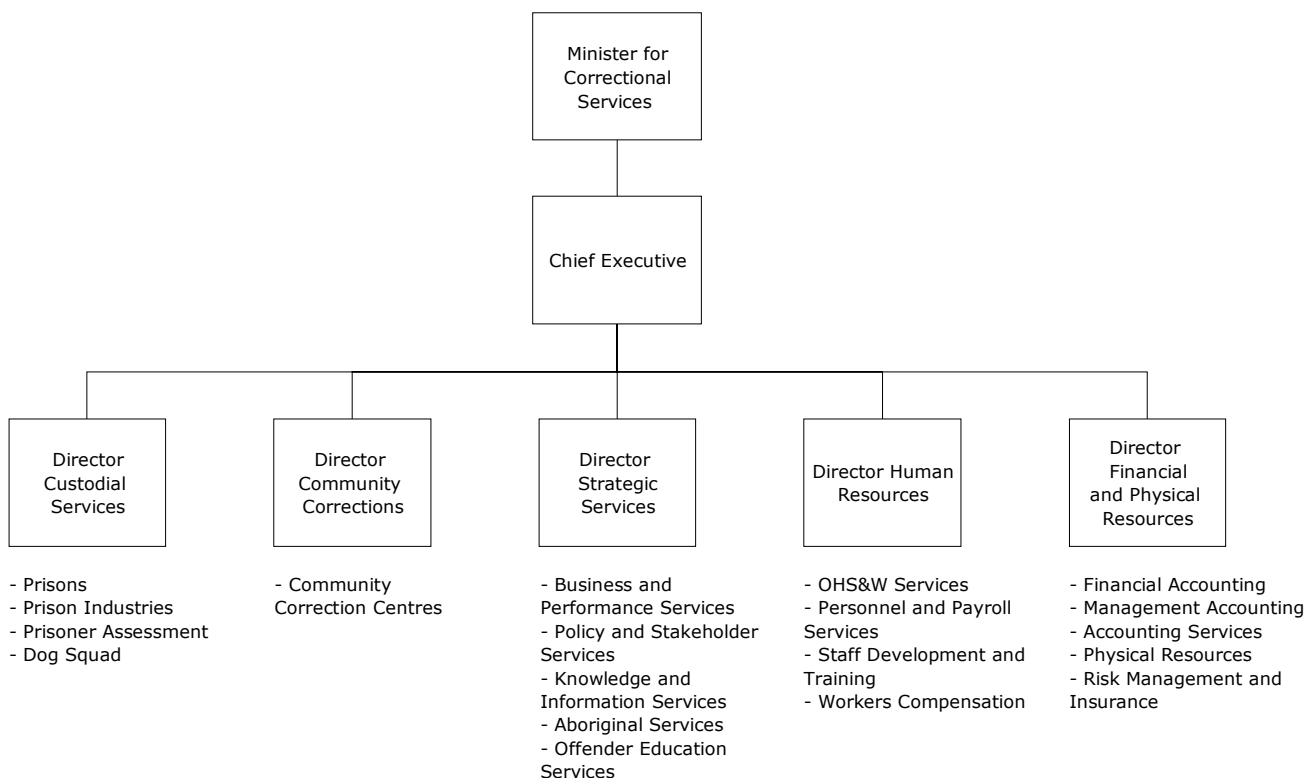
The Department has responsibility for the care and custody of adult offenders. These responsibilities are discharged by:

- the provision of custodial accommodation, including the opportunity for training and education, for both sentenced and remand inmates;
- non-custodial supervision of sentenced offenders through the probation and parole function, the Community Service Order Scheme and the Home Detention Scheme.

The primary objective of the Department for Correctional services is to work to maintain a safer community while contributing to rebuilding lives affected by crime.

Structure

The structure of the Department for Correctional Services is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Department for Correctional Services for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Department for Correctional Services in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- accounts payable
- workers compensation
- payroll
- institutional rostering system (at Adelaide Remand Centre and Yatala Labour Prison)
- inventory
- fixed assets
- revenue
- contract management
- financial accounting
- budgetary monitoring
- information technology.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Department for Correctional Services as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Department for Correctional Services in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to Policies and Procedures; Bank Reconciliations; Payroll and Institutional Rostering System, as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the Department for Correctional Services have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The audit of the Department revealed some opportunities to improve internal controls. In addition, Audit noted that some of the control weaknesses had been identified in previous audits, but remained unresolved. Major matters raised with the Department and the related responses are considered herein.

Policies and Procedures

Treasurer's Instruction 2 'Financial Management Policies' requires Chief Executives to ensure their agency develops, implements and documents policies, procedures and systems which, among other things, will assist the Chief Executive and the responsible Minister in discharging accountability in relation to the agency's internal control systems.

In complying with Treasurer's Instruction 2 the Chief Executive must ensure that the policies, procedures and systems:

- are consistent with the prescribed elements of the Financial Management Framework;
- are properly documented; and
- documentation is regularly reviewed, revised where necessary and readily available to all agency officers.

Audit noted during the course of the audit, and prior year audits, that many areas of the Department had comprehensive manuals relating to the processing of transactions through the various Departmental systems, but that a similar record of internal controls relating to the business process was not available. Audit acknowledges that in a number of cases, staff have been notified of appropriate control procedures, but that this had taken place through the use of internal correspondence rather than permanently available documentation. Over time or through staff changes, some staff did not have an understanding of the nature or reason for particular controls.

Accordingly, Audit indicated that the Department would benefit from a complete review of its policies and procedures and promulgation of new/revised policies and procedures resulting from that review.

Department Response

The Department advised:

- current policies and procedures were being systematically reviewed;
- new/revised policies and procedures would form part of the Department's Finance and Accounting Manual;
- the Manual would be placed on the departmental intranet and promulgated to appropriate personnel and business units.

Bank Reconciliations

The audit revealed some prison institutions had not performed bank reconciliations in respect of their general and imprest bank accounts. In some cases reconciliations had not been prepared for a period of six months.

Audit recommended that urgent attention be given by the prison institutions, and if necessary by head office, to preparation of outstanding bank reconciliations.

Department Response

A satisfactory response was received for the matter raised.

All departmental bank accounts were reconciled as at 30 June 2004.

Payroll

A number of specific issues were raised in relation to the payroll function. In some cases the issues raised related to the Department's Personnel and Payroll Services section, and others related to issues that were the sole responsibility of individual sites.

The main issues raised concerned the following areas:

- Control of Bona Fides and leave return forms to ensure that payroll is completely and accurately processed.
- Attendance records not being completed by personnel in some business units.
- Review and authorisation of reports from the institutional rostering system to ensure the validity and accuracy of data (including overtime, call-backs etc) used as the basis for paying a large number of staff.

Department Response

A satisfactory response was received for each of the matters raised.

Institutional Rostering System

In the latter part of 2003-04, Audit reviewed key aspects of the Department's institutional rostering system, in particular, the systems at the Adelaide Remand Centre and the Yatala Labour Prison.

The review included coverage of the information technology aspects of the rostering system operating at each institution, and assessment of key controls over business recovery, information systems operations, information security, applications systems implementation and maintenance, and aspects of database implementation and support, network support, and systems software support.

Attention was also given to the interfaces between the rostering system at the nominated institutions and the Department's payroll system (Complete Human Resource Information System (CHRIS)) with a focus on data integrity issues and validity of data transferred to head office.

The main issues raised concerned the following areas:

- Utilisation of encryption technology to secure sensitive rostering and payroll information transferred via email between institutions, head office and the payroll bureau service provider.
- Upgrading of obsolete and unsupported database software and operating systems for the execution of the institution rostering systems.
- Developing, formalising and endorsing a guideline by the Department for distribution to all institution users to define responsibilities and procedures to be undertaken in relation to data archiving for the rostering systems.
- Improving control over user passwords.
- Securing backup and recovery practices and procedures at the institutions.

Department Response

A satisfactory response was received for each of the matters raised.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004	2003	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Revenues from SA Government	120.3	110.6	9
Other revenue	13.0	11.4	14
Total Operating Revenue	133.3	122.0	9
OPERATING EXPENDITURE			
Employee expenses	79.5	83.2	(4)
Other expenses	54.6	49.9	9
Total Operating Expenses	134.1	133.1	1
Net Result from Ordinary Activities	(0.8)	(11.1)	93
ASSETS			
Current assets	17.4	13.5	29
Non-current assets*	176.1	171.1	3
Total Assets	193.5	184.6	5
LIABILITIES			
Current liabilities	13.9	12.7	9
Non-current liabilities	34.4	34.1	1
Total Liabilities	48.3	46.8	3
EQUITY	145.2	137.8	5

* Includes self generating and regenerating assets.

Statement of Financial Performance

Operating Revenue

Total operating revenue increased by \$11.3 million, or 9 percent, to \$133.3 million (\$122 million). This increase comprises:

- an increase in revenue from SA Government of \$9.7 million to \$120.3 million (\$110.6 million);

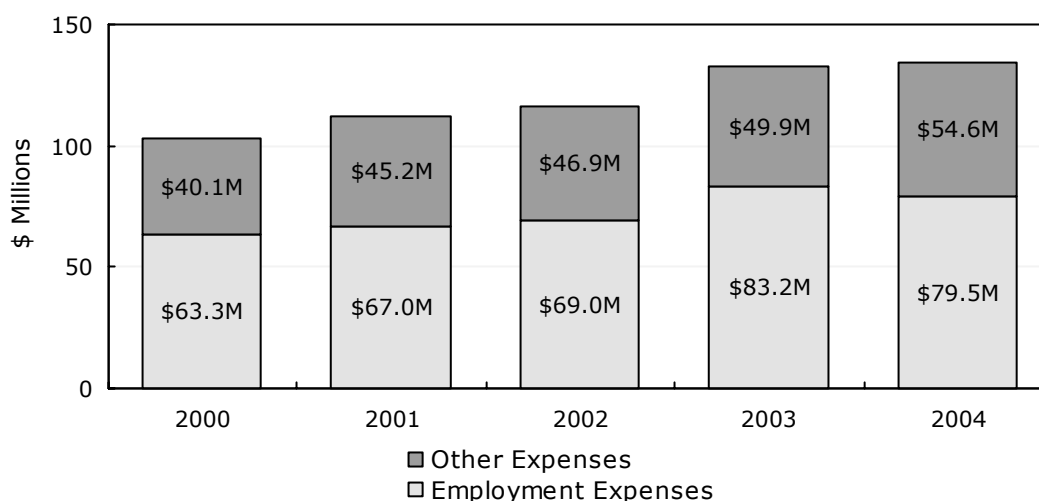
- an increase in Other revenue of \$1.6 million to \$13 million (\$11.4 million). The increase was due mainly to the Social Inclusion funding of \$1 million received from the Department of the Premier and Cabinet (refer Note 15).

Operating Expenses

Total operating expenses increased by \$1 million to \$134.1 million (\$133.1 million). This increase comprises:

- a decrease in employee expenses of \$3.7 million to \$79.5 million (\$83.2 million). This decrease was due mainly to an increase in Salaries and wages expense of \$4.8 million offset by a \$9.7 million decrease in workers compensation salary payments (reflecting a once-off methodology change in bringing to account workers compensation provision in 2003);
- offset by an increase in other expenses of \$4.7 million to \$54.6 million (\$49.9 million).

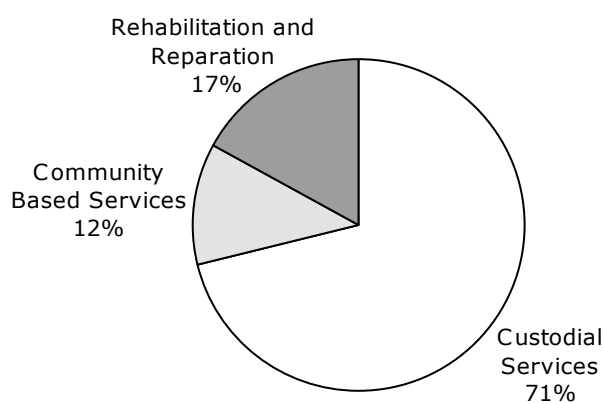
For the five years to 2004 a structural analysis of the main operating expense items for the Department is shown in the following chart.



* Amounts prior to 2003 do not reflect classification changes recognised in the 2003-04 Financial Statements.

Note 4 to the Financial Statements sets out the different programs of the Department.

The largest component of the Department’s expenditure relates to the custodial (ie prison) services. The proportion of expenses on the different programs has remained relatively stable each year, and is reflected in the following chart, which shows expenditure by program for 2003-04.

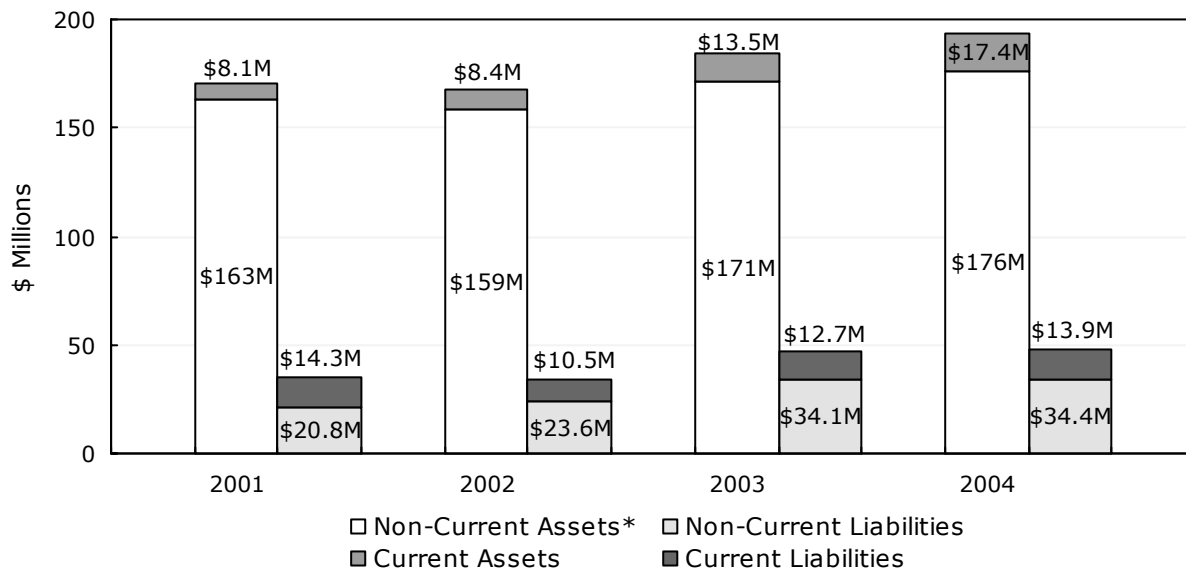


Operating Result

As a result of the increase in revenue from Government, as detailed above, the net result from Ordinary Activities for the Department was \$797 000, an improvement of \$10.3 million over 2002-03.

Statement of Financial Position

For the four years to 2004, a structural analysis of assets and liabilities is shown in the following chart.



* Includes self generating and regenerating assets.

The chart shows that the largest component of the Department’s Statement of Financial Position is its non-current assets, mainly the prison infrastructure.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Cash at 1 July	11.6	6.6	5.7	9.7
Operations	7.4	7.9	4.2	1.8
Investing	(4.1)	(2.9)	(3.3)	(5.8)
Change in Cash	3.3	5.0	0.9	4.0
Cash at 30 June	14.9	11.6	6.6	5.7

During the year cash increased by \$3.3 million to \$14.9 million. Of this amount \$9.9 million is in the Treasury and Finance Special Deposit Account ‘Accrual Appropriation Excess funds - Department for Correctional Services’. Access to these funds is subject to the Treasurer’s approval.

FURTHER COMMENTARY ON OPERATIONS

Service Contracts

The Department utilises service contracts for Prisoner Movement and In-Court Management, Home Detention Monitoring and Management of the Mount Gambier Prison. The Department has commitments in respect of these contracts for up to three years (refer Note 28 to the Financial Statements).

The status of these contracts follows.

Prisoner Movement and In-Court Management

This contract is due to expire on 30 June 2007.

Home Detention Monitoring

This contract was due to expire on 19 August 2005. However, a two year extension has been negotiated.

Management of the Mount Gambier Prison

This contract expires on 26 June 2005. A new contract had not been negotiated as at 30 June 2004 as the Department is seeking policy direction from the Government.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	5	79 489	83 232
Supplies and services	6	42 024	39 130
Depreciation and amortisation	7	6 327	6 133
Payments to prisoners		1 948	1 967
Accommodation and associated lease costs		2 303	1 414
Grants	8	660	489
Net loss from disposal of assets	9	31	351
Other	10	1 374	371
Total Expenses from Ordinary Activities		134 156	133 087
REVENUES FROM ORDINARY ACTIVITIES:			
Revenues from prison labour	13	3 927	3 514
Salaries and goods and services recoups		3 393	3 955
Interest	12	1 118	515
Commonwealth and Northern Territory grants and recoups		278	532
Kitchen and canteen sales	14	1 961	1 844
Other	15	2 361	1 045
Total Revenues from Ordinary Activities		13 038	11 405
Net Cost of Services from Ordinary Activities		121 118	121 682
REVENUES FROM/PAYMENTS TO GOVERNMENT:			
Revenues from South Australian Government	16	120 321	110 595
NET RESULT FROM ORDINARY ACTIVITIES:		(797)	(11 087)
Increase in asset revaluation reserve		8 189	15 589
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		7 392	4 502

**Statement of Financial Position
as at 30 June 2004**

	Note	2004	2003
		\$'000	\$'000
CURRENT ASSETS:			
Cash at bank and on hand	17	14 915	11 583
Receivables	18	1 516	1 293
Inventories	19	663	645
Other	21	348	12
Total Current Assets		17 442	13 533
NON-CURRENT ASSETS:			
Property, plant and equipment	20	172 212	168 633
Capital works in progress		3 794	2 321
Total Non-Current Assets		176 006	170 954
SELF GENERATING AND REGENERATING ASSETS:			
Livestock	22	102	91
Total Self Generating and Regenerating Assets		102	91
Total Assets		193 550	184 578
CURRENT LIABILITIES:			
Payables	23	3 102	3 190
Employee benefits	24(a)	6 122	4 824
Provisions	25	4 726	4 689
Total Current Liabilities		13 950	12 703
NON-CURRENT LIABILITIES:			
Payables	23	1 461	1 387
Employee benefits	24(a)	12 064	11 369
Provisions	25	20 873	21 302
Total Non-Current Liabilities		34 398	34 058
Total Liabilities		48 348	46 761
NET ASSETS		145 202	137 817
EQUITY:			
Accumulated surplus	26	110 255	111 052
Amenities fund reserve	26	114	121
Asset revaluation reserve	26	34 833	26 644
TOTAL EQUITY		145 202	137 817
Commitments for Expenditure	28		
Contingent Liabilities	29		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
CASH OUTFLOWS:			
Employees payments		(78 140)	(71 187)
Supplies and services		(44 483)	(39 992)
Prisoners		(1 948)	(1 967)
Grants		(660)	(489)
Other		(670)	(370)
GST payments on purchases		(4 043)	(3 493)
GST payments to taxation authority		(666)	(702)
Total Outflows from Operating Activities		(130 610)	(118 200)
CASH INFLOWS:			
Receipts from Government		120 321	110 595
Receipts from prison labour		3 927	3 514
Interest received		1 083	510
Other		8 250	7 301
GST receipts on receivables		696	678
GST input tax credits		3 703	3 473
Total Inflows from Operating Activities		137 980	126 071
Net Cash Inflows from Operating Activities	30(b)	7 370	7 871
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of property, plant and equipment		(4 040)	(2 886)
Total Outflows from Investing Activities		(4 040)	(2 886)
CASH INFLOWS:			
Proceeds from sale of property, plant and equipment		2	11
Total Inflows from Investing Activities		2	11
Net Cash Outflows from Investing Activities		(4 038)	(2 875)
NET INCREASE IN CASH HELD		3 332	4 996
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		11 583	6 587
CASH AT THE END OF THE FINANCIAL YEAR	30(a)	14 915	11 583

**Program Schedule of Revenues and Expenses
for the year ended 30 June 2004**

Programs (refer Note 4)	2004			Total
	1	2	3	
EXPENSES FROM ORDINARY ACTIVITIES:	\$'000	\$'000	\$'000	\$'000
Employee expenses	53 666	11 323	14 500	79 489
Supplies and services	31 888	3 292	6 844	42 024
Depreciation and amortisation	5 420	125	782	6 327
Payments to prisoners	1 567	-	381	1 948
Accommodation and associated lease costs	1 065	682	556	2 303
Grants	320	193	147	660
Net loss from disposal of assets	21	5	5	31
Other	885	183	306	1 374
Total Expenses from Ordinary Activities	94 832	15 803	23 521	134 156
REVENUES FROM ORDINARY ACTIVITIES:				
Revenues from prison labour	-	-	3 927	3 927
Salaries and goods and services recoups	1 994	391	1 008	3 393
Interest revenue	755	160	203	1 118
Commonwealth and Northern Territory grants and recoups	278	-	-	278
Kitchen and canteen sales	1 961	-	-	1 961
Other	1 870	173	318	2 361
Total Revenues from Ordinary Activities	6 858	724	5 456	13 038
NET COST OF SERVICES FROM ORDINARY ACTIVITIES	87 974	15 079	18 065	121 118
REVENUES FROM/PAYMENTS TO GOVERNMENT				
Revenues from South Australian Government	87 417	15 009	17 895	120 321
NET RESULT FROM ORDINARY ACTIVITIES	(557)	(70)	(170)	(797)

Programs - Refer Note 4

1. Custodial Services
2. Community Based Services
3. Rehabilitation and Reparation

**Program Schedule of Revenues and Expenses
for the year ended 30 June 2004 (continued)**

Programs (refer Note 4)	2003			Total
	1	2	3	
EXPENSES FROM ORDINARY ACTIVITIES:	\$'000	\$'000	\$'000	\$'000
Employee expenses	59 951	10 486	12 795	83 232
Supplies and services	30 018	3 159	5 953	39 130
Depreciation and amortisation	5 223	207	703	6 133
Payments to prisoners	1 577	-	390	1 967
Accommodation and associated lease costs	553	514	347	1 414
Grants and subsidies	294	120	75	489
Net loss from disposal of assets	233	49	69	351
Other	237	67	67	371
Total Expenses from Ordinary Activities	98 086	14 602	20 399	133 087
REVENUES FROM ORDINARY ACTIVITIES:				
Revenues from prison labour	-	-	3 514	3 514
Salaries and goods and services recoups	2 415	477	1 063	3 955
Interest revenue	356	69	90	515
Commonwealth and Northern Territory grants and recoups	532	-	-	532
Kitchen and canteen sales	1 844	-	-	1 844
Other	921	27	97	1 045
Total Revenues from Ordinary Activities	6 068	573	4 764	11 405
NET COST OF SERVICES FROM ORDINARY ACTIVITIES	92 018	14 029	15 635	121 682
REVENUES FROM/PAYMENTS TO GOVERNMENT				
Revenues from South Australian Government	83 619	12 764	14 212	110 595
NET RESULT FROM ORDINARY ACTIVITIES	(8 399)	(1 265)	(1 423)	(11 087)

Programs - Refer Note 4

1. Custodial Services
2. Community Based Services
3. Rehabilitation and Reparation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Department for Correctional Services

The Department for Correctional Services (the Department) is an Administrative Unit established pursuant to the *Public Sector Management Act 1995*.

The Department contributes to a safer community by working in partnership with other criminal justice organisations and the community to prevent crime and reduce repeat offending.

The Department securely and humanely manages people ordered by the courts to serve a community based or prison sanction and to provide them with opportunities to lead law-abiding and productive lives.

2. Significant Accounting Policies**(a) Basis of Accounting**

The financial report is a general purpose financial report. The accounts have been prepared in accordance with:

- Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*;
- Applicable Australian Accounting Standards;
- Urgent Issues Group Consensus Views and other mandatory professional pronouncements where applicable.

(a) Basis of Accounting (continued)

The Department's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The continued existence of the Department in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by Parliament for the Department's administration and outputs.

(b) The Reporting Entity

The Department's financial statements include both Departmental and Administered items. The Department's financial statements include the use of assets, liabilities, revenues and expenses controlled or incurred by the Department in its own right. As administered items are insignificant to the Department's overall financial performance and position, they have been disclosed in a schedule of administered items as notes to the accounts.

(c) Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

(d) Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

(e) Taxation

The Department is not subject to income tax. The Department is liable for payroll tax, Fringe Benefits Tax, Goods and Services Tax, emergency services levy, land tax equivalents and local government rate equivalents.

In accordance with the requirements of UIG Abstract 31 'Accounting for Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

(f) Revenues and Expenses

Revenues and Expenses are recognised in the Department's Statement of Financial Performance when, and only when, the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Revenues and Expenses have been classified according to their nature in accordance with APS 13 'Form and Content of General Purpose Financial Reports', and have not been offset unless required or permitted by another accounting standard.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Resources received/provided free of charge are recorded as revenue and expenditure in the Statement of Financial Performance at their fair value. Goods and services received free of charge are recorded as such with the revenue being separately disclosed. Resources provided free of charge are recorded at their fair value in the expense line items to which they relate.

Grants are amounts provided by the Department to entities for general assistance or for a particular purpose. Grants may be for capital, current or recurrent purposes and the name or category reflects the use of the grant. The grants given are usually subject to terms and conditions set out in the contract, correspondence, or by legislation. For the year ended 30 June 2004, grant recipients included:

- Offenders Aid and Rehabilitation Services (OARS);
- Joint Chaplaincy Committee;
- Aboriginal Prisoner and Offender Support Services (APOSS).

(g) Revenues from South Australian Government

Appropriations for program funding are recognised as revenues when the Department obtains control over the assets. Control over appropriations is normally obtained upon their receipt and are accounted for in accordance with Treasurer's Instruction 3 'Appropriation'.

Where money has been appropriated in the form of a loan, the Department has recorded a loan receivable.

Where money has been appropriated in the form of an equity contribution, the Treasurer has acquired a financial interest in the net assets of the Department and is recorded as contributed equity.

(h) Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. The Department has a clearly identifiable operating cycle of 12 months. Therefore assets and liabilities that will be realised as part of the normal operating cycle will be classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

(i) Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank and deposits at call that are readily converted to cash and are used in the cash management function on a day-to-day basis. The definition of cash in relation to the Statement of Financial Position differs slightly as it does not take into account bank overdrafts.

Cash also includes highly liquid investments with short periods to maturity that are readily convertible to cash on hand and subject to an insignificant risk of changes in value. Cash is measured at nominal value.

In October 2003 the Government introduced a policy with respect to aligning agency cash balances with appropriation and expenditure authority. During 2003-04 the Department was not required to transfer any of its cash balance to the Consolidated Account.

(j) Receivables

Receivables arise in the normal course of selling goods and services to other agencies and to the public. Receivables are payable within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

Other debtors arise outside the normal course of selling goods and services to other agencies and to the public.

The Department determines the provision for doubtful debts based on a review of balances within receivables that are unlikely to be collected. These are generally receivables that are 90 days or more overdue.

(k) Inventories

Stock in institutional stores is held for consumption and is carried at cost. Prison canteen stock is carried at cost. Both the stores and canteen stock values of inventory are assigned on the basis of average cost. PRIME inventories are valued at historical cost.

(l) Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position. Fair value means the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction.

Since the Department controls a large number of low value items, the cost of accounting for the capitalisation of items costing less than \$10 000 is expected to outweigh the benefits that would be gained from reporting this information. As a result, items with an acquisition cost less than \$10 000 are expensed in the period in which they are acquired.

Capital Works in progress are recognised as the cumulative costs of capital projects to balance date. Projects completed during the year have been recognised as buildings, plant or equipment and valued at cost.

(m) Revaluation of Non-Current Assets

In accordance with current Accounting Policy Statements issued by the Department of Treasury and Finance, the Department has applied the Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' and has elected to apply the fair value methodology to all non-current assets revalued during the year.

Every three years, the Department revalues its land, buildings and leasehold improvements. However, if at any time management considers that the carrying amount of an asset materially differs from its fair value then the asset will be revalued regardless of when the last valuation took place. Non-current physical assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value.

During 2001-02, the Department engaged the services of Andrew J Lucas, from Valcorp, to revalue the Mount Gambier Prison at Fair Value.

During 2002-03, the Department engaged the services of Andrew J Lucas, from Valcorp, to revalue the Community Correction Centres at Marla and Coober Pedy, as well as the Adelaide Remand Centre, Cadell Training Centre, Mobilong Prison, Port Augusta Prison, Yatala Labour Prison and the Dog Squad at Fair Value.

During 2003-04, the Department engaged the services of Andrew J Lucas from Valcorp, to revalue the Community Correction Centres at Mount Gambier, Murray Bridge, North East, Noarlunga and Adelaide, in addition to the Adelaide Women's Prison, Adelaide Pre Release Centre and Port Lincoln Prison at Fair Value.

The name, address and qualifications of the valuer are detailed below:

Valcorp Aust Pty Ltd	Andrew J Lucas M.B.A. Dip.Acc. A.A.P.I. B.App. Sc.(Val) A.S.A.	Level 4 75 Hindmarsh Square Adelaide SA 5000
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(n) Depreciation and Amortisation of Non-Current Assets

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to leasehold improvement, while depreciation is applied to physical assets such as property, plant and equipment.

The useful lives of all major assets held by the Department are reassessed on an annual basis.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Depreciation for non-current assets is determined as follows:

Class of Asset	Depreciation Method	Useful Life (Years)
Vehicles	Straight Line	6-20
Plant and equipment	Straight Line	4-15
Buildings (including prisons)	Straight Line	60
Site Infrastructure	Straight Line	1-60
Security Infrastructure	Straight Line	10

(o) Payables

Payables include creditors, accrued expenses and employment on-costs.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Department.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services' after the Department receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

The Department makes contributions to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as the South Australian Superannuation Board (SASB) has assumed these. The only liability outstanding at balance date relates to any contributions due but not yet paid to the SASB.

(p) Employee Benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Liability for salary and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date.

The liability for annual leave reflects the value of total annual leave entitlements of all employees as at 30 June 2004 and is measured at the nominal amount.

Long service leave is recognised on a pro-rata basis in respect of services provided by Department employees to balance date. The liability has been calculated at nominal rates based on current salary rates. The Department of Treasury and Finance have advised that a benchmark of seven years can be used for a shorthand estimation of long service leave liability in accordance with Australian Accounting Standard AASB 1028 'Employee Benefits'. This advice has been adopted and the long service leave liability has been calculated on that basis.

Unclaimed salaries and wages have been included as a current liability for employee benefits.

(q) Provisions

The workers compensation provision is based on an actuarial assessment prepared by Taylor Fry Consulting Actuaries as co-ordinated by the Department for Administrative and Information Services.

From 2003, the Justice, Employment Training and Education, Human Services and all other portfolios have been analysed separately. In previous years, the Justice Portfolio was analysed together with all other non-human services agencies. The new valuation methodology has resulted in the Justice Portfolio's liability being more specifically measured. The Department's liability is an allocation of the Justice Portfolio's total assessment.

(r) Leases

The Department has entered into a number of operating lease agreements for buildings and motor vehicles. In respect of operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased items. Operating lease payments are charged to the Statement of Financial Performance on a basis which is representative of the pattern of benefits derived from the leased assets.

The Department does not have any finance lease agreements.

(s) Livestock

Livestock is valued at current market value. The Department accounts for this item in accordance with Australian Accounting Standard AASB 1037 'Self Generating and Regenerating Assets'.

(t) Prisoner Amenities Fund

Proceeds from the sale of canteen goods to prisoners are used for the acquisition of items for the benefit of prisoners.

(u) Prisoner Payments

These include payments made on behalf of prisoners and payments made to prisoners upon discharge.

3. Changes in Accounting Policies

(a) Administered Items

In accordance with the Department of Treasury and Finance's model financial statements the Department for Correctional Services has included a schedule of administered items as notes to the accounts as it is considered that administered transactions and balances are insignificant in relation to the Department's overall financial performance and position.

(b) Measurement of Computing Assets

A change in policy was adopted with effect from 1 July 2003. Computing assets will now be expensed in the period in which they are acquired if they have an acquisition cost less than \$10 000. The previous policy was to expense computing assets if they had an acquisition cost less than \$1 000. The new policy was adopted as computing equipment was no longer considered significant enough to be grouped for depreciation purposes as it made up approximately 0.55 percent of the total asset base for the Department.

The change in accounting policy resulted in a decrease in the carrying amount of Computing equipment, with a corresponding increase in Other Expenses in the Statement of Financial Performance.

The restatements of Property, Plant and Equipment, Other Expenses and changes in Equity below, show the information that would have been disclosed had the new accounting policy always been applied.

	2004	2003
	\$'000	\$'000
Property, Plant and Equipment:	(Restated)	(Restated)
Carrying amount at the end of the financial year	172 212	169 450
Adjustment for change in accounting policy	-	(817)
Restated Carrying Amount at the End of the Financial Year	172 212	168 633
Other Expenses:		
Carrying amount at the end of the financial year	1 374	371
Adjustment for change in accounting policy	(817)	817
Restated Carrying Amount at the End of the Financial Year	557	1 188
Changes in Equity:		
Carrying amount at the end of the financial year	7 392	4 502
Adjustment for change in accounting policy	-	(817)
Restated Carrying Amount at the End of the Financial Year	7 392	3 685

4. Programs of the Department

In achieving its objectives the Department provides a range of services classified into the following programs:

Custodial Services: The Department provides secure containment and supervision for adults on remand and those sentenced by the courts to serve a custodial sanction. The Custodial Services program includes costs associated with operating the State's prison system, the humane treatment of prisoners while in custody and the secure movement of prisoners.

Community Based Services: The Department case manages and supervises offenders in the community on probation, parole or under home detention and clients on supervised bail.

Rehabilitation and Reparation: The Department provides a range of educational, vocational and rehabilitative programs designed to assist offenders to address their offending behaviour and provide them with opportunities to lead law abiding and productive lives. This includes pre-court, court based and prison based activities and services.

5. Employee Expenses	2004	2003
	\$'000	\$'000
Salaries and wages	62 782	57 968
Superannuation and payroll tax expenses	10 815	9 794
Workers compensation salary payments	3 475	13 215
Annual and long service leave expenses	1 433	1 517
Termination payments	984	738
Total Employee Expenses	79 489	83 232

Targeted Voluntary Separation Packages (TVSPs)

TVSPs paid to employees during the reporting period	114	-
Recovery from the Department of the Premier and Cabinet	114	-
Annual leave and long service leave accrued over the period	19	-

	2004	2003
	Number of	Number of
	Employees	Employees
Number of employees that were paid TVSPs during the reporting period	1	-

Remuneration of Employees

The number of employees whose remuneration received or receivable falls within the following bands:

\$110 000 - \$119 999	-	2
\$120 000 - \$129 999	2	-
\$130 000 - \$139 999	3	2
\$140 000 - \$149 999	1	1
\$150 000 - \$159 999	-	1
\$190 000 - \$199 999	1	-
\$200 000 - \$209 999	-	1

The table includes all employees whom received remuneration of \$100 000 or more during the year. The total remuneration received by these employees for the year was \$989 000 (\$991 000).

6. Supplies and Services	2004	2003
Supplies and services provided by entities within the South Australian Government:	\$'000	\$'000
Contracts	46	163
Works and equipment costs	1 574	1 189
Offender related costs	98	109
Stationery and printing	28	113
Utilities	1 128	911
Cost of goods sold	9	14
Maintenance land and buildings	568	72
Staff related costs	138	53
IT costs	2 266	1 938
Insurance charges	737	567
Sundry other expenses	1 164	1 178
Total Supplies and Services - South Australian Government Entities	7 756	6 307

Supplies and services provided by entities external to the South Australian Government:

Contracts	10 005	10 074
Works and equipment costs	2 682	2 290
Offender related costs	4 751	4 602
Stationery and printing	631	436
Utilities	2 919	2 962
Cost of goods sold	4 621	4 052
Maintenance land and buildings	746	1 055
Staff related costs	1 154	995
Workers compensation related payments	3 124	2 969
IT costs	611	775
Insurance charges	57	70
Sundry other expenses	2 967	2 543
Total Supplies and Services - Non-South Australian Government Entities	34 268	32 823
Total Supplies and Services	42 024	39 130

6. Supplies and Services (continued)

The number and dollar amount of Consultancies paid or payable that fell within the following bands:

	2004	2003	2004	2003
	Number	Number	\$'000	\$'000
Below \$10 000	5	5	23	17
Between \$10 000 and \$50 000	3	2	78	27
Above \$50 000	1	1	64	63
	9	8	165	107

7. Depreciation and Amortisation

Depreciation:

Buildings	6 081	5 388
Plant and equipment	220	742
Total Depreciation	6 301	6 130

Amortisation:

Leasehold improvements	26	3
Total Amortisation	26	3

Total Depreciation and Amortisation

6 327	6 133
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8. Grants

Grants paid or payable to entities external to the

South Australian Government:

Recurrent grant	660	489
Total Grants	660	489

9. Net Loss from Disposal of Assets

Land and Buildings:

Proceeds from disposal	-	-
Less: Net book value of assets disposed	-	300
Net Loss from Disposal of Land and Buildings	-	(300)

Plant and Equipment:

Proceeds from disposal	2	16
Less: Net book value of assets disposed	33	67
Net Loss from Disposal of Plant and Equipment	(31)	(51)

Total Assets:

Proceeds from disposal	2	16
Less: Net book value of assets disposed	33	367
Net Loss from Disposal of Assets	(31)	(351)

10. Other Expenses

Other expenses paid or payable to entities external to the

South Australian Government:

Bad and doubtful debts expense	35	10
Bank charges	10	5
FBT	217	259
Plant and equipment write-off*	817	-
Other	295	97
Total Expenses	1 374	371

* The result of the change in accounting policy for the measurement of computing assets, adopted with effect from 1 July 2003. Refer Note 3(b) for further information regarding the accounting policy change.

11. Auditor's Remuneration

Audit fees paid/payable to the Auditor-General's Department

Total Audit Fees	95	95
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Other Services

No other services were provided by the Auditor-General's Department.

12. Interest

Interest from entities within the South Australian Government

Other	9	1
Total Interest Received	1 118	515

13. Net Revenue from Prison Labour

	Yatala Labour Prison		Mobilong Prison		Cadell Training Centre		Adelaide Women's Prison/Pre-release Centre	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue	1 259	1 424	1 806	1 152	594	549	128	156
Less: Cost of goods sold	761	951	1 073	649	334	312	36	26
Net Revenue	498	473	733	503	260	237	92	130

	Port Augusta Prison		Port Lincoln Prison		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue	17	108	123	125	3 927	3 514
Less: Cost of goods sold	20	101	64	34	2 288	2 073
Net Revenue	(3)	7	59	91	1 639	1 441

14. Net Revenue from Canteen and Kitchen Sales

	2004 \$'000	2003 \$'000
Canteen and kitchen sales	1 961	1 844
Less: Cost of goods sold	1 785	1 652
Net Revenue from Canteen and Kitchen Sales	176	192

15. Other Revenue

	2004 \$'000	2003 \$'000
Grants received*	1 110	45
Prisoner telephone receipts	637	611
Other	614	389
Total Other Revenue	2 361	1 045

* Grants received in 2003-04 includes Social Inclusion funding of \$1.01 million received from the Department of the Premier and Cabinet. In future years Social Inclusion funding will be appropriated to the Department as part of recurrent funding from Government.

16. Revenue from South Australian to Government

	2004 \$'000	2003 \$'000
Appropriations from Consolidated Account pursuant to the <i>Appropriation Act</i>	120 321	110 595
Total Revenues from South Australian Government	120 321	110 595

17. Cash

	2004 \$'000	2003 \$'000
Deposits with the Treasurer	14 607	11 303
Prison general bank accounts	278	179
Head office imprest account	-	61
Prison imprest accounts	28	28
Petty cash	2	12
Total Cash	14 915	11 583

18. Receivables

Current:		
Receivables	717	864
Less: Provision for doubtful debts	77	73
	640	791
Accrued interest	50	15
GST receivable	826	487
Total Receivables	1 516	1 293
Receivables from South Australian Entities:		
Receivables	144	163
Accrued interest	50	15
Other	20	92
Total Receivables from South Australian Entities	214	270
Receivables from Non-South Australian Entities:		
Receivables	476	536
GST receivable	826	487
Total Receivables from Non-South Australian Entities	1 302	1 023
Total Receivables	1 516	1 293

19. Inventories			2004	2003
Current:			\$'000	\$'000
Raw materials and work in progress			268	203
Finished goods			66	66
Stores			329	376
Total Inventories			663	645
20. Property, Plant and Equipment				
Land and Buildings:				
Land at fair value			27 030	20 292
Buildings at fair value			246 435	241 769
Accumulated depreciation			(103 208)	(95 619)
Total Land and Buildings			170 257	166 442
Leasehold Improvements:				
Leasehold improvements at fair value			558	80
Accumulated amortisation			(75)	(27)
Total Leasehold Improvements			483	53
Plant and Equipment:				
Plant and equipment at fair value			3 274	5 325
Accumulated depreciation			(1 802)	(3 187)
Total Plant and Equipment			1 472	2 138
Total Property Plant and Equipment			172 212	168 633
Reconciliation of Property, Plant and Equipment	Land and Buildings	Leasehold Improvement	Plant and Equipment	2004 Total \$'000
Carrying amount at the beginning of the financial year	\$'000	\$'000	\$'000	\$'000
Additions	166 442	53	2 138	168 633
Transfers from capital works in progress	19	-	282	301
Disposals	2 088	25	-	2 113
Revaluation increment	-	-	(33)	(33)
Write-off non-current assets	8 189	-	-	8 189
Depreciation and amortisation	-	-	(817)	(817)
Other movements	(6 081)	(26)	(220)	(6 327)
	(400)	431	122	153
Carrying Amount at the End of the Financial Year	170 257	483	1 472	172 212
21. Other Assets			2004	2003
Current:			\$'000	\$'000
Prepayments			347	12
Other			1	-
Total Other Assets			348	12
22. Livestock				
Reconciliation of Carrying Amounts of Livestock:				
Carrying amount at the beginning of the financial year			91	84
Purchases			12	2
Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes			7	16
Gain (loss) arising from changes in fair value less estimated point-of-sale costs attributable to price changes			19	(2)
Sales			(27)	(9)
Carrying Amount at the End of the Financial Year			102	91
23. Payables				
Current:				
Creditors			1 002	1 358
Accrued expenses			1 050	1 018
GST payable			101	72
Employment on-costs			949	742
Total Current Payables			3 102	3 190
Non-Current:				
Employment on-costs			1 461	1 387
Total Non-Current Payables			1 461	1 387
Total Payables			4 563	4 577

23. Payables (continued)	2004	2003
Payables to South Australian Government Entities:	\$'000	\$'000
Creditors	125	2
Accrued expenses	574	488
Total Payables to South Australian Government Entities	699	490
Payables to Non-South Australian Government Entities:		
Creditors	877	1 356
Accrued expenses	476	530
GST payable	101	72
Employment on-costs	2 410	2 129
Total Payables to Non-South Australian Government Entities	3 864	4 087
Total Payables	4 563	4 577
24. (a) Employee Benefits		
Current:		
Annual leave	3 851	3 166
Long service leave	1 198	1 146
Accrued salaries and wages	1 069	508
Unclaimed salaries and wages	4	4
Total Current Employee Benefits	6 122	4 824
Non-Current:		
Annual leave	1 283	1 055
Long service leave	10 781	10 314
Total Non-Current Employee Benefits	12 064	11 369
Total Employee Benefits	18 186	16 193
(b) Employee Benefits		
Accrued Salaries:		
On-costs included in payables - Current (Note 23)	172	78
Employee benefits - Current (Note 24(a))	1 069	508
	1 241	586
Annual Leave:		
On-costs included in payables - Current (Note 23)	638	529
Employee benefits - Current (Note 24(a))	3 851	3 166
	4 489	3 695
On-costs included in payables - Non-current (Note 23)	213	176
Employee benefits - Non-current (Note 24(a))	1 284	1 055
	1 497	1 231
Long Service Leave:		
On-costs included in payables - Current (Note 23)	139	135
Employee benefits - Current (Note 24(a))	1 198	1 146
	1 337	1 281
On-costs included in payables - Non-current (Note 23)	1 248	1 211
Employee benefits Non-current (Note 24(a))	10 780	10 314
	12 028	11 525
Aggregate Employee Benefits and Related On-Costs	20 592	18 318
25. Provisions		
Current:		
Workers compensation - Medical and other costs	1 980	1 811
Workers compensation - Income maintenance	2 746	2 878
Total Current Provisions	4 726	4 689
Non-Current:		
Workers compensation - Medical and other costs	7 359	6 995
Workers compensation - Income maintenance	13 514	14 307
Total Non-Current Provisions	20 873	21 302
Total Provisions	25 599	25 991
Carrying Amount at the beginning of the financial year:	25 991	15 743
Workers compensation payments	(6 988)	(5 936)
Increase in the provision	6 596	16 184
Carrying Amount at the End of the Financial Year	25 599	25 991
26. Equity		
Accumulated surplus	110 255	111 052
Asset revaluation reserve	34 833	26 644
Amenities fund reserve	114	121
Total Equity	145 202	137 817

26. Equity (continued)	2004 \$'000	2003 \$'000
Accumulated Surplus:		
Balance at the beginning of the financial year	111 052	122 139
Net Result from ordinary activities	(797)	(11 087)
Balance at the End of the Financial Year	110 255	111 052
Asset Revaluation Reserve:		
Balance at the beginning of the financial year	26 644	11 055
Increase in asset revaluation reserve	8 189	15 589
Balance at the End of the Financial Year	34 833	26 644
Amenities Fund Reserve:		
Balance at the beginning of the financial year	121	100
Add: Receipts	141	152
Less: Payments	148	131
Balance at the End of the Financial Year	114	121

27. **Financial Instruments**
(a) **Terms, Conditions and Accounting Policies**

(i) *Financial Assets*

Cash is available at call and is recorded at cost. Cash at Bank includes a Special Deposit Account with the Department of Treasury and Finance. Interest revenues are recognised as they accrue. Interest rates are based on the average of the 90 day bank bill rate. The balance of Cash at Bank relates to prison bank advance accounts held at the various institutions. These are deposited in individual 'at call' bank accounts and as a result details of interest rates are not readily available.

Receivables are raised for all goods and services provided for which payment has not been received and are recorded at their recoverable amount. Receivables are normally settled within 30 days.

(ii) *Financial Liabilities*

Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days.

(b) **Interest Rate Risk**

Financial Instrument	2004			Weighted Average Effective Interest Rate Percent
	Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	
Financial Assets:				
Cash	14 913	2	14 915	5.3
Receivables	-	1 516	1 516	-
	14 913	1 518	16 431	
Financial Liabilities:				
Payables	-	4 563	4 563	-
	-	4 563	4 563	
	2003			
Financial Instrument	Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate Percent
Financial Assets:				
Cash	11 571	12	11 583	4.6
Receivables	-	1 293	1 293	-
	11 571	1 305	12 876	
Financial Liabilities:				
Payables	-	4 577	4 577	-
	-	4 577	4 577	

(c) **Net Fair Values**

Financial instruments are valued at the carrying amount as per the Statements of Financial Position which approximates the net fair value. The carrying amount of financial assets approximates net fair value due to their short-term to maturity or being receivable on demand. The carrying amount of financial liabilities is considered to be a reasonable estimate of net fair value.

28. Commitments for Expenditure	2004	2003
Contract Service Commitments	\$'000	\$'000
Not later than one year	9 878	9 198
Later than one year but not later than five years	12 043	19 732
Later than five years	-	-
Total Contract Service Commitments	21 921	28 930

The contracts for the Prisoner Movement and In-Court Management, Home Detention Monitoring and the Mobilong Fee for Service contracts extend beyond 30 June 2005. The Home Detention Monitoring contract was due to expire on 19 April 2005, however, a 2 year extension has been negotiated. The management of Mount Gambier Prison contract expires on 26 June 2005. A new contract has not been negotiated as Government direction is being sought.

These contracts have provisions for termination by the Crown without penalty to the Crown. However, a termination for convenience by the Crown would attract variable payments and reimbursements specified in the contract depending on the circumstance and amount of termination notice. The ongoing cancellable commitments (which have not been recognised as liabilities) are noted above.

The above figures:

- are subject to an escalation based on indices not yet published by the Australian Bureau of Statistics, and as a result are not adjusted for inflation and are based on 2003-04 prisoner populations; and
- are exclusive of Goods and Services Tax.

Operating Lease Commitments	2004	2003
Commitments under non-cancellable operating leases at the reporting date are not recognised as liabilities in the financial report are payable as follows:	\$'000	\$'000
Not later than one year	574	624
Later than one year but not later than five years	1 164	1 426
Later than five years	116	349
Total Operating Lease Commitments	1 854	2 399

The Department's operating leases are for office accommodation. Office accommodation is leased from the Real Estate Management (REM) branch of the Department for Administrative and Information Services (DAIS). The leases are non-cancellable and are payable monthly in advance.

29. Contingent Liabilities

The Department has a number of common law claims against it made by various claimants. The maximum exposure facing the Department in respect of these claims is \$322 000 (\$213 000).

The Department also has a potential financial exposure in respect of a pay claim made by the Public Service Association on behalf of a group of custodial specialists regarding alleged under payment of penalty rates. The Department obtained approval to make an offer in settlement of these claims prior to 30 June 2004 but the total value of potential claims could not be reliably quantified at 30 June 2004.

These contingent liabilities are not actual liabilities and have therefore not been included in the financial statements. They represent a potential financial obligation in circumstances which have been deemed to be possible not probable.

30. Cash Flow Reconciliation	2004	2003
(a) Reconciliation of Cash - Cash at Year End as Per	\$'000	\$'000
Statement of Cash Flows	14 915	11 583
Statement of Financial Position	14 915	11 583
(b) Reconciliation of Net Cash Inflows from Operating Activities to Net Result from Ordinary Activities		
Net Result from Ordinary Activities	(797)	(11 087)
Add: Net Amenities Fund Reserve (receipts) payments	(7)	21
Add: Non-Cash Items:		
Net Loss on Disposal of Non-Current Assets	31	351
Depreciation and Amortisation Expense	6 327	6 133
Write-off of Plant and Equipment	817	-
Changes in Assets and Liabilities:		
(Increase) Decrease in receivables	(223)	(282)
(Increase) Decrease in inventories	(18)	95
(Increase) Decrease in other assets	(336)	99
(Increase) Decrease in livestock	(11)	(7)
Increase (Decrease) in payables	(14)	460
Increase (Decrease) in employee benefits	1 993	1 840
Increase (Decrease) in provisions	(392)	10 248
Net Cash Inflows from Operating Activities	7 370	7 871

31. Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Department will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', Department's Chief Executive is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). The Department has analysed the exposure drafts issued by the Australian Accounting Standards Board and has identified a number of potential issues that may need to be addressed. The Department is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems; and
- key dates for monitoring and reviewing progress.

The Department is using the Model Financial Report for SA Government entities developed by the Department of Treasury and Finance (DTF) and keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements (APS) by attending exposure draft reference group meetings (facilitated by DTF) and information forums organised by the DTF and professional accounting bodies.

Expected Differences in Accounting Policies*Changes in Accounting Policy*

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Non-Current Asset Acquisition and Recognition

The Australian equivalent to IAS 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life is greater than three years) will continue to apply.

Employee Benefits

Employee benefits payable later than 12 months from year-end will be measured at present value rather than at nominal amounts.

Livestock

The Australian equivalent to Accounting Standard AASB 1037 'Self-Generating and Regenerating Assets', Accounting Standard AASB 141 'Agriculture', addresses the recognition, measurement and disclosure of agricultural activities. AASB 1037 addresses the recognition, measurement and disclosure of agricultural and non-agricultural activities. It is anticipated that there will be no change in livestock valuation with the adoption of the new standard as both standards require the assets to be measured at fair value less estimated point-of-sale costs. However, the disclosures required in AASB 141 are more extensive than those required in AASB 1037. AASB 141 will require the disclosure of the amount of commitments for the development or acquisition of biological assets and the financial risk strategies related to agricultural activity. In addition, AASB 141 requires a reconciliation of beginning and ending carrying amounts currently not required by AASB 1037.

32. Trust Funds

The Department holds prisoner monies in a trustee capacity. These monies are excluded from the financial statements, as the Department cannot use them for the achievement of its objectives. The following is a summary of the transactions in the trust account:

	2004	2003
	\$'000	\$'000
Balance at the beginning of the financial year	259	252
Add: Receipts	3 839	3 476
	4 098	3 728
Less: Payments	3 809	3 469
Balance at the End of the Financial Year	289	259

33. Disclosure of Administered Items

Administered Revenues:

Revenues from CIC levies	80	73
Other	2	2
Total Administered Revenues	82	75
Administered Expenses:		
CIC levies payments	100	73
Other	3	-
Total Administered Expenses	103	73
Net Operating (Deficit) Surplus	(21)	2

33. Disclosure of Administered Items (continued)	2004	2003
Administered Current Assets:	\$'000	\$'000
Cash	2	23
Total Current Assets	2	23
Total Administered Assets	2	23
Administered Current Liabilities:		
CIC levies payables	20	20
Other	3	3
Total Current Liabilities	23	23
Total Administered Liabilities	23	23
Net Administered Assets	(21)	-
Administered Equity:		
Accumulated deficit	(21)	-
Total Administered Equity	(21)	-
Cash Flows from Operating Activities	2004	2003
Cash Inflows:	Inflows	Inflows
CIC Levies	(Outflows)	(Outflows)
Other Revenue	\$'000	\$'000
Total Cash Inflows	80	73
	2	2
	82	75
Cash Outflows:		
CIC Levies Payments	100	73
Other	3	-
Total Cash Outflows	103	73
Net Cash (Outflows) Inflows from Operating Activities	(21)	2
Net (Decrease) Increase in Cash Held	(21)	2
Cash at the Beginning of the Financial Year	23	21
Cash at the End of the Financial Year	2	23

(a) Administered Items of the Department

The Department administers but does not control certain resources on behalf of the Attorney-General (Victims of Crime Levy). It is accountable for the transactions involving these administered resources but does not have the discretion to deploy these resources for the achievement of the Department's objectives. Transactions and balances relating to these administered resources are not recognised as Departmental revenues, expenses, assets or liabilities.

(b) Administered Expenses and Administered Cash Outflows

The Department makes various transfer payments to eligible beneficiaries in the capacity of an agent responsible for the administration of the transfer process. Amounts relating to these transfer payments are not controlled by the Department, since they are made at the discretion of Government in accordance with Government policy. These transfers are disclosed as administered expenses and administered cash outflows.

(c) Administered Revenues and Administered Cash Inflows

The Department collects various levies on behalf of Government. The amounts are not controlled by the Department and are not recognised by the Department. These amounts are disclosed as administered revenues and administered cash inflows.

(d) Administered Assets and Liabilities

The Department manages various assets and liabilities on behalf of the Government. The amounts are not controlled by the Department and are not recognised by the Department. These amounts are disclosed as administered assets and liabilities.

COUNTRY FIRE SERVICE BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Country Fire Service Board (the Board) was established pursuant to the *Country Fires Act 1989* and is responsible to the Minister for Emergency Services for the administration of the *Country Fires Act 1989*.

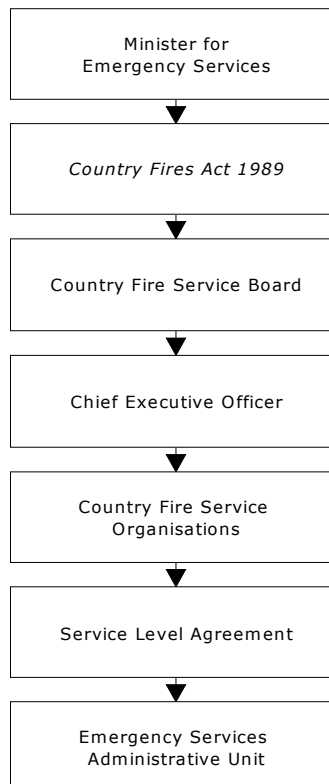
Functions

The Board is responsible for the prevention, control and suppression of fires in the country. The functions of the Board are as follows:

- approve the Strategic Plan, providing clear goals and direction;
- consider business plans and approve performance measures and broad resource allocations;
- provide overall policy guidance and ensure that appropriate measures are in place to manage risk and volunteer support;
- monitor operational and financial performance, environmental and occupational health, safety and welfare performance, legal compliance and ethical behaviour.

Structure

The structure of the Country Fire Service (CFS) is illustrated in the following organisation chart.



The Board is a decentralised organisation supporting six regions.

The Emergency Services Administrative Unit (ESAU) provides various services in support of the Board's primary functions, including strategic risk management, financial management and accounting services. These were subject to corporate service level agreements.

The Board's financial management is heavily reliant on information and reporting provided by ESAU.

Changes to Functions and Structure

In October 2002 a review was commissioned to examine and identify improvements to the management, administration and governance arrangements of emergency services in South Australia, in relation to:

- Country Fire Service
- State Emergency Service
- South Australian Metropolitan Fire Service
- Emergency Services Administrative Unit.

The Emergency Services Review was released on 13 May 2003 and recommended the creation of a Fire and Emergency Services Commission. The Government supported this recommendation and established a task force to undertake a detailed assessment of the operational requirements of the new Commission.

Significant work was undertaken in 2003-04 by the task force which culminated in the Fire and Emergency Services Bill 2004 being introduced into Parliament in May 2004. The Bill provides for the establishment of the South Australian Fire and Emergency Services Commission, the continuation of a metropolitan fire service and emergency service, a country fire and emergency service, and a State emergency service to provide for the prevention, control and suppression of fires and for the handling of emergency situations.

It is anticipated that the Board will continue as a separate corporate entity under the proposed new arrangements. At the time of preparing this Report the Bill was still before Parliament.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 21(3) of the *Country Fires Act 1989* provides for the Auditor-General to audit the accounts of the Board in respect of each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

The audit of the Board during 2003-04 required Audit to direct much of its focus to the audit of the 'centralised accounting' structure maintained by ESAU and to test transactions at this level.

During 2003-04, specific areas of audit attention included:

- expenditure, including accounts payable and salaries and wages
- plant and equipment, including the adequacy of asset register maintenance
- revenue, debtors, receipting and banking
- service level agreements and
- general ledger.

Work performed by the Justice Portfolio internal audit section was considered in designing audit programs. Reliance was placed on the work of internal audit in assessing the effectiveness of project management controls.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Country Fire Service Board as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Country Fire Service Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities with the exception of the matters raised in relation to corporate governance; accounting for CFS volunteer funds; payroll; and internal audit review of the fire station interface project outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the Country Fire Service Board have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer. Responses to the management letters were considered to be satisfactory. Major matters raised with the Board and the related responses are considered herein.

Corporate Governance

The audit revealed that risk management plans were still to be finalised and that there was no mechanism for monitoring the plans on a regular basis.

The Board indicated that the plans will be completed and processes established to ensure they are regularly updated and endorsed.

Accounting for CFS Volunteer Funds

Audit noted in 2002-03 that funds raised by CFS brigades are not included in the Board's financial statements. As the activities of the CFS brigades and volunteers includes fundraising and the funds acquired through those means are used to acquire assets and to fund certain operational requirements of the brigades, Audit recommended that the results of fundraising activities conducted by the CFS brigades be incorporated in the Board's financial statements.

Audit also noted that pursuant to the Regulations under the *Country Fires Act 1989* there is a requirement for CFS Brigades to submit an annual return containing an audited set of accounts by 31 August each year. This requirement has not been enforced.

In 2003-04 Audit noted that efforts had been made to identify funds and assets so that they could be incorporated into the Board's financial statements. Audit recommended that this work continue.

The Board responded by assuring audit that the funds and assets associated with CFS brigades and volunteers would be included in the 2003-04 financial statements.

For the year ended 30 June 2004 funds amounting to \$3.2 million held by CFS groups and brigades have been brought to account in the Board's statements for the first time. Note 13 to the financial statements refers.

Credit Cards

The audit of the use of credit cards revealed a need to ensure that monthly statements are returned and have the appropriate supporting documentation attached. Audit also noted that there was no review of the listing of cardholders.

The Board indicated it will review and monitor procedures to ensure that monthly statements and documentation are obtained in relation to the use of credit cards. Also the Board indicated that it would review the listing of credit cardholders.

Payroll

The audit of payroll revealed a need to ensure that bona fide reports are returned on a timely basis. Audit also noted that time worked as reflected on timesheets is not always in accordance with the provisions of the Country Fire Service Industrial Agreement.

In response, the Board informed Audit that bona fide reports would be followed up and that training will be provided to managers to ensure there is an adequate understanding of the provisions of the industrial agreement.

Internal Audit Review of Fire Station Interface Project

During the year the Internal Audit section of the Justice Portfolio undertook a review of the management of the Fire Station Interface (FSI) Project undertaken by the Board to improve telecommunication systems.

The Internal Audit review found that the FSI project suffered from a severe lack of governance. Basic internal control structures were not in place and staff had been put in positions that enabled them to make decisions without due consultation and authority. The procurement management, project management, contract management, risk management and financial control exercised were found to be inadequate for the value and complexity of the FSI contract.

The FSI contract as let called for expenditures of \$1.8 million. Additional expenditures of \$1.4 million were incurred (total cost of \$3.2 million) without the requisite approval. Audit requested information from the Board regarding what action it had taken to address the issues raised by Internal Audit.

In response, the Board indicated that a steering committee has been established to review the procurement and project management processes utilised by the Board.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of the Consolidated Financial Statements**

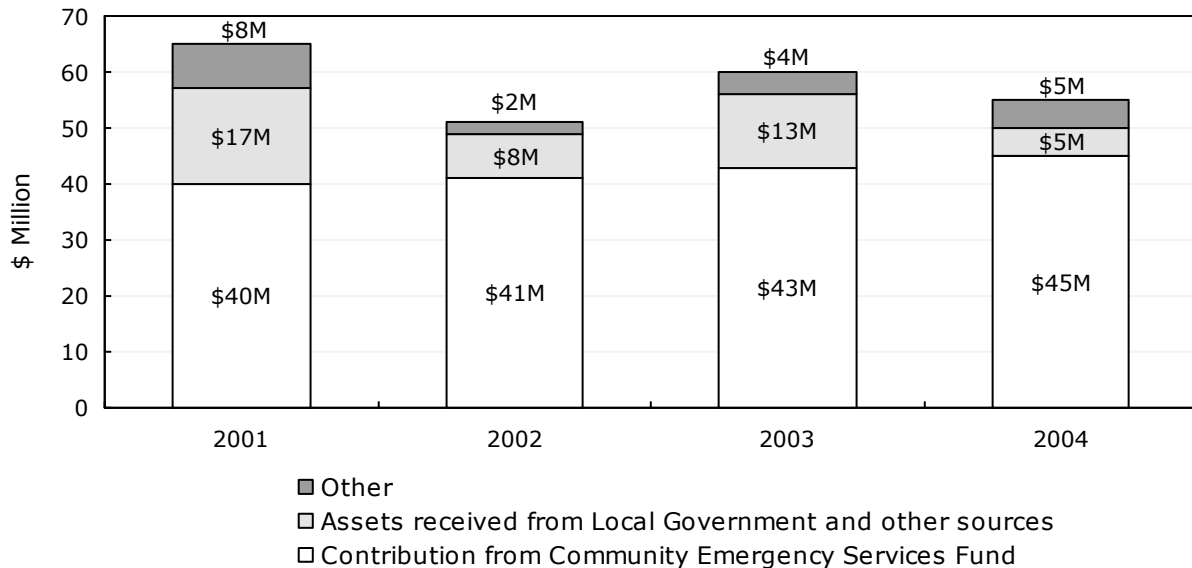
	2004	2003	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Contributions from Government	45	43	5
Other	10	17	(41)
Total Operating Revenue	55	60	(8)
OPERATING EXPENDITURE			
Employee benefits	6	7	(14)
ESAU recharge	6	5	20
Government Radio Network costs	9	10	(10)
Other expenses	27	22	23
Total Operating Expenses	48	44	9
Surplus from Ordinary Activities	8	16	(50)
Net Cash Flows from Operations	14	9	56
ASSETS			
Current assets	9	5	80
Non-current assets	105	101	4
Total Assets	114	106	8
LIABILITIES			
Current liabilities	4	3	33
Non-current liabilities	4	3	33
Total Liabilities	8	6	33
EQUITY	106	100	6

Statement of Financial Performance**Operating Revenues**

The Board is essentially funded from the Contribution from the Community Emergency Services Fund established on 1 July 1999. Other revenue has typically represented only a small percentage of revenue since that time.

The fluctuation in operating revenue is due mainly to the movement in assets received from local government and other sources. In 2004 fundraising monies totalling \$3.2 million held by CFS groups and brigades were recognised for the first time. The Contribution from the Community Emergency Services Fund over the four year period has increased by \$5 million (13 percent) to \$45 million.

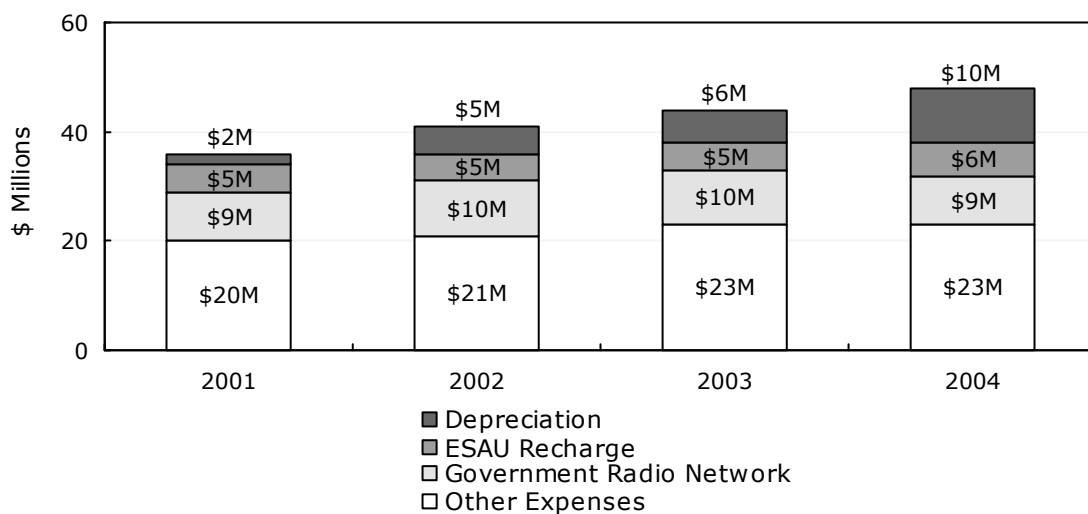
A structural analysis of operating revenues for the Board in the four years to 2004 is presented in the following chart.



Operating Expenses

During the year ending 30 June 2004, total operating expenses rose by \$3.6 million (8 percent) to \$47.7 million. The primary reason for this rise was an increase in depreciation expense of \$4 million. Over the period under review depreciation expense has steadily increased from \$2 million in 2001 to \$10 million in 2004 as a result of the increase in value of assets held due mainly to the transfer of assets from local government and other sources coupled with the effects of asset revaluations. All other expense categories have remained relatively constant.

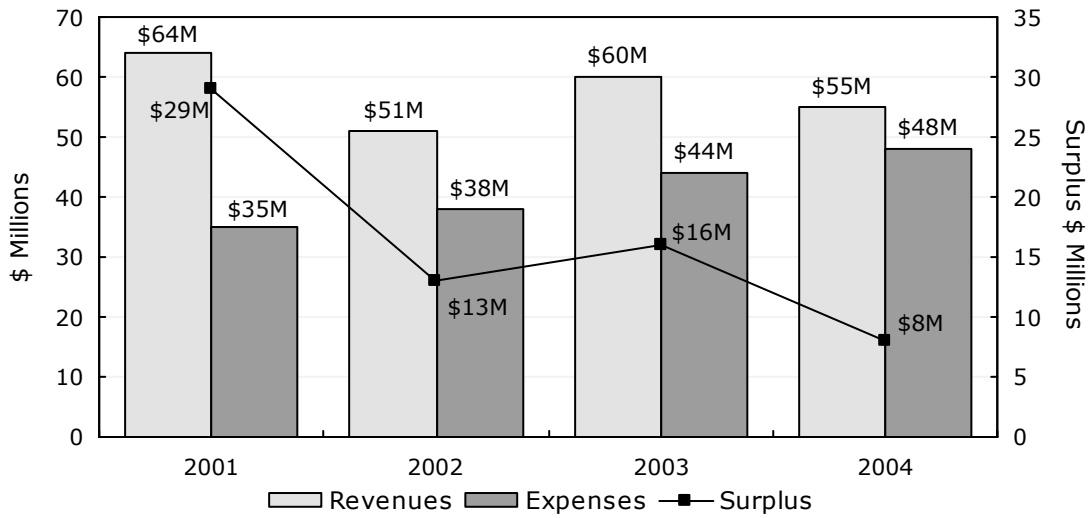
For the four years to 2004, a structural analysis of the main operating expense items for the Board is shown in the following chart.



Operating Result

The Board's surplus has fluctuated over the past four years, with an \$8 million decrease occurring in 2004 primarily as a result of increased depreciation expense arising from the transfer of assets from local government and asset revaluations in 2003 coupled with a decrease in the value of revenue recognised from these transfers.

The following chart shows the operating revenues, operating expenses and surpluses for the four years to 2004.

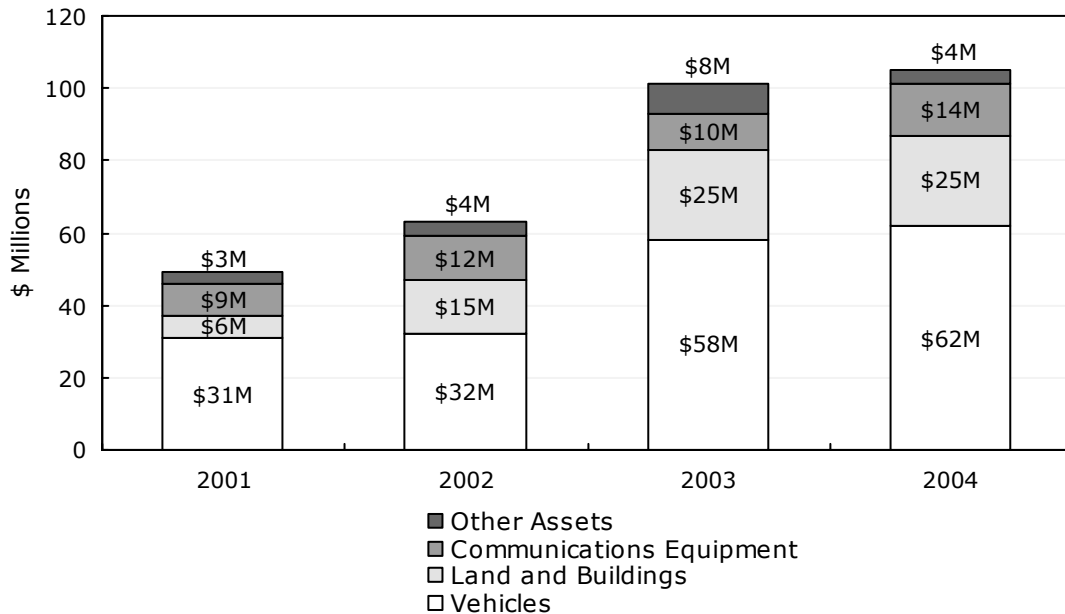


Statement of Financial Position

Current assets increased by \$4.3 million over the previous year. \$3.2 million of this increase was due to the first time inclusion of cash held by CFS groups and brigades in 2003-04. Excluding this cash, current assets totalled \$6 million which is sufficient to meet current liabilities which totalled \$4.2 million as at 30 June 2004.

The Board’s financial position is dominated by the value of non-current property, plant and equipment assets. The written down current cost of these assets totalled \$104.9 million as at 30 June 2004, an increase of \$4.3 million over the previous year which is due primarily to the transfer of assets from local government (\$5.2 million) and asset additions (\$11 million) offset by depreciation expense (\$9.8 million), asset disposals (\$1.1 million) and devaluation of land and buildings (\$831 000).

For the four years to 2004, a structural analysis of property, plant and equipment assets is shown in the following chart.



The major reason for the growth has been the transfer of responsibilities from local government entities to the Board for appliance, fire station, fire fighting and rescue equipment maintenance and the resultant transfer of related assets. The value of those transfers since 2001 is \$44.2 million. The transfer process is now substantially complete.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004	2003	2002	2001
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	14	9	8	8
Investing	(10)	(8)	(7)	(8)
Change in Cash	4	1	1	1
Cash at 30 June	7	3	2	1

The analysis of cash flows shows that the Board generates sufficient cash flows from operations to fund its investing activities. The level of cash held has, however, been relatively small and is dependent on the funding provided by the Community Emergency Services Fund as the Board has little capacity to generate funds from other sources. The balance of cash at 30 June 2004 is the highest of the four years reported in the table.

Cash flows from operations increased by \$5 million in 2004 due mainly to the inclusion of cash held by CFS groups and brigades (\$3.2 million) for the first time and a reduction in payments for supplies and services (\$2 million).

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	Consolidated		Country Fire Service	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:					
Employee expenses	4	5 842	6 925	5 842	6 925
Supplies and services	5	16 988	16 493	16 988	16 494
Emergency Services Administrative Unit recharge		5 500	5 320	5 500	5 320
Government Radio Network costs	7	9 262	9 544	9 262	9 544
Depreciation	8	9 739	5 751	9 739	5 751
Net loss from disposal of assets	9	348	40	348	40
Total Expenses		47 679	44 073	47 679	44 074
REVENUES FROM ORDINARY ACTIVITIES:					
Fees and charges	10	284	3 267	284	3 267
Interest	11	418	201	410	194
Assets received from local government and other sources	12	5 186	12 507	5 186	12 507
Groups and brigades funds recognised for the first time	13	3 231	-	3 231	-
Other revenues	14	922	512	922	511
Total Revenues		10 041	16 487	10 033	16 479
NET COST OF SERVICES FROM ORDINARY ACTIVITIES		37 638	27 586	37 646	27 595
REVENUES FROM SA GOVERNMENT:					
Contributions from Community					
Emergency Services Fund		45 182	43 401	45 182	43 401
SURPLUS FROM ORDINARY ACTIVITIES		7 544	15 815	7 536	15 806
NON-OWNER TRANSACTION CHANGES IN EQUITY:					
(Decrease) Increase in the asset revaluation reserve	21	(831)	23 308	(831)	23 308
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		6 713	39 123	6 705	39 114

**Statement of Financial Position
as at 30 June 2004**

		Consolidated		Country Fire Service	
		2004	2003	2004	2003
CURRENT ASSETS:	Note	\$'000	\$'000	\$'000	\$'000
Cash	15	7 609	3 167	7 309	2 875
Receivables	16	1 601	1 809	1 600	1 808
Other		35	6	35	6
Total Current Assets		9 245	4 982	8 944	4 689
NON-CURRENT ASSETS:					
Property, plant and equipment	17	104 875	100 598	104 875	100 598
Total Non-Current Assets		104 875	100 598	104 875	100 598
Total Assets		114 120	105 580	113 819	105 287
CURRENT LIABILITIES:					
Payables	18	3 284	1 592	3 284	1 592
Provision for employee benefits	19	955	838	955	838
Total Current Liabilities		4 239	2 430	4 239	2 430
NON-CURRENT LIABILITIES:					
Payables	18	85	73	85	73
Provision for employee benefits	19	3 316	3 310	3 316	3 310
Total Non-Current Liabilities		3 401	3 383	3 401	3 383
Total Liabilities		7 640	5 813	7 640	5 813
NET ASSETS		106 480	99 767	106 179	99 474
EQUITY:					
Accumulated surplus	20	84 003	76 459	83 702	76 166
Asset revaluation reserve	21	22 477	23 308	22 477	23 308
TOTAL EQUITY		106 480	99 767	106 179	99 474
Commitments	23				
Contingent Liabilities and Contingent Assets	24				

Statement of Cash Flows for the year ended 30 June 2004

		Consolidated		Country Fire Service	
		2004	2003	2004	2003
		Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:					
CASH OUTFLOWS:	Note	\$'000	\$'000	\$'000	\$'000
Employee payments		(5 645)	(4 972)	(5 645)	(4 972)
Supplies and services		(15 707)	(17 746)	(15 707)	(17 746)
Government Radio Network costs		(8 913)	(9 212)	(8 913)	(9 212)
Emergency Services Administrative Unit recharge		(5 500)	(5 320)	(5 500)	(5 320)
GST payments on purchases		(3 636)	(3 231)	(3 636)	(3 231)
Total Outflows from Operating Activities		(39 401)	(40 481)	(39 401)	(40 481)
CASH INFLOWS:					
Contributions from Community Emergency Services Fund		45 182	43 401	45 182	43 401
Fees and charges		284	1 182	284	1 182
Interest received		391	194	383	187
Group funds recognised for the first time		3 231	-	3 231	-
GST receipts on receivables		201	342	201	342
GST input tax credits		3 042	2 742	3 042	2 742
Other		1 521	1 991	1 521	1 991
Total Inflows from Operating Activities		53 852	49 852	53 844	49 845
Net Cash Inflows from Operating Activities	25	14 451	9 371	14 443	9 364
CASH FLOWS FROM INVESTING ACTIVITIES:					
CASH OUTFLOWS:					
Purchase of property, plant and equipment		(10 798)	(8 537)	(10 798)	(8 537)
Total Outflows from Investing Activities		(10 798)	(8 537)	(10 798)	(8 537)
CASH INFLOWS:					
Proceeds from sale of property, plant and equipment		789	197	789	197
Total Inflows from Investing Activities		789	197	789	197
Net Cash Outflows from Investing Activities		(10 009)	(8 340)	(10 009)	(8 340)
NET INCREASE IN CASH HELD		4 442	1 031	4 434	1 024
CASH AT 1 JULY		3 167	2 136	2 875	1 851
CASH AT 30 JUNE	15	7 609	3 167	7 309	2 875

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

(a) Objectives

The Country Fire Service Board (the Board) is established under the *Country Fires Act 1989* and is responsible under the Act for the following:

- Prevention, control and suppression of fires in the country;
- Protection of life and property in fire and other emergencies occurring in the country.

(b) Funding and Administrative Arrangements

Funding of the Board is derived from the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998*, for the cost of its operational services in the protection of South Australian citizens and their property and the cost of strategic and administrative services delivered to it by the Emergency Services Administrative Unit (ESAU).

(b) Funding and Administrative Arrangements (continued)

Funds generated by Groups and Brigades through fund raising activities are held locally for expenditure in the local community. For the first time, cash at bank data was collected from these operational units as at 30 June 2004 and included in the Board's accounts for the financial year ended 30 June 2004. Further work is continuing on the development of a Fundraising/Grants Reporting Policy with a view to bringing relevant payments and receipts into the Board's 2004-05 financial statements.

2. Significant Accounting Policies**(a) Basis of Accounting**

The financial report is a general purpose financial report. The accounts have been prepared in accordance with:

- Treasurer's Instructions (TI) and Accounting Policy Statements (APS) promulgated under the provision of the *Public Finance and Audit Act 1987*;
- Applicable Australian Accounting Standards (AAS);
- Other mandatory professional reporting requirements in Australia.

The Board's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The continued existence of the Board in its present form, and with its present programs, is dependent on Government policy and on continuing funding from the Fund.

(b) Principles of Consolidation

The financial statements incorporate the assets and liabilities of all entities controlled by the Board as at 30 June 2004 and the results of all controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full. Refer to Note 35.

(c) Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

(d) Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

(e) Revenue Recognition*Interest*

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of Non-Current Assets

The gross proceeds of non-current asset sales are included as revenue at the date control of assets passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Fees and Charges

Revenues are recognised when services are provided, at fair value of the consideration received.

Revenues from the Fund

Funding for programs are recognised as revenues when the Board obtains control over the assets. Control over funding is normally obtained upon their receipt.

(f) Taxation

The Board is not subject to income tax. The Board is liable for payroll tax, fringe benefits tax and Goods and Services Tax.

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

(g) Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank and deposits at call that are readily converted to cash and are used in the cash management function on a day-to-day basis. Cash also includes highly liquid investments with short periods to maturity that are readily convertible to cash on hand and subject to an insignificant risk of changes in value. Cash is measured at nominal value.

(h) Receivables

Trade receivables arise in the normal course of selling goods and services to other agencies and to the public. Trade receivables are payable within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

Other debtors arise outside the normal course of selling goods and services to other agencies and to the public. If payment has not been received within 90 days after the amount falls due, under the terms and conditions of the arrangement with debtor, the Board is able to charge interest at commercial rates until the whole amount of the debt is paid.

The Board determines an allowance for doubtful debts based on a review of balances within trade receivables that are unlikely to be collected. These are generally receivables that are 90 days or more overdue.

(i) Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost, plus any incidental cost involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position.

In accordance with APS 2 'Asset Recognition', the Board capitalises all non-current assets with a value of \$10 000 or greater.

(j) Valuation of Non-Current Assets

Property, plant and equipment are brought to account at fair value. On an ongoing basis, revaluations are made in accordance with a regular policy whereby independent valuations are obtained every three years and carrying amounts are adjusted accordingly.

- (i) Independent valuations for land and buildings were obtained in 2003-04 from Liquid Pacific Holdings Pty Ltd and in 2002-03 from Valcorp Australia Pty Ltd. and were determined on the basis of open market values for existing use.
- (ii) An independent valuation of vehicles was obtained in 2002-03 for current emergency response vehicles from Valcorp Australia Pty Ltd. and represents the written down current cost of vehicles. Vehicles controlled by Brigades and brought to account for the first time in 2003-04 have been recognised at written down current cost.
- (iii) Capital works in progress represent costs accumulated during the construction or development of an asset and is valued at cost.
- (iv) Plant and equipment, computer equipment and communications equipment are at historical cost.

(k) Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable non-current asset over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets with annual reassessments for major items.

Asset Class:	Useful Lives Years
Communications equipment	10
Vehicles	5-20
Plant and equipment	6-10
Computer equipment	5
Buildings	30

(l) Payables

Payables include creditors, accrued expenses and employment on-costs.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Board.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with TI 8 'Expenditure for Supply Operations and Other Goods and Services' after the Board receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

(m) Employee Benefits**(i) Wages, Salaries and Annual Leave**

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay at the time the liability is settled. Relevant accrued salaries and wages and relevant employment on-costs are shown under the item 'Payables'.

(ii) Long Service Leave

Long service leave is recognised on a pro-rata basis in respect of services provided by Board employees to balance date. The liability has been calculated at nominal amounts based on current salaries and wages rates using a benchmark of 12 years as advised by the Department of Treasury and Finance. Relevant employment on-costs are shown under the item 'Payables'.

(iii) Sick Leave

No provision has been made in respect of sick leave. As sick leave taken by employees is considered to be from the current year's accrual, no liability is recognised.

(iv) Superannuation

Contributions are made by the Board to a number of State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. The Board has no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the superannuation schemes.

(v) Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment prepared by Taylor Fry Consulting Actuaries. The Board's liability is an allocation of the Justice Portfolio's total assessment.

A separate valuation of liabilities of the Board has not been undertaken and if such a valuation was performed it may result in a different assessed liability. The Board fully funds this provision for both employees and volunteers.

(n) Operating Leases

In respect of operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased items. Operating lease payments are charged to the Statement of Financial Performance on a basis which is representative of the pattern of benefits derived from the leased assets.

3. Changes in Accounting Policies*Impact of Adopting Australian Equivalents to International Financial Reporting Standards*

Australia will be adopting Australian equivalents to International Financial Reporting Standards (IFRS) for reporting periods commencing on or after 1 January 2005. The Board will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', the Board's Chief Executive is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). The Board has analysed the exposure drafts issued by the Australian Accounting Standard Board (AASB) and has identified a number of potential issues that may need to be addressed and is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems;
- key dates for monitoring and reviewing progress.

The Board is using the Model Financial Report for SA Government entities developed by the Department of Treasury and Finance (DTF) and keeping abreast of changes in Accounting Standards, TI and APS by attending exposure draft reference group meetings (facilitated by DTF) and information forums organised by the DTF and professional accounting bodies.

Key Potential Implications

Set out below are the key areas where accounting policies will change and where they may have an impact on the financial statements. From investigations undertaken to date it is unlikely that the impact on the financial statements from these changes will be material.

Changes in Accounting Policies

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Non-Current Asset Acquisition and Recognition

The Australian Equivalent to IAS 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life is greater than three years) will continue to apply. Asset values will be maintained at fair value.

4. Employee Expenses

	Consolidated		Country Fire Service	
	2004	2003	2004	2003
Employee expenses for the reporting period comprised:	\$'000	\$'000	\$'000	\$'000
Salaries and wages	4 542	4 403	4 542	4 403
Payroll tax and superannuation	681	618	681	618
Long service leave	132	11	132	11
Workers compensation	394	1 752	394	1 752
Other employee related expenses	93	141	93	141
	5 842	6 925	5 842	6 925

Average Number of Employees during the Reporting Period

On average, the Board employed 67.6 (67.4) FTEs throughout the reporting period.

Remuneration of Employees

	Consolidated		Country Fire Service	
	2004	2003	2004	2003
The number of employees whose remuneration received or receivable fell within the following bands were:	Number of Employees	Number of Employees	Number of Employees	Number of Employees
\$100 000 - \$109 999	4	5	4	5
\$130 000 - \$139 999	-	1	-	1
\$140 000 - \$149 999	1	-	1	-

The aggregate remuneration for all employees referred to above was \$558 000 (\$666 000).

Board Members' Remuneration

The number of members whose income from the Country Fire Service Board falls within the following bands was:

	2004	2003
	Number of Members	Number of Members
\$0 - \$9 999	5	9
\$10 000 - \$19 999	1	-
\$130 000 - \$139 999	-	1
\$140 000 - \$149 999	1	-

Total remuneration received by those members was \$192 000 (\$193 000), which includes fringe benefits and superannuation contributions. These figures include the salary of Mr E Ferguson who is employed as Chief Executive of the Country Fire Service and does not receive board member fees.

5. Supplies and Services

	Consolidated		Country Fire Service	
	2004	2003	2004	2003
Supplies and services provided by entities within the SA Government for the reporting period comprised:	\$'000	\$'000	\$'000	\$'000
Consumables and minor purchases	147	25	147	25
Repairs and maintenance	36	1	36	1
Operating lease costs	705	980	705	980
Aerial support costs	25	78	25	78
Operational costs	154	99	154	99
Uniforms and protective clothing	4	-	4	-
Communication expenses	164	219	164	219
Energy	2	-	2	-
Travel and training	119	-	119	-
Other expenses	256	405	256	405
Total Supplies and Services - SA Government Entities	1 612	1 807	1 612	1 807

Supplies and services provided by entities external to the SA Government for the reporting period comprised:

Consumables and minor purchases	2 803	3 073	2 803	3 073
Repairs and maintenance	3 402	2 826	3 402	2 826
Operating lease costs	644	266	644	266
Aerial support costs	2 056	1 480	2 056	1 480
Operational costs	189	214	189	214
Uniforms and protective clothing	1 097	1 221	1 097	1 221
Communication expenses	1 684	1 713	1 684	1 713
Energy	280	245	280	245
Travel and training	1 057	1 615	1 057	1 615
Other expenses	2 164	2 033	2 164	2 034
Total Supplies and Services - Non-SA Government Entities	15 376	14 686	15 376	14 687
Total Supplies and Services	16 988	16 493	16 988	16 494

5. Supplies and Services (continued)**Consultancies**

The number and dollar amount of consultancies paid/payable that fell within the following bands were:

Less than \$10 000
\$10 000 - \$50 000

	Consolidated		Country Fire Service	
	2004	2003	2004	2003
	Number of	Number of	Number of	Number of
	Consultants	Consultants	Consultants	Consultants
	13	8	13	8
	-	3	-	3
	13	11	13	11

Less than \$10 000
\$10 000 - \$50 000

	Consolidated		Country Fire Service	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
	13	29	13	29
	-	61	-	61
	13	90	13	90

6. Auditors' Remuneration

The amount due and payable for audit services:

Auditor-General's Department
Other

	28	18	28	18
	1	1	1	1
	29	19	29	19

The auditors provided no other services.

7. Government Radio Network (GRN) Costs

The Board has been charged by the Department for Administrative and Information Services for costs associated with the provision of emergency communication services, including voice, paging and data transmission using the GRN.

	Consolidated		Country Fire Service	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Contribution towards GRN - Voice	7 705	7 743	7 705	7 743
Contribution towards GRN - Paging	1 522	1 801	1 522	1 801
Other GRN costs	35	-	35	-
	9 262	9 544	9 262	9 544

8. Depreciation

Depreciation expenses for the reporting period were charged in respect of:

Communications equipment
Vehicles
Plant and equipment
Computer equipment
Buildings

	1 479	1 407	1 479	1 407
	6 668	3 288	6 668	3 288
	246	262	246	262
	190	124	190	124
	1 156	670	1 156	670
	9 739	5 751	9 739	5 751

9. Net Loss from Disposal of Non-Current Assets

Proceeds from disposal of non-current assets

Less: Written down value of non-current assets

	789	197	789	197
	1 137	237	1 137	237
	(348)	(40)	(348)	(40)

10. Fees and Charges

Fees and charges received/receivable from entities within the SA Government for the reporting period comprised:

Government Radio Network recovery
Training and other recoveries
Incident cost recoveries

Total Fees and Charges -

SA Government Entities

	-	2 085	-	2 085
	43	39	43	39
	(3)	287	(3)	287
	40	2 411	40	2 411

Fees and charges received/receivable from entities external to the SA Government for the reporting period comprised:

Training and other recoveries
Incident cost recoveries
Other

Total Fees and Charges -

Non-SA Government Entities

Total Fees and Charges

	238	181	238	181
	-	660	-	660
	6	15	6	15
	244	856	244	856
	284	3 267	284	3 267

11. Interest	Consolidated		Country Fire Service	
	2004	2003	2004	2003
Interest received/receivable for the reporting period from:	\$'000	\$'000	\$'000	\$'000
Entities within the SA Government	58	52	58	52
Other	360	149	352	142
Total Interest Received	418	201	410	194
12. Assets Received from Local Government and Other Sources				
Since 1999 negotiations have been undertaken to identify and transition land, buildings, minor plant and equipment and motor vehicles from Local Government, Community Organisations and other sources into the ownership or the care and control of the Minister for Emergency Services (the Minister).				
As at 30 June 2004 all known vehicles, appliances, minor plant and equipment have been transferred to the Minister, including 67 additional vehicles (valued at fair value of \$4.271 million) recognised for the first time as at 30 June 2004 following an extensive asset stocktake undertaken during the 2003-04 financial year.				
Security of tenure by way of transfer, rededication, lease or licence for approximately 91 percent of all land and buildings has been negotiated, including 31 additional properties (valued at fair value of \$0.915 million) formally transitioned into the control of the Minister during the 2003-04 financial year following the finalisation of agreements with various parties and independent assessments of property values.				
13. Groups and Brigades Funds				
For the first time, cash at bank data relating to CFS Groups and Brigades funds was collected from these operational units as at 30 June 2004 and included in the Board's accounts for the financial year ended 30 June 2004. This has resulted in the recognition of \$3.231 million in cash and investments for Groups and Brigades.				
14. Other Revenue				
	Consolidated		Country Fire Service	
	2004	2003	2004	2003
Other revenue for the reporting period comprised:	\$'000	\$'000	\$'000	\$'000
Donations	5	26	5	25
Rent received	43	34	43	34
Fuel rebate	40	44	40	44
Commonwealth grants	535	243	535	243
Other	299	165	299	165
	922	512	922	511
15. Cash				
Cash on hand	2	2	2	2
Cash at bank	3 010	1 857	2 879	1 734
Cash at bank - Groups and Brigades	1 517	-	1 517	-
Investments	1 366	1 308	1 197	1 139
Investments - Groups and Brigades	1 714	-	1 714	-
	7 609	3 167	7 309	2 875
16. Receivables				
Current:				
Sundry debtors	248	793	248	792
Less: Allowance for doubtful debts	12	6	12	6
	236	787	236	786
Accrued revenues	47	105	46	105
GST receivable	1 318	917	1 318	917
	1 601	1 809	1 600	1 808
Receivables from SA Government entities:				
Sundry debtors	17	320	17	320
Accrued revenues	-	29	-	29
Total Receivables - SA Government Entities	17	349	17	349
Receivables from Non-SA Government entities:				
Sundry debtors	231	473	231	472
Less: Allowance for doubtful debts	12	6	12	6
	219	467	219	466
Accrued revenues	47	76	46	76
GST receivable	1 318	917	1 318	917
Total Receivables - Non-SA Government Entities	1 584	1 460	1 583	1 459
Total Receivables	1 601	1 809	1 600	1 808

17. Non-Current Assets	Consolidated	Country Fire Service
(a) <i>Property, Plant and Equipment</i>	2004	2003
	\$'000	\$'000
Land at independent valuation	3 221	3 429
Land at cost	652	472
Total Land	3 873	3 901
Buildings at independent valuation	19 172	18 206
Less: Accumulated depreciation	1 069	404
	18 103	17 802
Buildings at cost	3 454	3 497
Less: Accumulated depreciation	340	383
	3 114	3 114
Total Buildings	21 217	20 916
Total Property	25 090	24 817
Vehicles at independent valuation	59 928	56 527
Less: Accumulated depreciation	6 765	542
	53 163	55 985
Vehicles at cost	9 046	2 505
Less: Accumulated depreciation	731	880
	8 315	1 625
Total Vehicles	61 478	57 610
Communications equipment at cost	20 897	17 064
Less: Accumulated depreciation	7 001	6 737
	13 896	10 327
Computer equipment at cost	1 221	1 894
Less: Accumulated depreciation	629	1 206
	592	688
Plant and equipment at cost	3 968	3 742
Less: Accumulated depreciation	2 164	2 301
	1 804	1 441
Total work in progress at cost	2 015	5 715
Total Property, Plant and Equipment	104 875	100 598

(b) <i>Asset Movement Schedule</i>	2004						
	Land and Buildings	Vehicles	Communi-cations Equipment	Computer Equipment	Plant and Equipment	Work in Progress	2004 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Carrying Amount:							
Balance at 1 July 2003	25 604	59 032	17 064	1 894	3 742	5 715	113 051
Transfer of work in progress	1 659	6 753	5 153	85	504	(14 154)	-
Asset revaluation	(1 355)	-	-	-	-	-	(1 355)
Transfer from various parties	914	4 272	-	-	-	-	5 186
Additions	53	157	-	16	118	10 454	10 798
Disposals	(376)	(1 240)	(1 320)	(774)	(396)	-	(4 106)
Balance at 30 June 2004	26 499	68 974	20 897	1 221	3 968	2 015	123 574
Accumulated Depreciation:							
Balance at 1 July 2003	(787)	(1 422)	(6 737)	(1 206)	(2 301)	-	(12 453)
Asset revaluation	524	-	-	-	-	-	524
Disposals	10	594	1 215	767	383	-	2 969
Depreciation expense	(1 156)	(6 668)	(1 479)	(190)	(246)	-	(9 739)
Balance at 30 June 2004	(1 409)	(7 496)	(7 001)	(629)	(2 164)	-	(18 699)
Net Book Value as at 30 June 2004	25 090	61 478	13 896	592	1 804	2 015	104 875

	2003						
	Land and Buildings	Vehicles	Communi-cations Equipment	Computer Equipment	Plant and Equipment	Work in Progress	2003 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Carrying Amount:							
Balance at 1 July 2002	15 678	56 235	16 992	1 437	3 308	2 335	95 985
Transfer of work in progress	830	2 931	-	374	18	(4 153)	-
Asset revaluation	1 309	(4 050)	-	-	-	-	(2 741)
Transfer from local government councils	7 936	4 546	9	16	-	-	12 507
Additions	-	46	82	85	699	7 533	8 445
Disposals	(149)	(676)	(19)	(18)	(283)	-	(1 145)
Balance at 30 June 2003	25 604	59 032	17 064	1 894	3 742	5 715	113 051
Accumulated Depreciation:							
Balance at 1 July 2002	(747)	(24 289)	(5 339)	(1 100)	(2 274)	-	(33 749)
Asset revaluation	379	25 670	-	-	-	-	26 049
Disposals	251	485	9	18	235	-	998
Depreciation expense	(670)	(3 288)	(1 407)	(124)	(262)	-	(5 751)
Balance at 30 June 2003	(787)	(1 422)	(6 737)	(1 206)	(2 301)	-	(12 453)
Net Book Value as at 30 June 2003	24 817	57 610	10 327	688	1 441	5 715	100 598

18. Payables

Payables comprise the following:

Current Liabilities:

Accrued expenses

Employment on-costs

Creditors

Non-Current Liabilities:

Employment on-costs

Payables to SA Government Entities:

Creditors

Accrued expenses

Total Payables - SA Government Entities

Payables to Non-SA Government Entities:

Creditors

Accrued expenses

Employment on-costs (current and non-current)

Total Payables - Non-SA Government Entities**Total Payables**

	Consolidated		Country Fire Service	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Current Liabilities:				
Accrued expenses	687	843	687	843
Employment on-costs	72	40	72	40
Creditors	2 525	709	2 525	709
	3 284	1 592	3 284	1 592
Non-Current Liabilities:				
Employment on-costs	85	73	85	73
	3 369	1 665	3 369	1 665
Payables to SA Government Entities:				
Creditors	145	193	145	193
Accrued expenses	439	437	439	437
Total Payables - SA Government Entities	584	630	584	630
Payables to Non-SA Government Entities:				
Creditors	2 380	516	2 380	516
Accrued expenses	248	406	248	406
Employment on-costs (current and non-current)	157	113	157	113
Total Payables - Non-SA Government Entities	2 785	1 035	2 785	1 035
Total Payables	3 369	1 665	3 369	1 665

19. Employee Benefits

Employee benefits for the reporting period comprised:

Current Liabilities:

Annual leave

Long service leave

Workers compensation

Accrued salaries and wages (included in payables)

Employment on-costs (included in payables)

Non-Current Liabilities:

Long service leave

Workers compensation

Employment on-costs (included in payables)

Annual leave	314	191	314	191
Long service leave	20	20	20	20
Workers compensation	621	627	621	627
	955	838	955	838
Accrued salaries and wages (included in payables)	62	25	62	25
Employment on-costs (included in payables)	72	40	72	40
	1 089	903	1 089	903
Non-Current Liabilities:				
Long service leave	730	617	730	617
Workers compensation	2 586	2 693	2 586	2 693
	3 316	3 310	3 316	3 310
Employment on-costs (included in payables)	85	73	85	73
	3 401	3 383	3 401	3 383

20. Accumulated Surplus

Balance at 1 July

Surplus from ordinary activities

Balance at 30 June

Balance at 1 July	76 459	60 644	76 166	60 360
Surplus from ordinary activities	7 544	15 815	7 536	15 806
Balance at 30 June	84 003	76 459	83 702	76 166

21. Asset Revaluation Reserve

The asset revaluation reserve is the cumulative balance of asset revaluation increments and decrements.

Balance at 1 July

Revaluation of land and buildings

Revaluation of vehicles

Balance at 30 June

Balance at 1 July	23 308	-	23 308	-
Revaluation of land and buildings	(831)	1 688	(831)	1 688
Revaluation of vehicles	-	21 620	-	21 620
Balance at 30 June	22 477	23 308	22 477	23 308

22. Financial Instruments**(a) Interest Rate Risk**

Financial Instrument	Weighted Average Interest Rate at 30.6.04 Percent	Consolidated			Country Fire Service			
		Interest Bearing \$'000	Non-Bearing \$'000	2004 Total \$'000	Weighted Average Interest Rate at 30.6.04 Percent	Interest Bearing \$'000	Non-Bearing \$'000	2004 Total \$'000
Financial Assets:								
Cash on hand		-	2	2		-	2	2
Cash at bank	4.91	3 010	-	3 010	4.91	2 879	-	2 879
Cash at bank - Groups and Brigades	*	1 517	-	1 517	*	1 517	-	1 517
Investments	4.95	1 366	-	1 366	4.95	1 197	-	1 197
Investments - Groups and Brigades	*	1 714	-	1 714	*	1 714	-	1 714
Receivables		-	1 601	1 601		-	1 600	1 600
Total Financial Assets		7 607	1 603	9 210		7 307	1 602	8 909
Financial Liabilities:								
Payables		-	3 369	3 369		-	3 369	3 369
Total Financial Liabilities		-	3 369	3 369		-	3 369	3 369

* These figures are unavailable

(a) Interest Rate Risk (continued)

Financial Instrument	Weighted Average Interest Rate at 30.6.03 Percent	Consolidated			Weighted Average Interest Rate at 30.6.03 Percent	Country Fire Service		
		Interest Bearing \$'000	Non-Interest Bearing \$'000	2003 Total \$'000		Interest Bearing \$'000	Non-Interest Bearing \$'000	2003 Total \$'000
Financial Assets:								
Cash on hand		-	2	2		-	2	2
Cash at bank	4.60	1 857	-	1 857	4.60	1 734	-	1 734
Investments	4.65	1 308	-	1 308	4.65	1 139	-	1 139
Receivables		-	1 809	1 809		-	1 808	1 808
Total Financial Assets		3 165	1 811	4 976		2 873	1 810	4 683
Financial Liabilities:								
Payables		-	1 665	1 665		-	1 665	1 665
Total Financial Liabilities		-	1 665	1 665		-	1 665	1 665

(b) Net Fair Values

Financial instruments are valued at the carrying amount as per the Statement of Financial Position, which approximates the net fair value. The carrying amount of financial assets approximates net fair value due to their short-term to maturity or being receivable on demand. The carrying amount of financial liabilities is considered to be a reasonable estimate of net fair value.

23. Commitments**(a) Commitments for Capital Expenditure**

As at the reporting date the Board had entered into contracts for the following capital expenditures which are not included in the financial statements.

These projects are due for completion within one year:	Consolidated		Country Fire Service	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Vehicles	408	1 375	408	1 375
Fire stations and other equipment	2 909	714	2 909	714
	3 317	2 089	3 317	2 089

(b) Operating Leases

Commitments under non-cancellable operating leases at the reporting date are payable as follows:

	Consolidated	Country Fire Service
Payable not later than one year	1 007	875
Payable later than one year and not later than five years	1 996	1 270
Payable later than five years	443	661
	3 446	2 806

The abovementioned operating lease payments are not recognised in the financial statements as liabilities.

These non-cancellable leases relate to vehicle and property leases, with rental payable monthly in arrears. Contingent rental provisions within the lease agreements require the minimum lease payments to be increased annually based on CPI movement.

(c) Contractual Commitments

At the end of the reporting period the Board had the following commitments on contracts:

	Consolidated	Country Fire Service
Payable not later than one year	1 229	1 388
Payable later than one year and not later than five years	1 619	2 799
	2 848	4 187

Contractual commitments relate to aerial bombing, cleaning and occupational welfare services.

24. Contingent Liabilities and Contingent Assets**(a) Contingent Liabilities**

The Board has a contingent liability in the form of unresolved litigation which is likely to be finalised early in the 2004-05 financial year. The outcome cannot be reliably determined.

(b) Contingent Assets

During the 2003-04 financial year, the Board finalised negotiations for the transition of fourteen additional properties from local government. These properties will be assessed at fair value early in the 2004-05 financial year and have not been recognised within the 2003-04 financial statements.

25. Reconciliation of Net Cash Inflows from Operating Activities to Net Cost of Services from Ordinary Activities	Consolidated		Country Fire Service	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Net cash inflows from operating activities	14 452	9 371	14 444	9 364
Less: Contributions from Community Emergency Services Fund	(45 182)	(43 401)	(45 182)	(43 401)
Add/Less: Non-cash items:				
Assets received from local government and other sources	5 186	12 507	5 186	12 507
Depreciation	(9 739)	(5 751)	(9 739)	(5 751)
Net loss from disposal of non-current assets	(348)	(40)	(348)	(40)
Changes in Assets/Liabilities:				
Increase in provision for employee benefits	(123)	(1 255)	(123)	(1 255)
(Increase) Decrease in payables	(1 704)	211	(1 704)	209
(Decrease) Increase in receivables	(180)	772	(180)	772
Net Cost of Services from Ordinary Activities	(37 638)	(27 586)	(37 646)	(27 595)

26. Related Party Transactions

Members of the Board, or their member-related entities, conduct transactions with the Board within a normal supplier relationship on terms no more favourable than those with which it is reasonable to expect the Board would have adopted with the member or member-related entity at arms-length in similar circumstances.

The names of persons who held office as a member of the Board during the course of the reporting period were:

Mr R Dundon - commenced January 2004	Mr B Treloar
Mr E Ferguson - commenced July 2003	Mr V Monterola - ceased July 2003
Mr R Stevens - ceased December 2003	Mr R Branson
Ms L Loan	Mr PJ Forster
Mr R Peate	

27. Controlled Entity

The consolidated financial statements at 30 June 2004 include the following controlled entity:

<i>Name of Controlled Entity</i>	<i>Place of Incorporation</i>
The Country Fire Service Foundation	Australia

The Country Fire Service Foundation (the Foundation) was incorporated on 22 November 2001 under the *Associations Incorporations Act 1985*.

28. Event Occurring After Reporting Date

The Report of the Emergency Services Review Taskforce, released by the Minister in May 2003, foreshadowed a number of major recommendations. Some of these may directly impact the structure and operations of the Board. In July 2003 the Government provided a formal response to that report and signalled its intention to implement many of the Report's recommendations. Principal among these was the government's intention to disband ESAU and to transfer all or part of its functions to the proposed South Australian Fire and Emergency Services Commission.

The Fire and Emergency Services Bill 2004 was introduced to Parliament in May 2004. The Bill provides for the establishment of the South Australian Fire and Emergency Services Commission, the continuation of a metropolitan fire and emergency service, a country fire and emergency service and a State emergency service to provide for the prevention, control and suppression of fires and for the handling of certain emergency situations.

It is anticipated that the CFS Board will continue as a separate corporate entity under the proposed arrangements.

COURTS ADMINISTRATION AUTHORITY

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Courts Administration Authority was established pursuant to the *Courts Administration Act 1993*. The Authority is constituted of the State Courts Administration Council, the State Courts Administrator, and other staff of the Council.

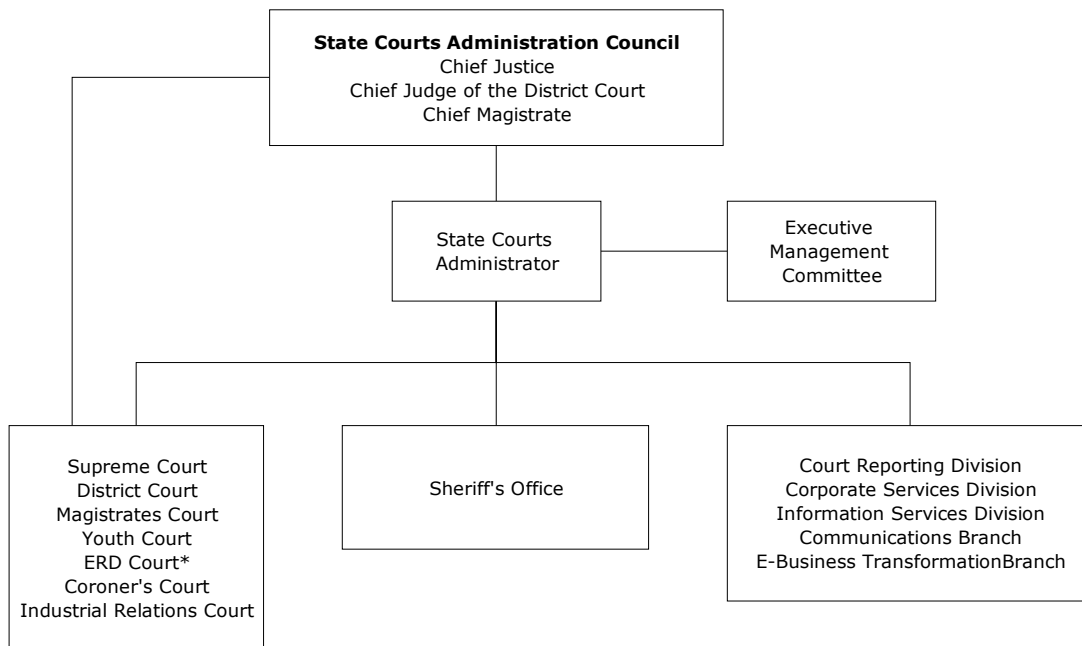
Functions

The function of the State Courts Administration Council, as an administrative authority independent of Executive Government, is to provide courts with the administrative facilities and services necessary for the proper administration of justice.

The State Courts Administrator is responsible to the Council for management of the Council's staff and property.

Structure

The structure of the Courts Administration Authority is illustrated in the following organisation chart.



* Environment Resources and Development Court.

STATUS OF FINANCIAL STATEMENTS

The Courts Administration Authority was unable to finalise its financial statements for the year ended 30 June 2004 in sufficient time to enable the audit to be completed at the date of finalisation of this Report. This also occurred in 2002-03.

The audited financial statements of the Courts Administration Authority for the year ended 30 June 2004 will be included in a Supplementary Audit Report to Parliament.

EMERGENCY SERVICES ADMINISTRATIVE UNIT

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

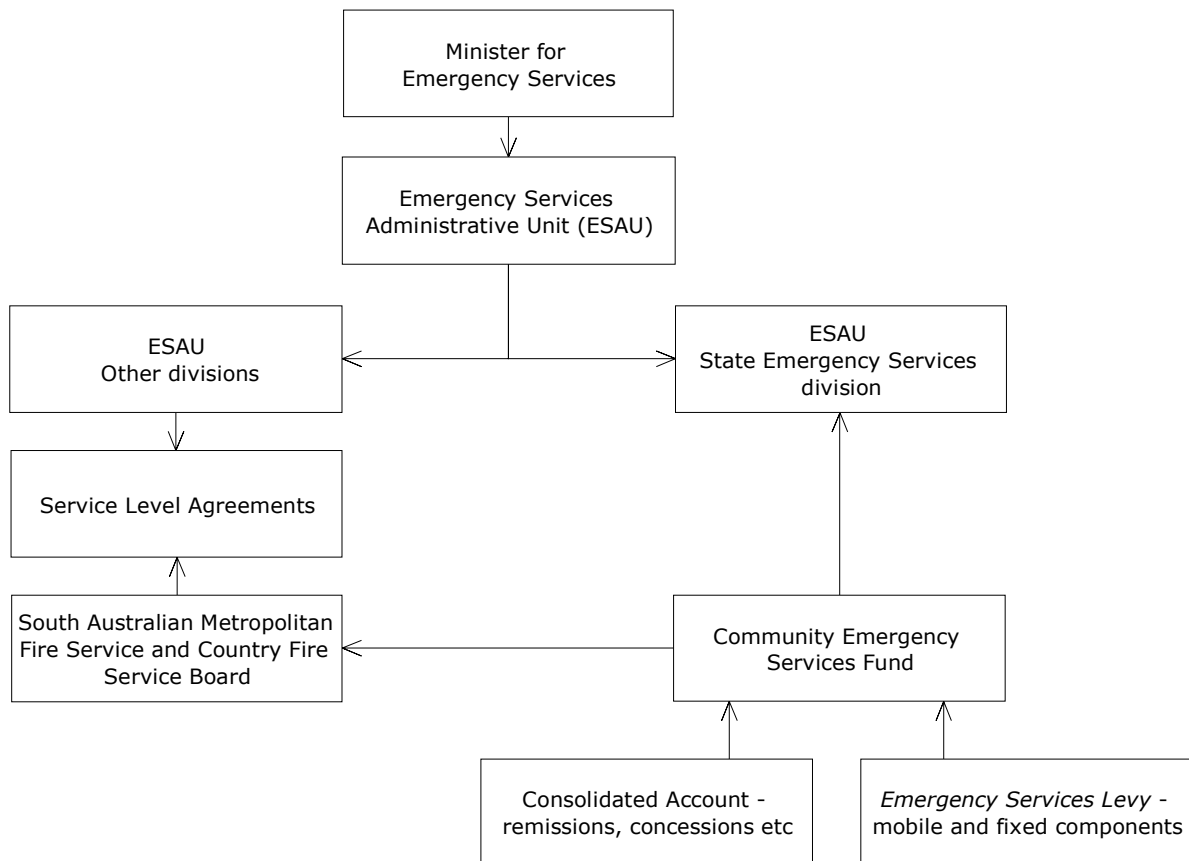
The Emergency Services Administrative Unit (ESAU) is an administrative unit established pursuant to the *Public Sector Management Act 1995*. ESAU is responsible to the Minister for Emergency Services.

Functions

The functions of the ESAU are as follows:

- To provide strategic, corporate and support services to the South Australian emergency services, namely the South Australian Metropolitan Fire Service (SAMFS), the Country Fire Service (CFS) and the State Emergency Service (SES).
- Through the SES, to provide a local incident emergency response service, and significant participation in State Disaster emergency management, planning and training.

The structure of the Emergency Services Administrative Unit is illustrated in the following organisation chart.



The operations of ESAU are financed through recharges to SAMFS and CFS for services rendered. The Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998*, provides funding direct to those organisations.

The SES is directly financed by the Fund for the cost of its operational services in the protection of South Australian citizens and their property. The SES also receives funding from the same source for the cost of strategic and administrative services delivered to it by ESAU.

Changes to Functions and Structure

In October 2002 a review was commissioned to examine and identify improvements to the management, administration and governance arrangements of emergency services in relation to:

- Country Fire Service
- State Emergency Service
- South Australian Metropolitan Fire Service
- Emergency Services Administrative Unit.

The Emergency Services Review was released on 13 May 2003 and recommended the creation of a Fire and Emergency Services Commission. The Government supported this recommendation and established a task force to undertake a detailed assessment of the operational requirements of the new Commission.

Significant work was undertaken in 2003-04 by the task force which culminated in the Fire and Emergency Services Bill 2004 being introduced into Parliament in May 2004. The Bill provides for the establishment of the South Australian Fire and Emergency Services Commission to replace ESAU, the continuation of a metropolitan fire service and emergency service, a country fire and emergency service, and a State emergency service to provide for the prevention, control and suppression of fires and for the handling of emergency situations.

At the time of preparing this Report the Bill was still before Parliament.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Emergency Services Administrative Unit for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Emergency Services Administrative Unit in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- expenditure, including accounts payable and salaries and wages
- plant and equipment, including the adequacy of asset register maintenance
- revenue, debtors, receipting and banking
- service level agreements and
- general ledger.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Emergency Services Administrative Unit as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Emergency Services Administrative Unit in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities except for the matters raised under Corporate Governance, Credit Cards, Accounts Payable and Purchasing, Assets and Payroll as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the Emergency Services Administrative Unit have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. The response to the management letter was considered to be satisfactory. Major matters raised with ESAU and the related responses are considered herein.

Overall Comment on the Results of the Audit

For a number of years Audit has raised issues with ESAU in relation to various areas of governance and accounting processes where improvement in controls could be achieved. Indeed in each of the matters outlined below Audit has raised similar concerns with ESAU on previous occasions. ESAU has always agreed with the need to implement action to address the issues but little progress has been made in affecting improvement. Audit acknowledges that significant effort during 2003-04 has been directed towards the establishment of the South Australian Fire and Emergency Services Commission (the Commission) and that in some instances the need to improve present procedures has been subsumed by the efforts to develop structures and processes going forward.

With the proposed change in administrative arrangements and work undertaken towards the establishment of the Commission, some of the governance issues will have been addressed and it is essential that the new Commission actively pursue the bedding down of a robust corporate governance structure. It is also essential that the issues regarding accounting and financial matters be addressed so that the Commission is not burdened by control weaknesses from previous administrative arrangements.

Corporate Governance

The audit revealed business plans had not been prepared for a number of business units and that the strategic plan for the State Emergency Service was out of date. The process for monitoring the business plans could also be improved.

Audit also noted that risk management plans had not been reviewed and updated for 2003-04. Audit also observed that the Service Level Agreements with one of the Emergency Service Agencies was not signed off until after the end of the financial year.

ESAU indicated it will continue to integrate its business plans with its client agencies and where possible will articulate these plans within the client business plans. A review of the risk management plan is currently being undertaken and will involve assigning specific risks to appropriate officers and establishing timeframes for mitigating action.

Accounting for SES Volunteer Funds

Audit noted that funds raised by SES brigades have not been updated to the general ledger. As the activities of the SES brigades and volunteers includes fundraising and the funds acquired through those means are used to acquire assets and to fund certain operational requirements of the brigades, Audit recommended that the results of fundraising activities conducted by the SES brigades be incorporated in the general ledger and subsequently the ESAU financial statements.

ESAU informed Audit that the general ledger would be updated. The SES brigades funds have been included in the financial statements.

Credit Cards

Audit observed a need to ensure that the monthly statements are returned on a timely basis and that evidence of the reconciliation of these monthly statements to the general ledger needs to be retained.

Audit also noted that there was no review of the listing of cardholders to ensure that only authorised cards have been issued.

ESAU indicated it will review and monitor procedures to ensure that monthly statements are returned and documentation of the reconciliation to the general ledger is retained. ESAU also indicated that it would review the listing of credit cardholders.

Accounts Payable and Purchasing

The audit of accounts payable revealed room for improvement in the documentation of, compliance with and review of policies and procedures. Specifically, Audit noted instances where bank reconciliations were not authorised, supplier statements were not retained, and the supplier master file was not reviewed on a regular basis.

ESAU indicated that procedures will be reviewed and complied with to address these issues.

Assets

Audit observed that assets are transferred from work in progress once the total project has been completed instead of when they are ready for use resulting in assets not being accounted for in accordance with Accounting Standards. In addition, work in progress reconciliations are not being performed on a timely basis or reviewed by an independent officer.

In addition, Audit noted that the process for monitoring of capital projects is not clearly defined.

ESAU advised that they would review the accounting and monitoring of work in progress and capital projects. Also ESAU advised that they would ensure that reconciliations of work in progress were performed on a timely basis and reviewed.

Payroll

The audit of payroll revealed a need for improvement in the documentation of payroll policies and procedures and the establishment of an appropriate segregation of duties. Audit also noted that timesheets are not being received from all staff or not being appropriately approved for certain staff.

In response, ESAU advised that the payroll policies and procedures would be improved and segregation of duties would be reviewed.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004	2003	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Government grants	11	10	10
Other	12	12	-
Total Operating Revenue	23	22	4
OPERATING EXPENDITURE			
Employment benefits	10	10	-
Government Radio Network costs	2	2	-
Supplies and Services	6	6	-
Total Operating Expenses	20	18	11
Surplus from Ordinary Activities	3	4	(25)

	2004 \$'million	2003 \$'million	Percentage Change
Net Cash Flows from Operations	4	5	(20)
ASSETS			
Current assets	5	4	25
Non-current assets	14	11	27
Total Assets	19	15	27
LIABILITIES			
Current liabilities	3	3	-
Non-current liabilities	3	2	50
Total Liabilities	6	5	20
EQUITY	13	10	30

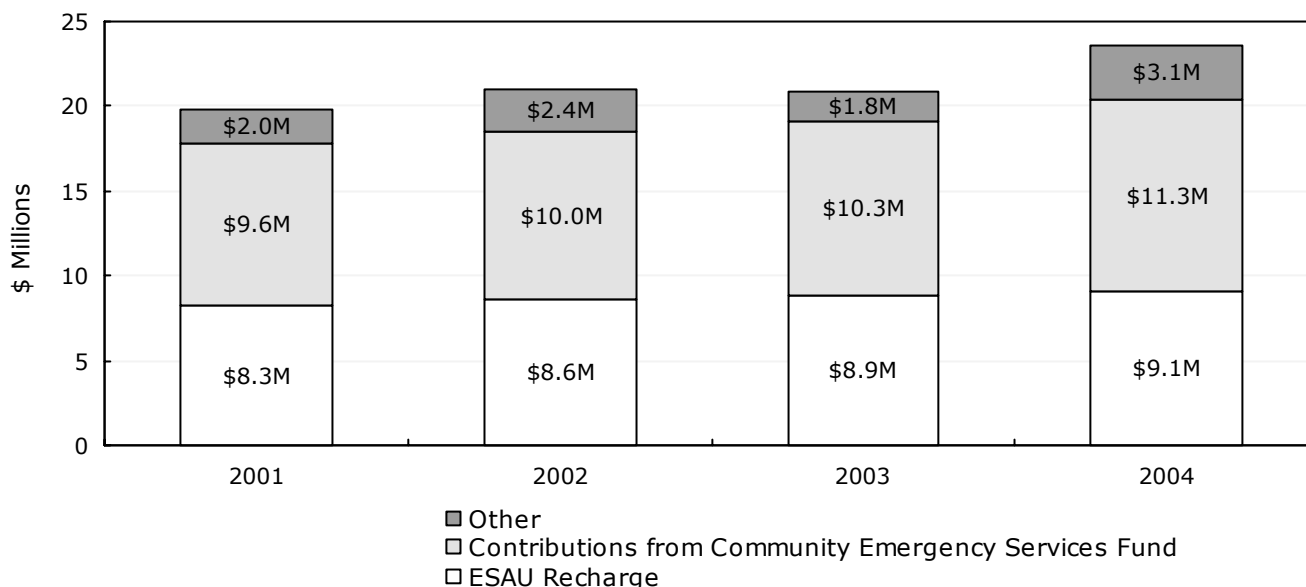
Statement of Financial Performance

Operating Revenues

Other revenue increased by \$1.3 million (72 percent) to \$3.1 million in 2004, primarily as a result of an increase in assets received from Local Government and other sources (\$819 000). Total operating revenues have remained comparatively steady over the four years to 2004.

ESAU's major sources of funds are contributions from the Community Emergency Services Fund and the recharge received from other emergency services agencies which are essentially also funded from the Community Emergency Services Fund. These two sources of revenue account for over 87 percent of ESAU's revenue.

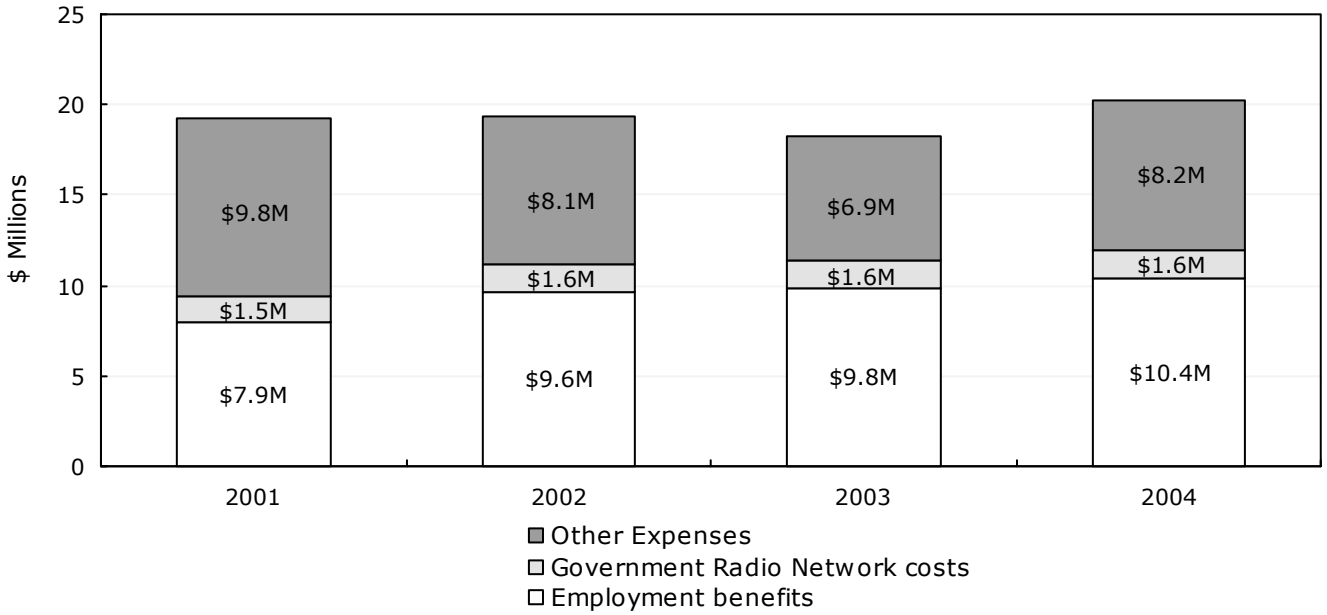
A structural analysis of operating revenues for ESAU for the four years to 2004 is presented in the following chart.



Operating Expenses

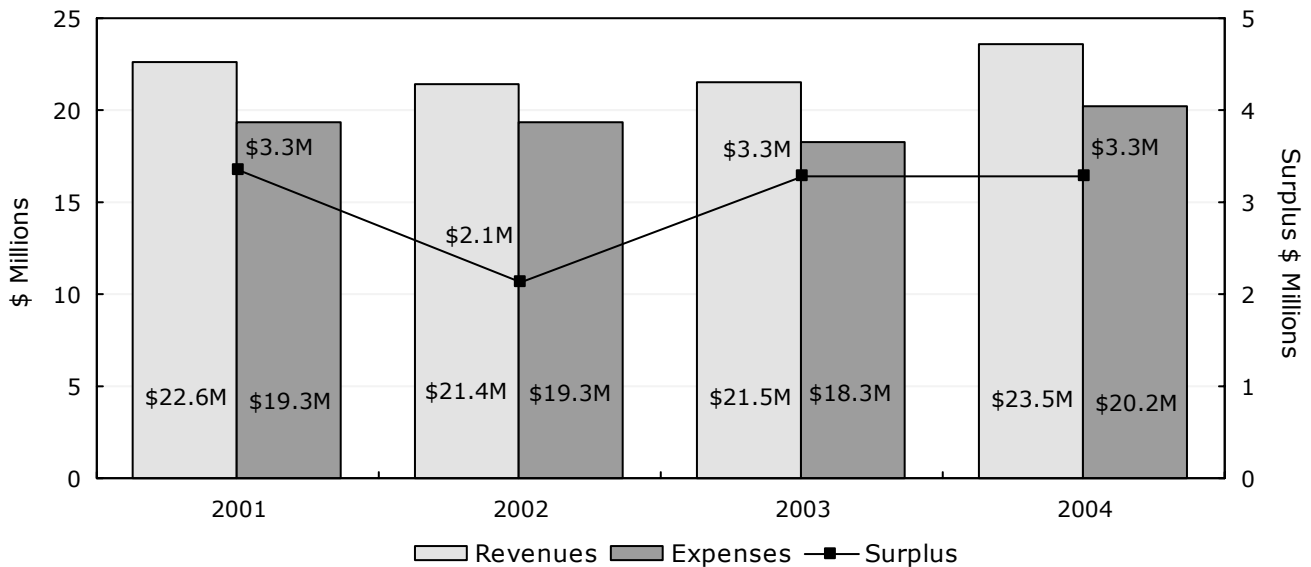
Operating expenses increased by \$2 million to \$20.2 million. This increase was primarily the result of an increase in depreciation of \$643 000 and the loss on revaluation of buildings of \$779 000. All other expenses have remained relatively constant over the period under review.

A structural analysis of the main operating expense items for ESAU is shown in the following chart.



Operating Result

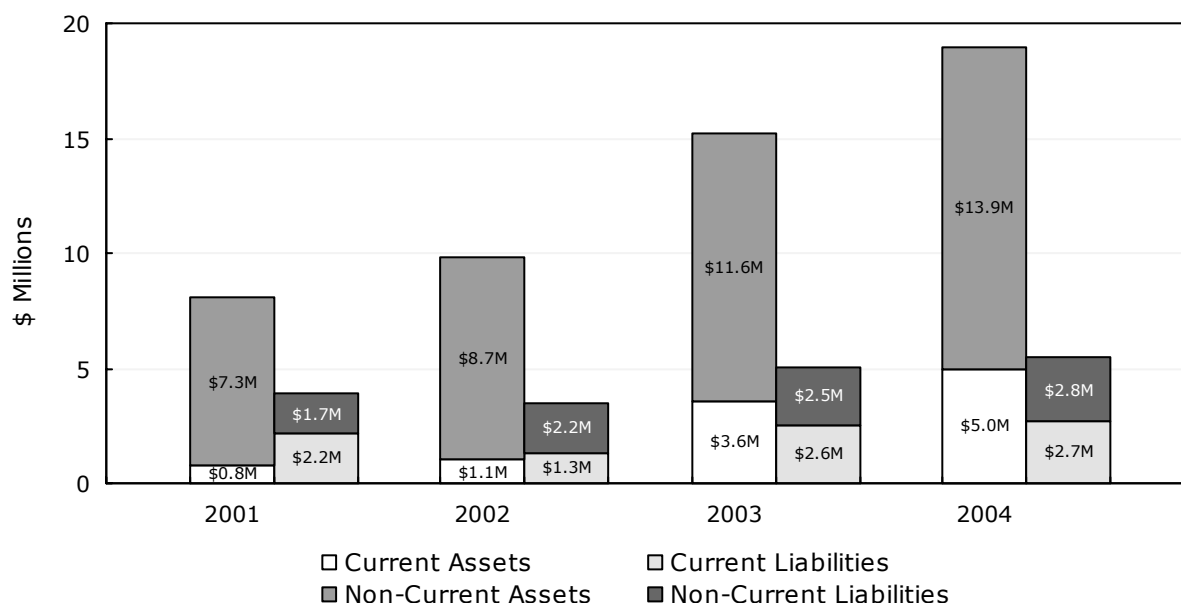
The following chart shows the operating revenues, operating expenses and surpluses for the four years to 2004. Over the period under review ESAU has generally maintained the surplus notwithstanding small fluctuations in the level of activity in each particular year.



Statement of Financial Position

Over the four years to 2004, there has been a significant increase in assets, and in particular non-current assets as a result of the transfer of assets from Local Government and the revaluation of some classes of non-current assets. Current assets increased in 2004 as a result of an increase in cash. Liabilities have remained relatively steady over the period under review.

For the four years to 2004, a structural analysis of assets and liabilities is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000
Net Cash Flows				
Operations	4 272	5 045	1 950	(929)
Investing	(2 826)	(2 311)	(1 595)	(1 491)
Change in Cash	1 446	2 734	355	(2 420)
Cash at 30 June	4 584	3 138	404	49

The analysis of cash flows shows that ESAU has steadily increased cash holdings since 2001. Cash significantly increased in 2003 as a result of the recognition of SES fundraising monies in the accounts for the first time and the impact of decreasing cash outlays for operating activities.

Net cash inflow from operations for 2004 was \$4.3 million, down \$773 000 from the previous year. This decrease was because cash outflows from operations increased by \$1.5 million due mainly to increased employee payments compared to 2003, while cash inflows increased by \$681 000 due mainly to increased funding from the Community Emergency Services Fund (up \$1.1 million) offset by decreases in other receipts.

Cash flows from investing activities have continued to increase as a result of the purchase of property, plant and equipment. Funding is received through the Community Emergency Services Fund for these purchases and is shown under cash inflow from operations.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004	2003
		\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	4	10 375	9 794
Supplies and services	5	5 949	5 986
Government Radio Network costs	6	1 621	1 612
Depreciation	7	1 522	879
Net loss on revaluation of buildings		779	-
Total Expenses		20 246	18 271
REVENUES FROM ORDINARY ACTIVITIES:			
Fees and charges	9	256	491
Net gain (loss) from disposal of assets	10	32	(92)
Emergency Services Administrative Unit recharge		9 123	8 870
Interest		92	35
Other revenue	11	912	1 259
Assets received from Local Government and other sources	12	1 787	968
Total Revenues		12 202	11 531
NET COST OF SERVICES FROM ORDINARY ACTIVITIES		8 044	6 740
REVENUES FROM SA GOVERNMENT:			
Contributions from Community Emergency Services Fund		11 336	10 254
Total Revenues from Government		11 336	10 254
SURPLUS FROM ORDINARY ACTIVITIES		3 292	3 514
Net costs from restructuring	13	-	(237)
SURPLUS FROM ORDINARY ACTIVITIES AFTER RESTRUCTURING		3 292	3 277
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
(Decrease) Increase in the asset revaluation reserve	19	(37)	605
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTION WITH THE STATE GOVERNMENT AS OWNER		3 255	3 882

**Statement of Financial Position
as at 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	14	4 584	3 138
Receivables	15	397	439
Total Current Assets		4 981	3 577
NON-CURRENT ASSETS:			
Property, plant and equipment	16	13 933	11 626
Total Non-Current Assets		13 933	11 626
Total Assets		18 914	15 203
CURRENT LIABILITIES:			
Payables	17	1 856	1 848
Provision for employee benefits	18	818	713
Total Current Liabilities		2 674	2 561
NON-CURRENT LIABILITIES:			
Payables	17	245	208
Provision for employee benefits	18	2 556	2 250
Total Non-Current Liabilities		2 801	2 458
Total Liabilities		5 475	5 019
NET ASSETS		13 439	10 184
EQUITY:	19		
Accumulated surplus		12 871	9 579
Asset revaluation reserve		568	605
TOTAL EQUITY		13 439	10 184
Commitments	21		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		(Outflows)	(Outflows)
CASH OUTFLOWS:	Note	\$'000	\$'000
Employee payments		(10 141)	(8 175)
Supplies and services		(5 730)	(6 065)
Government Radio Network costs		(1 618)	(1 541)
GST payments on purchases		(1 069)	(1 023)
Restructuring of the Office of Volunteers		-	(300)
Total Outflows from Operating Activities		(18 558)	(17 104)
CASH INFLOWS:			
Contributions from Community Emergency Services Fund		11 336	10 254
Fees and charges		256	491
Emergency Services Administrative Unit recharges		9 123	8 870
Interest		85	33
GST receipts on receivables		72	58
GST input tax credits		949	1 018
Other		1 009	1 425
Total Inflows from Operating Activities		22 830	22 149
Net Cash Inflows from Operating Activities	22	4 272	5 045
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of property, plant and equipment		(2 913)	(2 315)
Total Outflows from Investing Activities		(2 913)	(2 315)
CASH INFLOWS:			
Proceeds from the sale of property, plant and equipment		87	4
Total Inflows from Investing Activities		87	4
Net Cash Outflows from Investing Activities		(2 826)	(2 311)
NET INCREASE IN CASH HELD		1 446	2 734
CASH AT 1 JULY		3 138	404
CASH AT 30 JUNE	14	4 584	3 138

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

(a) Objectives

The Emergency Services Administrative Unit (ESAU) was established on 1 July 1999 with the following objectives:

- To provide strategic, corporate and support services to the South Australian emergency services, namely the SA Metropolitan Fire Service (SAMFS), the Country Fire Service (CFS) and the State Emergency Service (SES).
- To provide a local incident emergency response service, and significant participation in State Disaster emergency management, planning and training to the SES.

(b) Funding and Administrative Arrangements

The funding of ESAU is derived from the Community Emergency Services Fund (the Fund), which was established by the *Emergency Services Funding Act 1998*.

The SES is directly funded from the Fund for the cost of its operational services in the protection of South Australian citizens and their property. The SES also receives funds from the same source for the cost of strategic and administrative services delivered to it by ESAU. Fundraising revenue by the SES units has also been recognised in the Financial Statements.

2. Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general-purpose financial report. The accounts have been prepared in accordance with:

- Treasurer's Instructions (TI) and Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987*
- Applicable Australian Accounting Standards (AAS)
- Other mandatory professional reporting requirements in Australia

ESAU's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The continued existence of ESAU in its present form, and with its present programs, is dependent on Government policy and on continuing funding derived from the Fund, established by the *Emergency Services Funding Act 1998*.

(b) Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

(c) Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

(d) Taxation

ESAU is not subject to income tax. ESAU is liable for payroll tax, fringe benefits tax and goods and services tax.

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

(e) Revenues and Expenses

Revenues and expenses are recognised in ESAU's Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

(f) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and cash at bank.

(g) Receivables

Trade receivables arise in the normal course of selling services to other agencies and to the public. Trade receivables are payable within 30 days after the issue of an invoice or when the services have been provided under a contractual arrangement.

Other debtors arise outside the normal course of selling services to other agencies and to the public. If payment has not been received within 90 days after the amount falls due, under the terms and conditions of the arrangement with debtor, ESAU is able to charge interest at commercial rates until the whole amount of the debt is paid.

ESAU determines an allowance for doubtful debts based on a review of balances within trade receivables that are unlikely to be collected. These are generally receivables that are 90 days or more overdue.

(h) Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost, plus any incidental cost involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position.

In accordance with APS 2 'Asset Recognition', ESAU capitalises all non-current assets with a value of \$10 000 or greater.

(i) Valuation of Non-Current Assets

In accordance with APS 3 'Valuation of Non-Current Assets', property, plant and equipment have been bought to account at fair value.

- (i) Independent valuations for land and buildings were obtained in 2003-04 from Liquid Pacific Holdings Pty Ltd and in 2002-03 from Valcorp Australia Pty Ltd for land and buildings acquired during the course of 2002-03 and were determined on the basis of open market values for existing use.
- (ii) An independent valuation of vehicles was obtained in 2002-03 for current operational response vehicles from Valcorp Australia Pty Ltd. and represents the written down current cost of vehicles.
- (iii) Capital works in progress represent costs accumulated during the construction or development of an asset and is valued at cost.
- (iv) Plant and equipment, computer equipment and communications equipment are at historical cost.

(j) Depreciation of Non-Current Assets

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each depreciable non-current asset over its expected useful life.

<i>Asset Class</i>	<i>Useful Lives Years</i>
Communications equipment	3-10
Vehicles	5-15
Plant and equipment	5-15
Computer equipment	3
Buildings	25

(k) Payables

Payables include creditors, accrued expenses and employment on-costs.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of ESAU.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services' after ESAU receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

(l) Employee Benefits**(i) Wages and Salaries and Annual Leave**

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that ESAU expects to pay at the time the liability is settled. Relevant accrued salaries and wages and employment on-costs are shown under the item 'Payables'.

(ii) Long Service Leave

Long service leave is recognised on a pro-rata basis in respect of services provided by ESAU employees to balance date. The liability has been calculated at nominal amounts based on current salaries and wages rates using a benchmark of 12 years as advised by the Department of Treasury and Finance. Relevant employment on-costs are shown under the item 'Payables'.

(iii) Sick Leave

No provision has been made in respect of sick leave. As sick leave taken by employees is considered to be from the current year's accrual, no liability is recognised.

(iv) Superannuation

Contributions are made by ESAU to a number of State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. ESAU has no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the superannuation schemes.

(v) Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment prepared by Taylor Fry Consulting Actuaries. ESAU's liability is an allocation of the Justice Portfolio's total assessment.

A separate valuation of the liabilities of ESAU has not been undertaken and if such a valuation was performed it may result in a different assessed liability. ESAU fully funds this provision.

Liability with respect to SES Volunteers is currently held and managed by the Office for the Commissioner for Public Employment.

(m) Revenue Recognition

Interest

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of Non-Current Assets

The gross proceeds of non-current asset sales are included as revenue at the date control of assets passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Fees and Charges

Revenues are recognised when services are provided, at fair value of the consideration received.

Revenues from the Fund

Funding for programs are recognised as revenues when ESAU obtains control over the assets. Control over funding is normally obtained upon their receipt.

(n) State Government Funding

The financial report is prepared under the assumption of ongoing financial support being provided to ESAU by the State Government.

(o) Leases

ESAU has entered into a number of operating leases as at 30 June 2004. In respect of operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased items. Operating lease payments are charged to the Statement of Financial Performance on a basis which is representative of the pattern of benefits derived from the leased assets.

3. Changes in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (IFRS) for reporting periods commencing on or after 1 January 2005. ESAU will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', ESAU's Chief Executive is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). ESAU has analysed the exposure drafts issued by the Australian Accounting Standards Board (AASB) and has identified a number of potential issues that may need to be addressed. ESAU is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems; and
- key dates for monitoring and reviewing progress.

ESAU is using the Model Financial Report for SA Government entities developed by the Department of Treasury and Finance (DTF) and keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements by attending exposure draft reference group meetings (facilitated by DTF) and information forums organised by the DTF and professional accounting bodies.

Key Potential Implications

Set out below are the key areas where accounting policies will change and where they may have an impact on the financial statements. From investigations undertaken to date it is unlikely that the impact on the financial statements from these changes will be material.

Changes in Accounting Policies

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Non-Current Asset Acquisition and Recognition

The Australian Equivalent to IAS 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life is greater than 3 years) will continue to apply. Asset values will be maintained at fair value.

4. Employee Expenses

Employee expenses for the reporting period comprised:

Salaries and wages	8 296	7 650
Payroll tax and superannuation	1 433	1 269
Long service leave expenses	438	207
Other employee related costs	208	668
	10 375	9 794

4. Employee Expenses (continued)**Average number of employees during the reporting period**

On average, ESAU employed 140.6 (135.4) people throughout the reporting period.

Remuneration of Employees

The number of employees whose remuneration received or receivable fell within the following bands were:

	2004	2003
	Number of Employees	Number of Employees
\$100 000 - \$109 999	2	1
\$110 000 - \$119 999	1	-
\$120 000 - \$129 999	2	-
\$130 000 - \$139 999	-	1
\$140 000 - \$149 999	1	-
\$160 000 - \$169 999	1	-

The aggregate remuneration for all employees referred to above was \$882 000 (\$409 000).

5. Supplies and Services

Supplies and services provided by entities within the SA Government:

	2004	2003
	\$'000	\$'000
Computing expenses	335	416
Consumables and minor purchases	5	3
Repairs and maintenance	59	-
Accommodation	60	47
Communication expenses	97	121
Light vehicle expenses	41	36
Travel and training	12	4
Consultancy fees, legal fees and other expenses	240	205
Leases	867	909
Total Supplies and Services - SA Government Entities	1 716	1 741

Supplies and services provided by entities external to the SA Government:

Computing expenses	261	240
Consumables and minor purchases	977	1 027
Repairs and maintenance	415	564
Accommodation	11	9
Uniforms and protective clothing	109	471
Communication expenses	365	445
Energy	62	40
Light vehicle expenses	1	1
Travel and training	598	554
Consultancy fees, legal fees and other expenses	1 259	728
Minister's Grants Program	-	22
Leases	175	144
Total Supplies and Services - Non-SA Government Entities	4 233	4 245
Total Supplies and Services	5 949	5 986

Consultancies

The number and dollar amount of consultancies paid/payable that fell within the following bands were:

	2004	2003
	Number of Consultants	Number of Consultants
Less than \$10 000	13	9
\$10 000 - \$50 000	1	1
	14	10
	2004	2003
	\$'000	\$'000
Less than \$10 000	48	25
\$10 000 - \$50 000	11	12
	59	37

6. Government Radio Network (GRN) Costs

ESAU has been charged by the Department for Administrative and Information Services for costs associated with the provision to SES of emergency communication services, including voice, paging and data transmission using the GRN.

	2004	2003
	\$'000	\$'000
Contribution towards GRN - Voice	1 462	1 441
Contribution towards GRN - Paging	159	162
Other GRN costs	-	9
	1 621	1 612

7. Depreciation

Depreciation expenses for the reporting period were charged in respect of:

Communications equipment	201	192
Vehicles	781	369
Plant and equipment	87	77
Buildings	278	117
Computer equipment	175	124
	1 522	879

8. Remuneration of Auditors

Audit fees paid/payable to the Auditor-General's Department

84	73
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The auditors provided no other services.

9. Fees and Charges

Fees and charges received/receivable from entities within the SA Government comprised:

Administrative services provided	253	491
Total Fees and Charges - SA Government Entities	253	491

Fees and charges received/receivable from entities external to the SA Government:

Administrative services provided	1	-
Other	2	-
Total Fees and Charges - SA Government Entities	3	-
Total Fees and Charges	256	491

10. Net Gain (Loss) from Disposal of Non-Current Assets

Proceeds from disposal of non-current assets

87	4
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Less: Written down value of non-current assets

55	96
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32	(92)
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11. Other Revenue

Other revenue comprised:

Fundraising by SES units	83	666
Commonwealth revenue	548	558
Other	257	35
Reimbursement from Department of Treasury and Finance	24	-
	912	1 259

12. Assets received from Local Government and Other Sources

Since 1999 negotiations have been undertaken to identify and transition land, buildings, minor plant and equipment and motor vehicles from Local Government and other sources into the ownership or the care and control of the Minister for Emergency Services (the Minister). As at 30 June 2004 approximately 98 percent of all vehicles, appliances, minor plant and equipment have been transferred to the Minister, and security of tenure by way of transfer, rededication, lease or licence for approximately 94 percent of all land and buildings has been negotiated.

13. Net Costs from Restructuring

There has been no restructuring during the 2003-04 financial year.

ESAU assumed responsibility for Fire Equipment Services SA (FESSA) as at 1 July 2002. Liabilities assumed by ESAU as a result of the transfer were recognised in the Statement of Financial Position at the carrying amount of those assets in the transferor Attorney-General's Department Statement of Financial Position immediately prior to the transfer.

In addition, ESAU relinquished its responsibility for the Office for Volunteers and transferred the net assets relating to this business activity to the Department of the Premier and Cabinet at 1 July 2002.

In respect of the activities assumed, the following assets and liabilities have been recognised:

Fire Equipment Services SA

Current Liabilities:

Payables	-	(8)
Provision for annual leave	-	(42)
	-	(50)

Non-Current Liabilities:

Payables	-	(6)
Provision for long service leave	-	(50)
	-	(56)

Total Liabilities	-	(106)
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Net Cost Attributable to Fire Equipment Services SA	-	(106)
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13. Net Costs from Restructuring (continued)	2004	2003
In respect of the activities relinquished, the following assets and liabilities have been transferred:	\$'000	\$'000
Office of Volunteers		
Current Assets:		
Cash at bank	-	(300)
	-	(300)
Non-Current Assets:		
Plant and equipment	-	(20)
Computer equipment	-	(7)
	-	(27)
Total Assets	-	(327)
Current Liabilities:		
Payables	-	7
Provision for annual leave	-	31
	-	38
Non-current Liabilities:		
Payables	-	31
Provision for long service leave	-	127
	-	158
Total Liabilities	-	196
Net Cost attributable to Office of Volunteers	-	(131)
Net Costs from Restructuring	-	(237)
14. Cash		
Cash on hand	4	4
Cash at bank	4 580	3 134
	4 584	3 138
15. Receivables		
Current:		
Sundry debtors	74	238
Accrued revenues	12	20
GST receivables	311	181
	397	439
Government/Non-Government Receivables		
Receivables from SA Government Entities:		
Sundry debtors	74	234
Total Receivables - SA Government Entities	74	234
Receivables from Non-SA Government Entities:		
Sundry debtors	-	4
Accrued revenues	12	20
GST receivable	311	181
Total Receivables - Non-SA Government Entities	323	205
Total Receivables	397	439
16. Property, Plant and Equipment	2004	
(a) Property, Plant and Equipment		Written
	Cost/	Down
	Valuation	Value
	\$'000	\$'000
Land at independent valuation	396	396
Land at cost	64	64
Buildings at independent valuation	3 487	3 242
Buildings at cost	1 813	1 755
Vehicles at independent valuation	4 496	3 534
Vehicles at cost	1 695	1 489
Communications equipment	2 330	1 362
Computer equipment	1 088	597
Plant and equipment	1 035	726
Work in progress	768	768
	17 172	13 933

(a) Property, Plant and Equipment (continued)

	2003		Written Down Value
	Cost/ Valuation	Accumulated Depreciation	Value
	\$'000	\$'000	\$'000
Land at independent valuation	370	-	370
Buildings at independent valuation	2 153	34	2 119
Buildings at cost	622	45	577
Vehicles at independent valuation	4 626	478	4 148
Vehicles at cost	1 588	115	1 473
Communications equipment	2 330	767	1 563
Computer equipment	902	316	586
Plant and equipment	855	222	633
Work in progress	157	-	157
	13 603	1 977	11 626

(b) Asset Movement Schedule

	2004							Total
	Land and Buildings	Vehicles	Communi- cations Equipment	Computer Equip- ment	Plant and Equip- ment	Work in Progress	\$'000	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Gross Carrying Amount:								
Balance at 1 July 2003	3 145	6 214	2 330	902	855	157	13 603	
Transfer of work in progress	1 678	239	-	114	180	(2 211)	-	
Transfer from Local Government councils	1 788	-	-	-	-	-	1 788	
Net adjustment on revaluation	(870)	-	-	-	-	-	(870)	
Additions	19	-	-	72	-	2 822	2 913	
Disposals	-	(262)	-	-	-	-	(262)	
Balance at 30 June 2004	5 760	6 191	2 330	1 088	1 035	768	17 172	
Accumulated Depreciation:								
Balance at 1 July 2003	(79)	(593)	(767)	(316)	(222)	-	(1 977)	
Net adjustment on revaluation	54	-	-	-	-	-	54	
Depreciation expense	(278)	(781)	(201)	(175)	(87)	-	(1 522)	
Disposals	-	206	-	-	-	-	206	
Balance at 30 June 2004	(303)	(1 168)	(968)	(491)	(309)	-	(3 239)	
Net Book Value at 30 June 2004	5 457	5 023	1 362	597	726	768	13 933	
Gross Carrying Amount:								
Balance at 1 July 2002	1 510	6 309	2 249	471	802	229	11 570	
Transfer of work in progress	853	897	78	439	74	(2 341)	-	
Transfer from Local Government councils	807	161	-	-	-	-	968	
Transfer to Office of Volunteers	-	-	-	(8)	(21)	-	(29)	
Net adjustment on revaluation	(66)	(909)	-	-	-	-	(975)	
Additions	41	-	3	-	-	2 269	2 313	
Disposals	-	(244)	-	-	-	-	(244)	
Balance at 30 June 2003	3 145	6 214	2 330	902	855	157	13 603	
Accumulated Depreciation:								
Balance at 1 July 2002	(65)	(1 849)	(575)	(192)	(145)	-	(2 826)	
Net adjustment on revaluation	103	1 477	-	-	-	-	1 580	
Depreciation expense	(117)	(369)	(192)	(124)	(77)	-	(879)	
Disposals	-	148	-	-	-	-	148	
Balance at 30 June 2003	(79)	(593)	(767)	(316)	(222)	-	(1 977)	
Net Book Value at 30 June 2003	3 066	5 621	1 563	586	633	157	11 626	

17. Payables					2004		2003	
Current:					\$'000		\$'000	
Accrued expenses					294		510	
Employment on-costs					124		127	
Creditors					1 438		1 211	
					1 856		1 848	
Non-Current:								
Employment on-costs					245		208	
Total Payables					2 101		2 056	
Government/Non-Government Payables								
Payables to SA Government Entities:								
Creditors					975		977	
Accrued expenses					159		146	
Total Payables - SA Government Entities					1 134		1 123	
Payables to Non-SA Government Entities:								
Creditors					463		234	
Accrued expenses					135		364	
Employment on-costs					369		335	
Total Payables - Non-SA Government Entities					967		933	
Total Payables					2 101		2 056	
18. Employee Benefits								
Employee benefits consists of the following:								
Current:								
Annual leave					643		540	
Long service leave					66		66	
Workers compensation					109		107	
					818		713	
Accrued salaries and wages (included in payables)					6		222	
Employment on-costs (included in payables)					124		127	
					948		1 062	
Non-Current:								
Long service leave					2 104		1 788	
Workers compensation					452		462	
					2 556		2 250	
Employment on-costs (included in payables)					245		208	
					2 801		2 458	
19. Equity								
Accumulated Surplus:								
Balance at 1 July					9 579		6 302	
Surplus from ordinary activities after restructuring					3 292		3 277	
Balance at 30 June					12 871		9 579	
Asset Revaluation Reserve:								
The asset revaluation reserve is the cumulative balance of asset revaluation increments and decrements.								
Balance at 1 July					605		-	
Revaluation of land and buildings					(37)		37	
Revaluation of vehicles					-		568	
Balance at 30 June					568		605	
20. Financial Instruments								
(a) Interest Rate Risk								
		2004				2003		
Financial Instrument	Effective Interest Rate	Interest Bearing	Non-Interest Bearing	Total	Effective Interest Rate	Interest Bearing	Non-Interest Bearing	Total
Financial Assets:	Percent	\$'000	\$'000	\$'000	Percent	\$'000	\$'000	\$'000
Cash on hand		-	4	4		-	4	4
Cash at bank	4.91	4 580	-	4 580	4.60	3 134	-	3 134
Receivables		-	397	397		-	439	439
Total Financial Assets								
Assets		4 580	401	4 981		3 134	443	3 577
Financial Liabilities:								
Payables		-	2 101	2 101		-	2 056	2 056
Total Financial Liabilities								
Liabilities		-	2 101	2 101		-	2 056	2 056

(b) Net Fair Values

Financial instruments are valued at the carrying amount as per the Statement of Financial Position, which approximates the net fair value. The carrying amount of financial assets approximates net fair value due to their short-term to maturity or being receivable on demand. The carrying amount of financial liabilities is considered to be a reasonable estimate of net fair value.

21. Commitments**(a) Commitments for Capital Expenditure**

As at the reporting date ESAU had entered into contracts for the following capital expenditures which are not included in the financial statements.

	2004	2003
These amounts are due for payment within one year:	\$'000	\$'000
Vehicles	385	-
Buildings and other equipment	28	967
	413	967

(b) Operating Leases

Commitments under non-cancellable operating leases at the reporting date are payable as follows:

Payable not later than one year	853	814
Payable later than one year and not later than five years	2 433	2 562
Payable later than five years	328	894
	3 614	4 270

These operating leases are not recognised in the Statement of Financial Position as liabilities. The non-cancellable leases are property leases, with rental payable monthly in arrears. Contingent rental provisions within the lease agreement require the minimum lease payments to be increased annually based on CPI movement. Options exist to renew the leases at the end of the term of the leases.

(c) Contractual Commitments

At the end of the reporting period ESAU had the following commitments on contracts:

	2004	2003
	\$'000	\$'000
Payable not later than one year	154	12
Payable later than one year and not later than five years	2	12
	156	24

Contractual commitments relate to a range of services and supplies including human resource and skills development for volunteer and paid staff.

22. Reconciliation of Net Cash Inflows from Operating Activities to Net Cost of Services from Ordinary Activities

Net cash inflows from operating activities	4 272	5 045
Less: Contributions from Community Emergency Services Fund	(11 336)	(10 254)
Add (Less) Non-Cash Items:		
Depreciation of property, plant and equipment	(1 522)	(879)
Net gain (loss) from disposal of non-current assets	32	(92)
Assets received from Local Government and other sources	1 787	968
Net loss on revaluation of buildings	(779)	-
Net cost from restructuring not accounted for in cash flow	-	210
Change in Assets/Liabilities:		
Decrease in receivables	(42)	(212)
Increase in payables	(45)	(983)
Increase in provision for employee benefits	(411)	(543)
Net Cost of Services from Ordinary Activities	(8 044)	(6 740)

23. Events After Balance Date*Review of Emergency Services*

The Report of the Emergency Services Review Taskforce, released by the Minister in May 2003, foreshadowed a number of major recommendations. In July 2003 the Government provided a formal response to that report and signalled its intention to implement many of the Report's recommendations.

Principal among these was the Government's intention to disband ESAU and to transfer all or part of its functions to the proposed South Australian Fire and Emergency Services Commission. The Fire and Emergency Services Bill 2004 was introduced to Parliament in May 2004. The Bill provides for the establishment of the South Australian Fire and Emergency Services Commission, the continuation of a metropolitan fire and emergency service, a country fire and emergency service, and a State emergency service to provide for the prevention, control and suppression of fires and for the handling of certain emergency situations.

Workers Compensation for SES Volunteers

From 1 July 2004 the Government Workers Compensation Fund was closed to all new claims. From this date new claims for SES volunteers will be the administrative and financial responsibility of ESAU. Administrative and financial responsibility for ESAU and SES paid staff remain unchanged, and are included in the financial result.

LEGAL SERVICES COMMISSION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Legal Services Commission (the Commission) is a body corporate established pursuant to subsection 6(1) of the *Legal Services Commission Act 1977* (the Act). Subsection 6(3) of the Act specifies that the Commission is not an instrumentality of the Crown and is independent of the Government.

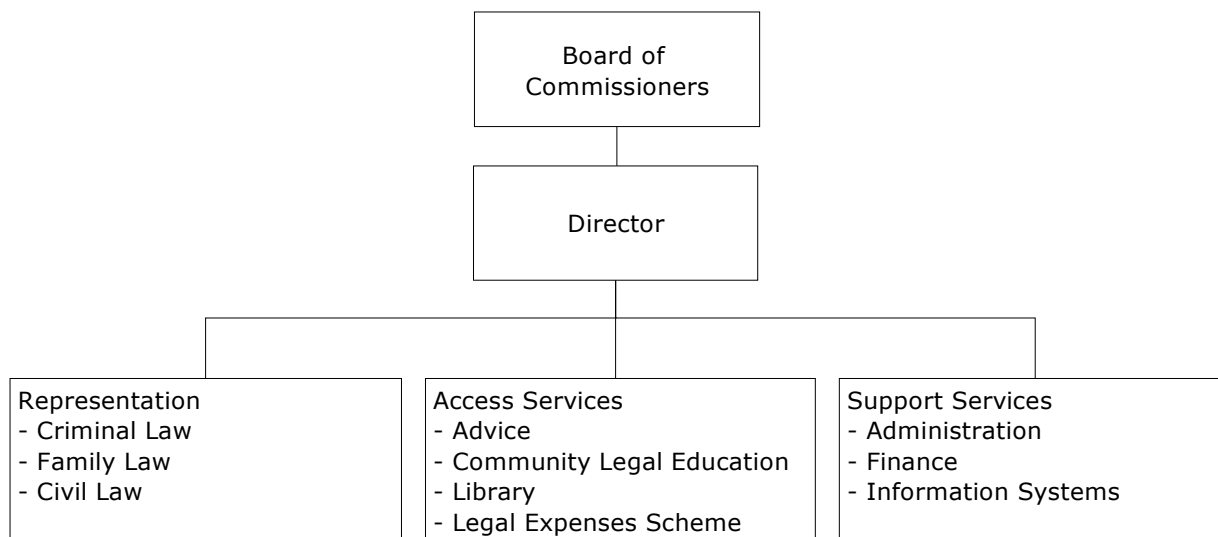
Functions

The Act provides for the Commission to undertake a variety of functions concerning legal assistance including:

- provide, or arrange for legal assistance and determine the criteria under which that assistance is to be granted;
- co-operate and make reciprocal arrangements with persons administering schemes of legal assistance in other States and Territories of the Commonwealth or elsewhere;
- initiate and carry out educational programmes to promote an understanding by the public of their rights, powers, privileges and duties under the laws of the Commonwealth or the State;
- perform other functions as the Attorney-General may direct.

Structure

The structure of the Commission is illustrated in the following organisation chart.



Audit and Risk Management Committee

The Commission has an Audit and Risk Management Committee which comprises two Commissioners and the Director. The Committee meets at least three times a year and reports to the Board of Commissioners. The Committee's primary function is to monitor and oversee audit and risk management and associated policies and procedures. Representatives of the Auditor-General's Department attend meetings of the Committee as observers.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Section 25 of the *Legal Services Commission Act 1977* provides for the Auditor-General to audit the accounts of the Commission in respect of each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed on the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- payroll
- expenditure (including legal and administrative expenses)
- revenue, receipting and banking
- accounts receivable
- fixed assets
- budgetary control.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Commission as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Commission have been conducted properly and in accordance with law.

Audit Communications to Management

The audit of the Commission's control environment revealed that internal controls were operating satisfactorily and no major matters were raised. Notwithstanding this observation, Audit identified opportunities to improve the existing controls. These matters were detailed in a management letter to the Chairperson of the Commission for consideration and a satisfactory response was received.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

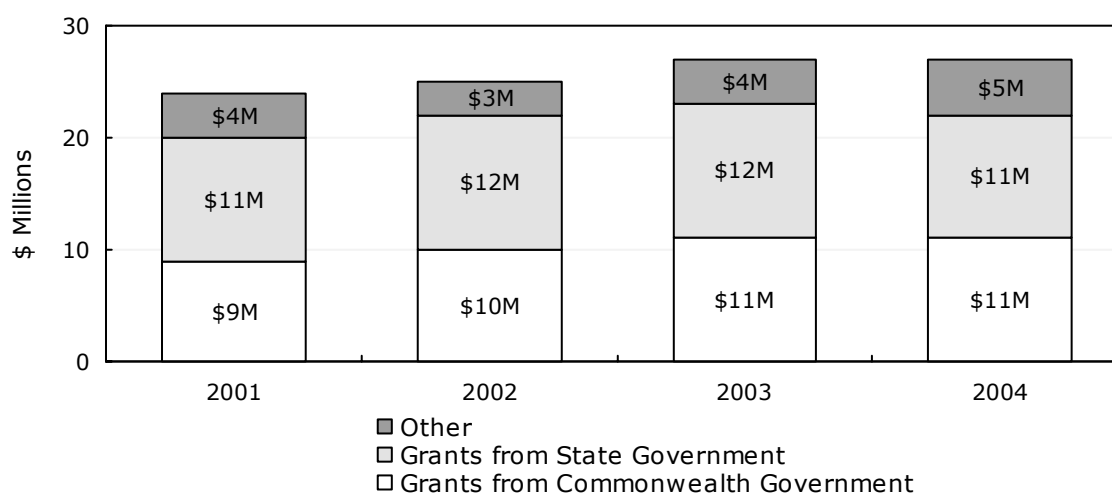
Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Commonwealth Government grants	11.3	10.9	4
State Government grants	11.3	12.3	(8)
Other Revenue	4.6	4.2	10
Total Operating Revenue	27.2	27.4	(1)
OPERATING EXPENDITURE			
Employment expenses	10.7	10.2	5
Legal expenses	12.6	13.2	(5)
Other expenses	3.1	3.0	3
Total Operating Expenses	26.4	26.4	-
Operating Surplus from Ordinary Activities	0.8	1.0	(20)
Net Cash Flows from Operations	1.4	1.1	27
ASSETS			
Current assets	9.6	8.4	14
Non-current assets	4	3.9	3
Total Assets	13.6	12.3	11
LIABILITIES			
Current liabilities	2.3	1.9	21
Non-current liabilities	1.6	1.5	7
Total Liabilities	3.9	3.4	15
EQUITY	9.7	8.9	9

Statement of Financial Performance

Operating Revenues

A structural analysis of operating revenues of the Commission for the four years to 2004 is presented in the following chart.



The majority of the Commission's revenue is provided by the State and Commonwealth Governments.

Commonwealth Government Grants

In meeting the cost of providing legal aid, the Commission receives funding from the Commonwealth in accordance with an agreement between the Commonwealth and State Governments. The agreement commenced on 1 July 2000 and covers a four year period to 30 June 2004. At the time of writing this report, the Commonwealth and State Governments were negotiating a future funding agreement which would be effective from 1 July 2004. For the first quarter of 2004-05, the Commission has received funding from the Commonwealth on the same basis as 2003-04.

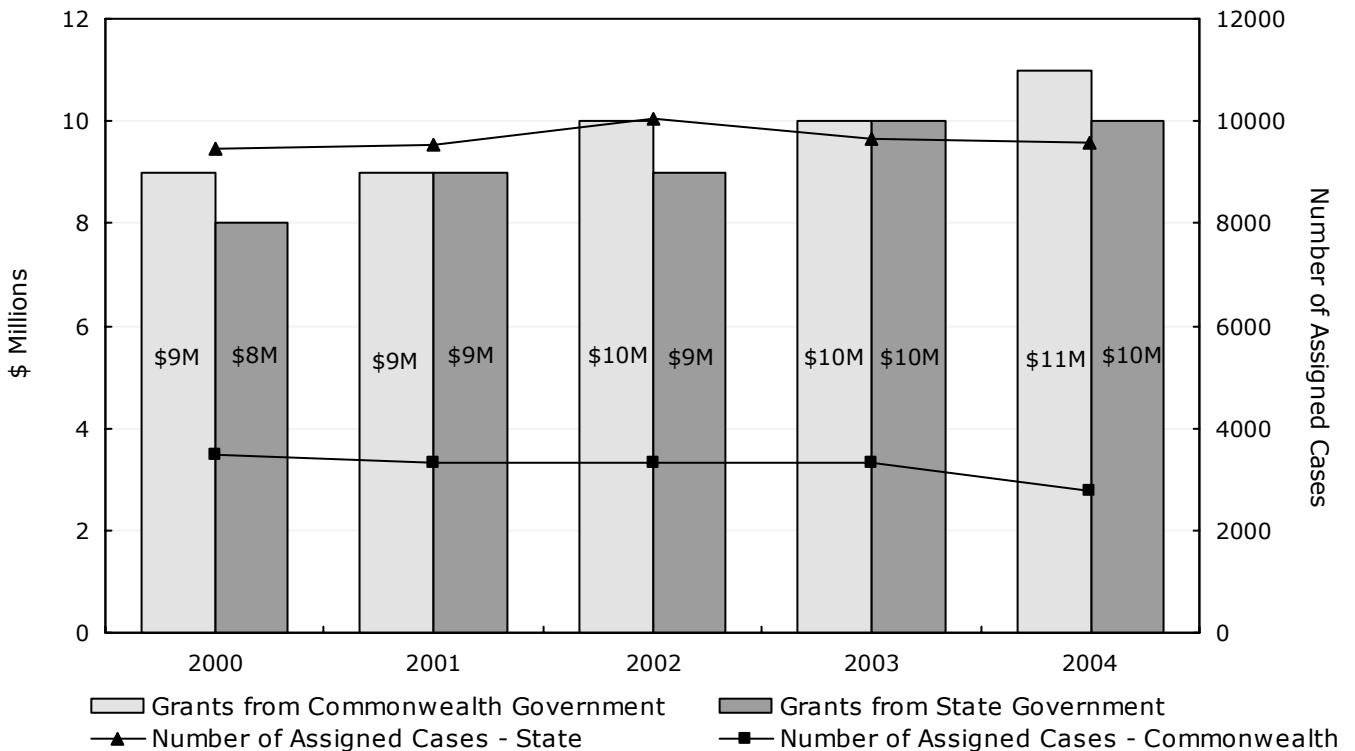
The Commonwealth grants received by the Commission are expended in accordance with the agreement between the Commonwealth and State Governments. Legal assistance is only to be provided within South Australia for matters arising under Commonwealth law which are a matter of priority. The matters of priority are predominantly in the areas of family law, criminal law, and specific civil matters.

General grants from the Commonwealth Government provided in accordance with the funding agreement (excluding specific Commonwealth grants provided for primary dispute resolution of \$125 000 and child support of \$332 000), totalled \$10.8 million 2003-04 (\$10.4 million) and comprised 40 percent (38 percent) of total Revenues from Ordinary Activities of the Commission.

State Government Grants

The funding provided by the State is determined through the budgetary process of the South Australian Government. The State grants received by the Commission are expended on State Law matters and these are predominately criminal cases, and community advice and education.

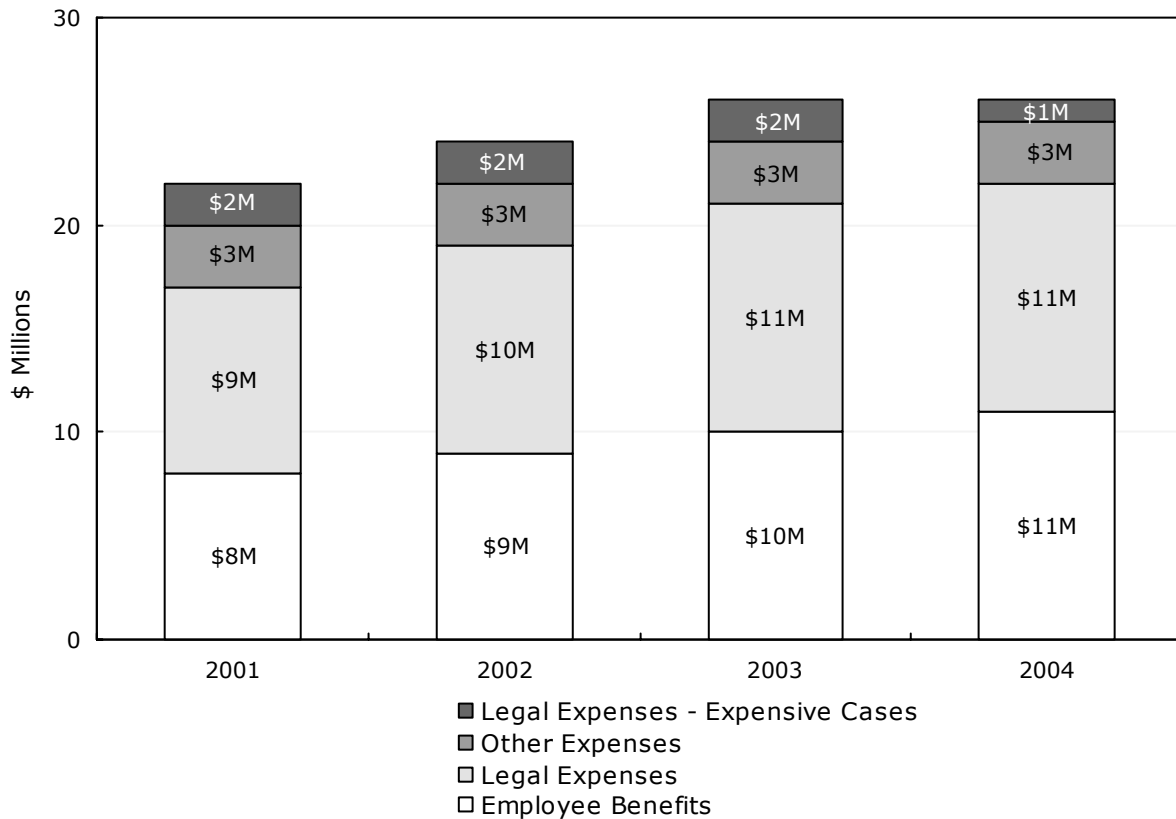
General grants from the State Government 2003-04 totalled \$9.9 million (\$9.7 million) and comprised 36 percent (35 percent) of total Revenues from Ordinary Activities of the Commission. This amount excludes specific State grants for expensive cases of \$1.4 million (\$2.5 million).



The above chart illustrates, for the past five years, the proportions of State and Commonwealth funding provided in accordance with the agreement between the Governments (general grants only). It also illustrates the number of cases that have been assigned that relate to Commonwealth and State grant funding.

Operating Expenses

A structural analysis of the main operating expense items for the Commission is shown in the following chart which illustrates that the composition of the Commission's expenses has remained relatively constant with a gradual increase in employee benefits and legal expenses.

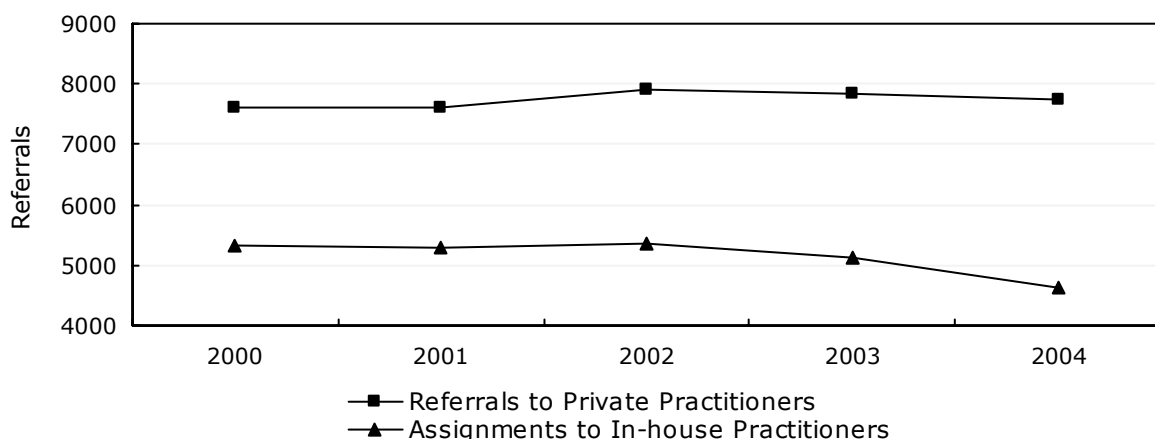


The item 'Legal Expenses – Expensive Cases' in the chart above predominantly reflects expenditure relating to the provision of legal representation to the defendants in the 'Bodies in the Barrels' Case. As at 30 June 2004 a total of \$8.5 million has been spent on this case, for which the equivalent amount of State Government grant funding has been received over the period of four years.

Referrals to Private and In-house Practitioners

Referrals to private practitioners for the 2003-04 year totalled 7739 cases (7856) or 63 percent (61 percent) of approvals. Fees to private legal practitioners for these cases (legal expenses) amounted to \$11.4 million (\$10.7 million) and comprised 43 percent (40 percent) of total Expenses from Ordinary Activities. Applications assigned to the in-house practitioners totalled 4625 cases (5120) or 37 percent (39 percent).

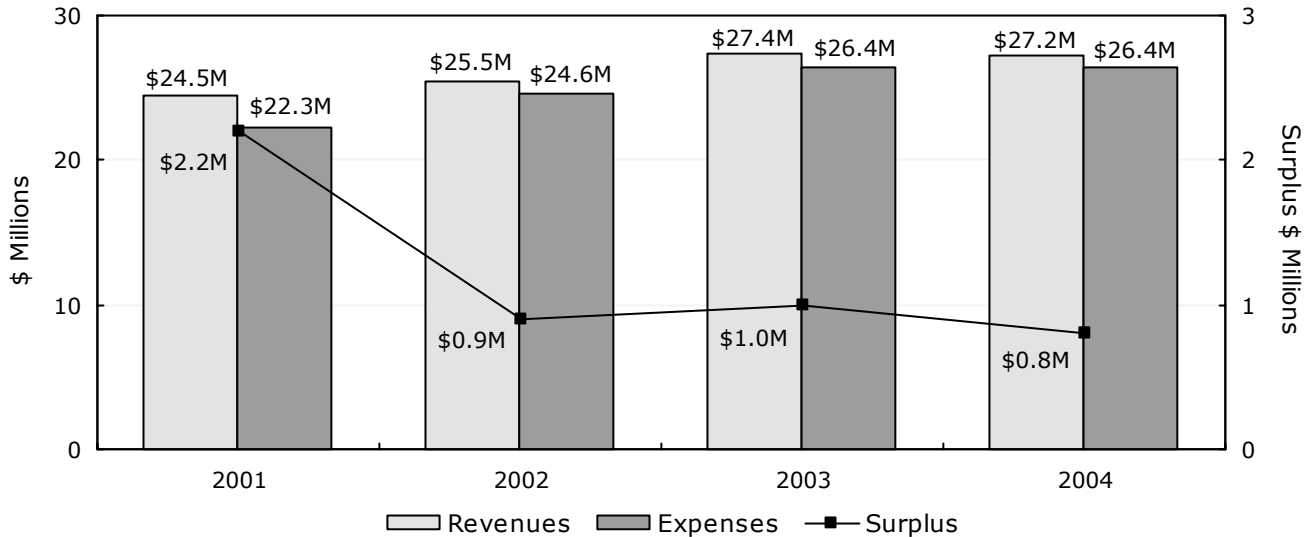
The following chart shows the trend in referrals to private practitioners and assignment to in-house practitioners over the past five years.



Operating Result

The Statement of Financial Performance for the year ended 30 June 2004 reports total Revenues from Ordinary Activities of \$27.2 million (\$27.4 million) and total Expenses from Ordinary Activities of \$26.4 million (\$26.4 million), resulting in an Operating Surplus from Ordinary Activities of \$783 000 (\$1 million).

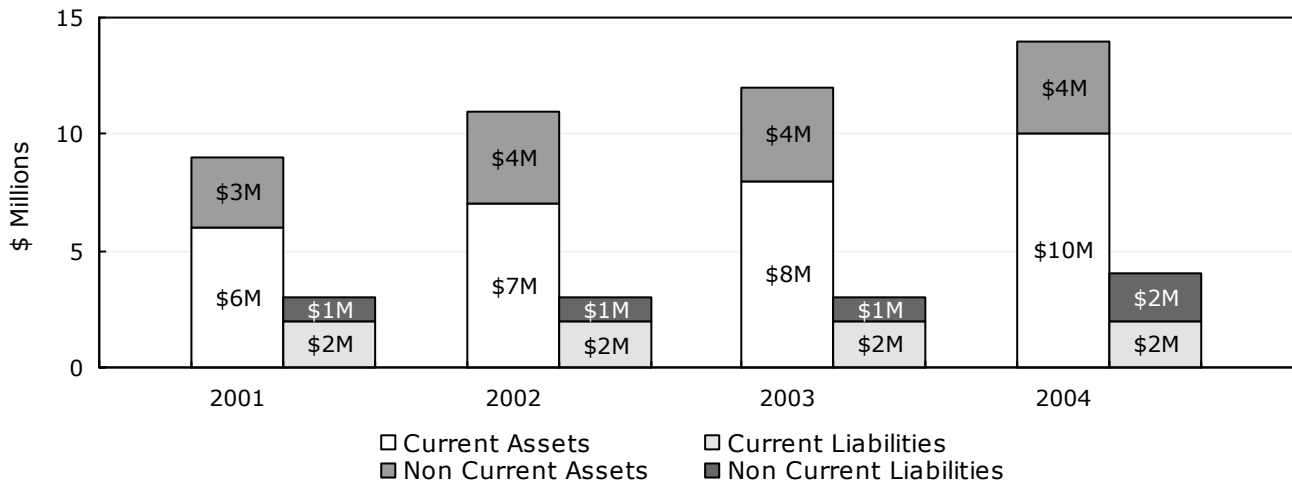
The following chart shows the revenues, expenses and surplus for the four years to 2004.



The chart highlights that the Commission has consistently achieved a small surplus every year over the period.

Statement of Financial Position

For the four years to 2004, a structural analysis of assets and liabilities is shown in the following chart.



This analysis shows a gradual increase in assets and minimal change in liabilities over the period under review. Total assets have grown by 56 percent. This growth is primarily a result of an increase in cash at bank which has grown by 46 percent since 2001.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004	2003	2002	2001
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	1.4	1.1	1.4	1.6
Investing	(0.3)	(0.4)	(0.6)	(0.1)
Change in Cash	1.1	0.7	0.8	1.5
Cash at 30 June	8.3	7.2	6.5	5.7

The analysis of cash flows shows a gradual increase in cash at the end of each reporting period primarily as a result of a small positive cash contribution from operating activities each year. This trend is consistent with the operating surpluses achieved each year.

The cash balance of \$8.3 million as at 30 June 2004 is sufficient to meet the Commission's outstanding liabilities and future commitments of \$3 million (as disclosed in Notes 16 and 17) and reserves of \$1 million allocated for specific purposes (as disclosed in Notes 2.6 and 14).

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004	2003
		\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Grants from Commonwealth Government:			
General	1.2	10 802	10 351
Primary dispute resolution funding	1.2	125	125
Child support - Stage One matters	1.2	332	408
Grants from State Government:			
General	1.2	9 943	9 691
Extended Duty Solicitor Service		-	120
Expensive cases - Bodies in the Barrels	1.2	1 214	2 521
Expensive cases - West Lakes	1.2	191	-
Legal Practitioners Act revenue	3	2 212	2 279
Costs recovered and contributions	4	247	248
Other revenue	5	2 112	1 628
Total Revenues		27 178	27 371
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee benefits	7	10 653	10 194
Legal expenses	2.10	11 418	10 654
Legal expenses - Bodies in the Barrels expensive case		1 214	2 515
Other expenses	8	2 661	2 660
Depreciation expense		379	309
Bad and doubtful debt expense		70	25
Total Expenses		26 395	26 357
OPERATING SURPLUS FROM ORDINARY ACTIVITIES		783	1 014
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		783	1 014

**Statement of Financial Position
as at 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash at bank and on hand	9	8 335	7 202
Receivables	10	1 134	1 079
Other	11	144	107
Total Current Assets		9 613	8 388
NON-CURRENT ASSETS:			
Library	2.3	333	333
Computers and other equipment	12	937	1 098
Statutory charge debtors	22	2 681	2 468
Total Non-Current Assets		3 951	3 899
Total Assets		13 564	12 287
CURRENT LIABILITIES:			
Legal creditors		1 182	884
Employee provisions	13.1	626	583
Creditors		458	429
Total Current Liabilities		2 266	1 896
NON-CURRENT LIABILITIES:			
Employee provisions	13.1	1 594	1 470
Total Non-Current Liabilities		1 594	1 470
Total Liabilities		3 860	3 366
NET ASSETS		9 704	8 921
EQUITY:			
Reserves	14	1 006	1 013
Accumulated funds	15	8 698	7 908
TOTAL EQUITY		9 704	8 921
Commitments, Contingent Liabilities	16, 17, 21		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	\$'000	\$'000
PAYMENTS:			
Employee benefits		(10 388)	(9 880)
Suppliers		(2 709)	(2 641)
Private practitioners		(11 232)	(10 745)
GST payments on purchases		(1 678)	(1 735)
GST payments to taxation authority		(149)	(132)
Private practitioners - Bodies in the Barrels		(1 144)	(2 515)
Total		(27 300)	(27 648)
RECEIPTS:			
Commonwealth Government:			
Funding agreement		10 802	10 351
Child support - Stage One matters		332	408
Primary dispute resolution		125	125
State Government:			
Funding		9 943	9 691
Expensive Cases - Bodies in the Barrels		1 214	2 521
Expensive Cases - West Lakes		191	-
Legal Practitioners Act receipts		2 135	2 147
Costs recovered and contributions		245	222
Statutory charge receipts		886	569
GST receipts on receivables		139	81
GST receipts from taxation authority		1 601	1 596
Other		1 079	1 063
Total		28 692	28 774
Net Cash provided by Operating Activities	18	1 392	1 126
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of equipment		1	-
Payments for purchase of equipment		(260)	(426)
Net Cash used in Investing Activities		(259)	(426)
NET INCREASE IN CASH HELD		1 133	700
CASH AT 1 JULY		7 202	6 502
CASH AT 30 JUNE	9	8 335	7 202

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Function and Funding Arrangements

1.1 Function

The Legal Services Commission (the Commission) was established under the *Legal Services Commission Act 1977* (the Act) to provide, or arrange for the provision of legal assistance in accordance with the Act.

1.2 Funding Arrangements

Commonwealth Government

A Commonwealth Government Legal Assistance Agreement was entered into between the Commonwealth and State Governments for the provision of legal assistance. The agreement was effective from 1 July 2000. Pursuant to that Agreement:

- The Commonwealth is required to contribute \$9 450 000, \$9 901 000, \$10 351 000 and \$10 802 000 for the years 2000-01, 2001-02, 2002-03 and 2003-04 respectively. These funds purchase agreed levels of outputs at agreed prices for outputs. An inclusive fee of \$851 000 for strategic services is included in Commonwealth funds provided in 2003-04;
- In addition the Commonwealth provided specific funding of \$125 000 (\$125 000) for primary dispute resolutions.
- The Commonwealth Government entered into a separate agreement for the provision of Legal Assistance in Stage 1 Carer-Parent Matters. The Agreement was effective from 18 February 2002. Pursuant to the Agreement funding of \$332 000 (\$408 000) was provided in 2003-04.

The Commonwealth and State Governments are currently negotiating a new agreement for the provision of legal assistance. The agreement will be effective from 1 July 2004. Until negotiations are finalised the Commonwealth has funded the Commission at the same level as 2003-04.

State Government

- The State Government increased funding in the normal budget process to maintain the Legal Services Commission overall funding and to provide a scale of fee increase for Private Practitioners and provide for other expenses;
- The State Government provided \$1 214 000 (\$2 521 000) to the 'Bodies in the Barrels' case during 2003-04 and provided \$191 000 for the 'West Lakes' matter.

Future Commitments

The Commission has a future commitment for legal matters referred to external practitioners. Legal matters are identified as State and Commonwealth responsibilities. At 30 June 2004, the Commission has a future Commonwealth legal commitment of \$943 000 (\$1 244 000) and a future State legal commitment of \$1 600 000 (\$1 522 000).

In addition the Commission has a future commitment for State expensive legal matters, which will be separately funded by the State for the amount of \$402 000. The Commitments of \$2 945 000 (\$2 766 000) have not been recognised as a liability but are disclosed as a Commitment in Note 16.

2. Statement of Accounting Policies

The Commission has prepared the financial report on an accrual basis.

The General Purpose Financial Report has been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), Department of Treasury and Finance Accounting Policy Statements and Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987*. The financial report has also been prepared on the historical cost basis except for the valuation of the library, which is at an independent valuation.

2.1 Revenues

Government Funding

The Commission receives funding from the State and Commonwealth governments, which are recognised as income when monies are received and when all conditions under which funding is provided, have been fulfilled.

Other Revenues

Other Revenue is recognised as it accrues.

2.2 Depreciation

All computers and other equipment that have a limited useful life are systematically depreciated over their useful lives, in a manner which reflects the consumption of their service potential. Computers and other equipment are depreciated using the straight line method. The useful lives used for each class of asset are as follows:

	Years
Computers	3-5
Office equipment	5-13
Furniture and fittings	13
Leasehold improvements	10

2.3 Library

In October 2001, the Commission obtained an independent revaluation of the library at market or market replacement value. The library collection comprises reports/major works, journals, loose-leaf services and a mix of dictionaries, encyclopaedias, statutes etc. The revaluation was undertaken by Lawyers Books, which valued the library at \$333 000.

2.4 Employee Benefits

Provision has been made in the financial report for the Commission's liability for employee benefits arising from services rendered by employees to balance date. Related on-costs consequential to the employment of employees have been included in the determination of the liability. However, in accordance with the Treasurer's Accounting Policy Statements 'Employee Benefits', the on-cost component is included in creditors. The aggregate of employee benefits is disclosed at Note 13.

(i) Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision has been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. A salary inflation of 4 percent has been applied to employee benefits which are expected to be settled in the next 12 months.

(ii) Sick Leave

No provision has been made in respect of sick leave. As sick leave taken by employees is considered to be taken from the current year's accrual, no liability is recognised.

(iii) Long Service Leave

Provision has been made for the Commission's liability for long service leave at balance date on a basis which is consistent with measurement techniques outlined in Australian Accounting Standard AASB 1028 'Accounting for Employee Entitlements'. The short-hand method of determining long service leave entitlements has been adopted and provision has been made for all employees with seven or more years of service, being the benchmark number of years as determined by the Department of Treasury and Finance.

(iv) Superannuation

Salaries and related payments include superannuation contributions paid by the Commission under the following categories:-

(a) The Commission paid an amount to 'Comsuper' towards the accruing government liability in respect of currently employed contributors to the Commonwealth Superannuation Fund. Payments amounted to \$98 000 (\$68 000).

(b) During 2003-04 the Commission paid \$911 000 (\$895 000) to the South Australian Department of Treasury and Finance towards the accruing government liability for superannuation in respect of all employees.

The Commission has no responsibility for benefits in relation to future superannuation payments to employees, as these are assumed by the superannuation funds.

2.5 Workers Compensation

The Commission has no exposure to workers compensation liability at 30 June 2004.

2.6 Reserves

The Commission has established the following reserves (refer Note 14):

Asset Revaluation Reserve

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets.

Asset Replacement Reserve

The Commission established an asset replacement reserve in 2001-02 to continue implementing an Asset Replacement Plan. As at 30 June 2003 the balance of the reserve was \$103 000. This amount represented planned expenditure for the 2003-04 year. The Commission increased the reserve to \$296 000 at 30 June 2004 to upgrade and extend the Adelaide office.

Commonwealth Expensive Case Reserve

The Commission had established a Commonwealth Expensive Case Reserve of \$200 000 for specific Commonwealth matters that exceed the cap. The Commission did not use the reserve during 2003-04. As at 30 June 2004 the balance of the reserve was reduced to \$100 000.

State Expensive Case Reserve

The Commission had established a State Expensive Case Reserve for specific state matters that exceed the State guideline cap. As at 30 June 2004 the balance of the reserve was reduced to \$100 000 because the State Government has established a separate expensive case fund for approved cases that exceed the Commission cap.

State Legal Assistance Scheme Reserve

The Legal Assistance Scheme reserve has been established to fund specific future State Law matters, as determined by agreement with the Law Society of SA.

2.7 Financial Instruments

The Commission's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2004, are as follows:

Financial Assets

Cash at Bank (Note 9) comprises deposits at call with the South Australian Government Financing Authority and are recorded at cost. Interest revenues are recognised as they accrue. Interest rates are at market rates and have fluctuated between 4.65 percent and 5.53 percent for the year ended 30 June 2004 (4.65 percent and 4.96 percent).

Receivables (Note 10) include client debtors and other debtors and are reported at amounts due.

The Commission is exposed to credit risk associated with amounts due from clients with respect to contributions for legal aid and other sundry charges. The credit risk relating to the financial asset recognised in the Statement of Financial Position is the carrying amount net of any provision for doubtful debts.

Financial Liabilities

Legal creditors are raised for amounts billed from private practitioners for approved cases undertaken but unpaid. They are normally settled within 30 days.

Creditors are raised for amounts billed but unpaid and are normally settled within 30 days.

All financial instruments are valued at the carrying amount as per the Statement of Financial Position, which approximates net fair value.

2.8 Computer and Other Equipment

In accordance with the Accounting Policy Statement APS 3 'Revaluation of Non-Current Assets' and the Commission's revaluation policy, Computers and Other Equipment are recognised at cost unless the fair value of the group (at the time of acquisition) is greater than \$1 million.

2.9 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

- (a) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (b) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing or financing activities, which are recoverable from, or payable to, the Australian Taxation Office have however been classified as operating cash flows.

2.10 Legal Expenses

Comprise solicitors' fees, counsel fees and disbursements due to private practitioners for approved cases undertaken during the year.

2.11 Trust Funds

Pursuant to the *Legal Practitioners Act 1981* the Commission holds funds in trust on behalf of clients. As at 30 June 2004, the total funds held were \$25 000 (\$37 000). These funds are not controlled by the Commission. As such they are not recognised in the financial report.

2.12 Comparative Figures

The previous year's figures are provided in the financial report for comparative purposes. Where applicable, comparative figures have been adjusted to conform with changes in presentation and classification in the current year.

2.13 Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Commission will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', the Commission's Director is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). The Commission is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems; and
- key dates for monitoring and reviewing progress.

The Commission is keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements (APS) by attending exposure draft reference group meetings and information forums organised by the Department of Treasury and Finance and professional accounting bodies.

Expected Difference in Accounting Policies

It is not expected that there will be significant changes to accounting policy as a result of the introduction of AIFRS. The changes that may occur will not have a business impact for the Commission.

3. Legal Practitioners Act Revenue	2004	2003
In accordance with the <i>Legal Practitioners Act 1981</i> the Commission is entitled to revenue from funds administered by the Law Society of South Australia.	\$'000	\$'000
Amounts related to the:		
Statutory interest account	973	769
Interest on Legal Practitioners Trust Accounts	1 238	1 092
Legal Practitioners Guarantee Fund	1	418
	2 212	2 279
4. Costs Recovered and Contributions		
Costs recovered	72	40
Contributions*	175	208
	247	248
* In addition contributions of \$349 000 (\$347 000) in relation to referred cases were paid or are payable directly to private practitioners by clients.		
5. Other Revenue		
Statutory charges	1 047	721
Interest	550	466
Other	515	441
	2 112	1 628
6. Net Gain or Loss from the Disposal of Non-Current Assets		
Proceeds from the disposal of non-current assets	1	-
Less: Written down value of those assets	(2)	-
	1	-
7. Employee Benefits		
Salaries and wages (including annual leave)	9 093	8 669
Superannuation	1 009	963
Payroll tax	220	214
Workers compensation	64	52
Long service leave	267	296
	10 653	10 194
8. Other Expenses		
Accommodation:		
Rental	691	700
Other	288	307
Computer maintenance and processing	491	449
Telephone and postage	360	361
Travel	153	144
Office requisites	177	180
Loss on disposal of assets (refer to Note 6)	1	-
Library	140	143
Consultancy fees	41	42
Other*	319	334
	2 661	2 660

* Includes Auditor's remuneration of \$41 000 (\$40 000), for auditing the accounts. The auditors provided no other services and received no other benefits.

9. Cash at Bank and On Hand				2004	2003		
For the purposes of the Statement of Cash Flows, cash includes cash at bank and on hand and deposits at call with the South Australian Government Financing Authority (SAFA).				\$'000	\$'000		
Deposits at call with SAFA				8 320	7 220		
Cash at bank and on hand				15	(18)		
				8 335	7 202		
10. Receivables				2004	2003		
				\$'000	\$'000		
Legal Practitioners Act				764	687		
Goods and Services Tax				256	277		
Client debtors and other debtors				127	128		
Less: Provision for doubtful debts				13	13		
				114	115		
				1 134	1 079		
11. Other				2004	2003		
				\$'000	\$'000		
Prepayments				144	107		
12. Computers and Other Equipment				2004	2003		
				\$'000	\$'000		
Computer - Major hardware equipment at cost				346	249		
Less: Accumulated depreciation				196	111		
				150	138		
Computer - Software and applications at cost				495	478		
Less: Accumulated depreciation				412	315		
				83	163		
Computer - Minor hardware at cost				468	441		
Less: Accumulated depreciation				351	231		
				117	210		
Office equipment at cost				175	173		
Less: Accumulated depreciation				113	101		
				62	72		
Furniture and fittings at cost				162	126		
Less: Accumulated depreciation				39	29		
				123	97		
Leasehold improvements at cost				492	461		
Less: Accumulated depreciation				90	43		
				402	418		
				937	1 098		
12.1 Computers and Other Equipment Movement Schedule							
	Major	Computer	Minor	Office	Furniture	Leasehold	2004
	Computer	Software	Computer	Equipment	And	Improve-	Total
	Hardware		Hardware		Fittings	ments	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2003	249	478	441	173	126	461	1 928
Add: Additions	97	20	27	9	36	31	220
Less: Disposals	-	3	-	7	-	-	10
Balance at 30 June 2004	346	495	468	175	162	492	2 138
Accumulated Depreciation:							
Balance at 30 June 2003	111	315	231	101	29	43	830
Less: Disposals	-	2	-	6	-	-	8
Add: Depreciation expense	85	99	120	18	10	47	379
Balance at 30 June 2004	196	412	351	113	39	90	1 201
Net Book Value:							
As at 30 June 2003	138	163	210	72	97	418	1 098
As at 30 June 2004	150	83	117	62	123	402	937
13. Employee Benefits							2004
13.1 Employee Provisions							\$'000
Current Liabilities:							
Annual leave							561
Long service leave							65
							626
Non-Current Liabilities:							
Long service leave							1 594
							2 220
							1 470
							2 053

13.2 Employee Benefits and Related On-costs	2004	2003
Accrued Salaries and Wages:	\$'000	\$'000
On-costs included in creditors - Current	15	5
Creditors - Current	111	33
	126	38
Annual Leave:		
On-costs included in creditors - Current	73	64
Provision for employee benefits - Current	561	490
	634	554
Long Service Leave:		
On-costs included in creditors - Current	6	6
Provision for employee benefits - Current	65	93
	71	99
On-costs included in creditors - Non-Current	136	129
Provision for employee benefits - Non-Current	1 594	1 471
	1 730	1 600
Aggregate Employee Benefits and Related On-costs	2 561	2 291

14. Reserves

Movements during the year were:

Asset Replacement Reserve:

Balance at 1 July	103	529
Less: Transfer to accumulated funds	-	426
Add: Transfer from accumulated funds	193	-
Balance at 30 June	296	103

Commonwealth Expensive Case Reserve:

Balance at 1 July	200	400
Less: Transfer to accumulated funds	100	200
Balance at 30 June	100	200

State Expensive Cases Reserve:

Balance at 1 July	200	400
Less: Transfer to accumulated funds	100	200
Balance at 30 June	100	200

State Legal Assistance Scheme Reserve:

Balance at 1 July	389	389
Balance at 30 June	389	389

Asset Revaluation Reserve:

Balance at 1 July	121	121
Balance at 30 June	121	121

Total Reserves

1 006	1 013
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15. Accumulated Funds

Balance at 1 July	7 908	6 068
Add: Transfer from reserve	200	826
Less: Transfer to reserve	193	-
Operating surplus from ordinary activities	783	1 014
Balance at 30 June	8 698	7 908

16. Legal Expense Commitments

Legal Cases Referred

As at 30 June 2004, the Commission has a future commitment of \$2 543 000 (\$2 766 000) on legal cases referred to private practitioners which are still to be finalised. In addition the Commission has a future commitment of \$402 000 on a State Expensive case which will be funded separately.

The Commission reviewed outstanding legal commitments and determined that commitments less the underutilisation factor of 27.44 percent (26.18 percent) would be recognised on all outstanding amounts raised since December 2002 (ie the previous 18 months). Commitments raised prior to this date have been dismissed. If any file prior to this date is reactivated, new commitments will be raised.

In the normal course of business, further commitments may be required on recognised legal cases. It is not possible to quantify that amount.

17. Commitments

At the reporting date the Commission had the following obligations under non-cancellable operating leases. The obligations are not recognised as liabilities in the Statement of Financial Position. The operating leases held by the Commission are property leases with penalty clauses equal to the amount of the residual payments remaining for the lease term. The leases are payable one month in advance. The option to renew the lease is held by the Commission. There are no existing contingent rental provisions.

	2004	2003
	\$'000	\$'000
Operating lease commitments payable:		
Not later than one year	21	64
Later than one year but not later than five years	64	17
	85	81

18. Reconciliation of Operating Surplus from Ordinary Activities to Net Cash provided by Operating Activities

Operating surplus from ordinary activities	783	1 014
Increase in statutory charge debtors	(213)	(218)
Increase in receivables	(55)	(238)
Increase (Decrease) in legal creditors	291	(107)
Increase in creditors	76	142
Depreciation	379	309
Increase in employee provisions	167	211
Loss on disposal of equipment	1	-
(Increase) Decrease in prepayments	(37)	13
Net Cash provided by Operating Activities	1 392	1 126

19. Related Party Disclosures

The members of the Commission who have held office during the financial year are:

Mr Brian Withers (Chairman)	Reappointed 10 July 2003
Mr Brian Nitschke	Appointed 10 July 2003
Mr Michael Burgess	Reappointed 20 November 2003
Mr David Meyer	Reappointed 21 August 2003
Mr Hugh Gilmore	Reappointed 21 June 2004
Ms Marilyn Lennon	Resigned 09 July 2003
Mr David Bulloch	
Mr Gordon Barrett	
Ms Dymphna Eszenyi	
Ms Deborah McCulloch	
Mr Kym Pennifold	

The members of the Commission are appointed by the Governor in accordance with the provisions of the *Legal Services Commission Act 1977* and include partners of legal firms. In the ordinary course of business the Commission enters into transactions with legal firms, some of which are associated with members of the Commission. Payments made to these firms are in accordance with the Commission's scale of fees and are payments that apply to practitioners generally.

	2004	2003
	Number of	Number of
	Members	Members
The number of members whose remuneration received or receivable fell within the following bands was:		
\$nil	1	1
\$1 - \$10 000	9	8
\$10 001 - \$20 000	1	1

The total remuneration received or due and receivable by these members was \$79 000 (\$76 165).

20. Remuneration of Employees

Amounts received or receivable by employees of the Commission whose remuneration is greater than \$100 000. The amounts include salaries and related payments, superannuation benefits and motor vehicle benefits.

	2004	2003
	Number of	Number of
	Employees	Employees
The number of members whose remuneration received or receivable fell within the following bands was:		
\$100 001 - \$110 000	5	4
\$110 001 - \$120 000	4	4
\$120 001 - \$130 000	1	2
\$180 001 - \$190 000	-	1
\$190 001 - \$200 000	-	1
\$200 001 - \$210 000	1	-
\$210 001 - \$220 000	-	1
\$230 001 - \$240 000	1	-

The total remuneration received or due and receivable by these employees was \$1 562 000 (\$1 711 000).

21. Contingent Liabilities

At balance date and at the date of the certification of this financial report by the Commission, there were no known contingent liabilities of a material nature.

22. Statutory Charge Debtors

Statutory charge debtors are raised as a result of the Commission registering charges over property owned by some recipients of legal aid to secure legal costs owed on cases undertaken and are reported at amounts due. Debts are recovered when the property is refinanced or sold.

	2004	2003
	\$'000	\$'000
Statutory charge debtors	2 831	2 568
Less: Provision for doubtful debts	150	100
	2 681	2 468

POLICE DEPARTMENT

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Police Department is an administrative unit established under the *Public Sector Management Act 1995*.

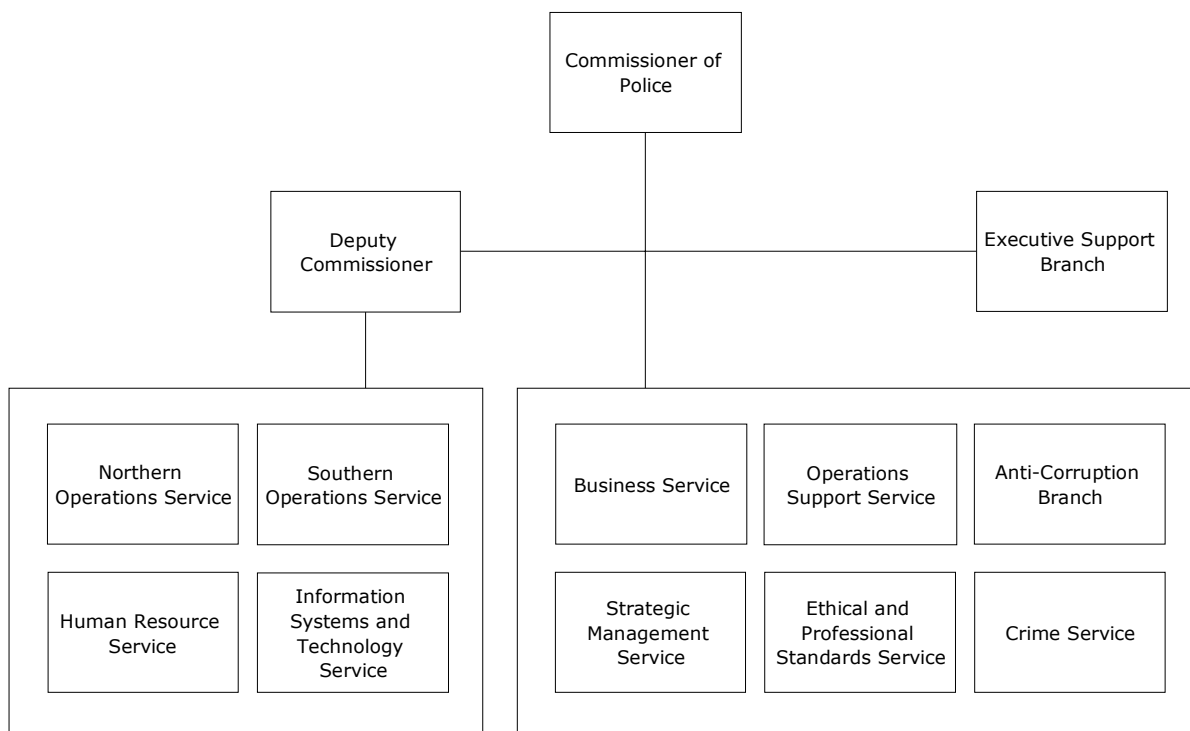
Functions

The functions of the Police Department are as follows:

- Preventing crime.
- Upholding the law.
- Preserving the peace.
- Providing assistance in personal emergencies.
- Co-ordinating and managing emergency incidents.
- Regulating road use and preventing vehicle collisions.

Structure

The structure of the Police Department is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Police Department for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Police Department in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- budgetary control and management reporting
- risk management and internal audit processes
- accounts payable
- payroll
- property, plant and equipment
- firearms registration and licence fees
- expiation notices
- police security services fees.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable accounting standards and other mandatory professional reporting requirements in Australia, the financial position of the Police Department as at 30 June 2004, its financial performance and cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Department in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Department have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Commissioner. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Department and the related responses are considered herein.

Firearm Licences and Registrations

The audit for 2003-04 included a review of the action taken by the Department to review policies and practices associated with the:

- non-refund of overpayments below \$10 (unless requested by the payee) and acceptance of underpayments below \$10 as full payment;
- refund of licence fees when firearm licences are surrendered. Audit had noted during 2002-03 that there is no legal requirement or authority to provide refunds when a licence is surrendered;
- follow up of people with registered firearms and expired licences. Audit had noted during 2002-03 that it is an offence under subsection 11(1) of the *Firearms Act 1977* to possess a firearm without a licence and also noted that delays in people renewing their expired licences results in lost revenue as the licence period commences from the day the licence fee is paid.

The 2003-04 review identified that:

- a policy was introduced by the Department in May 2004 which provided that all future overpayments will be refunded and underpayments will not be accepted as full payment;
- Audit was advised in August 2004 that the practice of refunding licence fees when firearm licences are surrendered has been suspended and that a legal opinion will be sought regarding this matter;
- procedures and timeframes applied by the Department in following up people with registered firearms and expired licences are currently being reviewed.

Bank Reconciliations

During 2003-04 Audit observed that some central bank reconciliations were not up to date.

Audit acknowledged that the Department's procedures for the preparation of regular bank reconciliations had been impacted upon by changes in daily banking processes following the transition from the use of the Reserve Bank of Australia to the Westpac Banking Corporation (Westpac) as part of the whole-of-government banking arrangements.

All central bank reconciliations are now up to date.

Bank Accounts

In February 2004 Audit commented that neither the Department or the Department of Treasury and Finance could provide evidence that the Treasurer had approved the opening of the then 130 bank accounts and 7 imprest bank accounts operated by Local Service Areas and Police Stations. Audit recommended that the approval of the Treasurer to open all bank accounts be located or another approval sought from the Treasurer.

Retrospective approval from the Treasurer's delegate was received in September 2004.

Payroll

During 2003-04 Audit identified instances where the Personnel Audit Report was not certified and retained in accordance with the Department's General Orders.

Audit regards the certification of the Personnel Audit Report (bona fide report) to be an efficient and effective control for preventing salary over payments which ensures that:

- employees are bona fide;
- terminated employees are made inactive on the payroll system;
- employees are paid at the correct rank or classification;
- allowances and higher duties paid to each employee are authorised;
- requests to cease allowances and higher duties are processed.

The Department responded by reminding relevant personnel of the need to certify and retain the personnel Audit Report.

Workers Compensation

During 2003-04 Audit undertook a review of the arrangements for managing workers compensation.

In a management letter to the Commissioner of Police dated 8 March 2004 Audit noted that:

- the Department have initiated a number of projects over the past three years designed to identify strategies and mechanisms to improve Occupational Health, Safety and Injury Management (OHS&IM);
- there were opportunities to improve reporting on the progress of implementation of key OHS&IM project recommendations;
- there was an opportunity to enhance existing reporting to the Senior Executive Group (SEG) on workers compensation key performance indicators;
- existing policies and procedures needed to be updated to reflect implementation of key project recommendations.

In response the Police Department commented that:

- whilst the five specific OHS&IM reviews examined by Audit by necessity had a different structure and management reporting system, future projects will clearly identify the officer responsible;
- reporting to SEG on management of workers compensation is in a state of continuing development and the need for explanatory commentary has been identified and will be implemented progressively in future reports;
- work undertaken to update policies and procedures has been completed.

Handgun Buyback Scheme

Between 1 October 2003 and 31 March 2004 the Department implemented a handgun buyback scheme during which members of the public and firearms dealers surrendered handguns in accordance with the Council of Australian Governments Agreement on Firearms and the Intergovernmental Agreement on the Handgun Buyback.

During 2003-04 Audit undertook a review of the controls adopted by the Department for managing and recording the payment of compensation and ensuring the completeness and accuracy of Commonwealth reimbursements. The review included an assessment of compliance with the legislation and Commonwealth agreements which govern the payment of compensation.

Audit observed that the Commonwealth had not provided the State with monthly reimbursements as required by the Intergovernmental Agreement.

The Department responded that the Commonwealth had withheld payments until they were satisfied that all requirements of the Intergovernmental Agreement had been met by the State. As at the date of this Report the Department has received \$10.9 million in compensation from the Commonwealth.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004	2003	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Revenues from Government	393	373	5
Fees and charges	12	13	(8)
Other	21	11	91
Total Operating Revenue	426	397	7
OPERATING EXPENDITURE			
Employment expenses	333	337	(1)
Other expenses	96	89	8
Total Operating Expenses	429	426	1
Surplus (Deficit)	(3)	(29)	90
Net Cash Flows from Operations	15	10	50
ASSETS			
Current assets	55	50	10
Non-current assets	174	174	0
Total Assets	229	224	2
LIABILITIES			
Current liabilities	47	45	4
Non-current liabilities	116	110	5
Total Liabilities	163	155	5
EQUITY	66	69	(4)

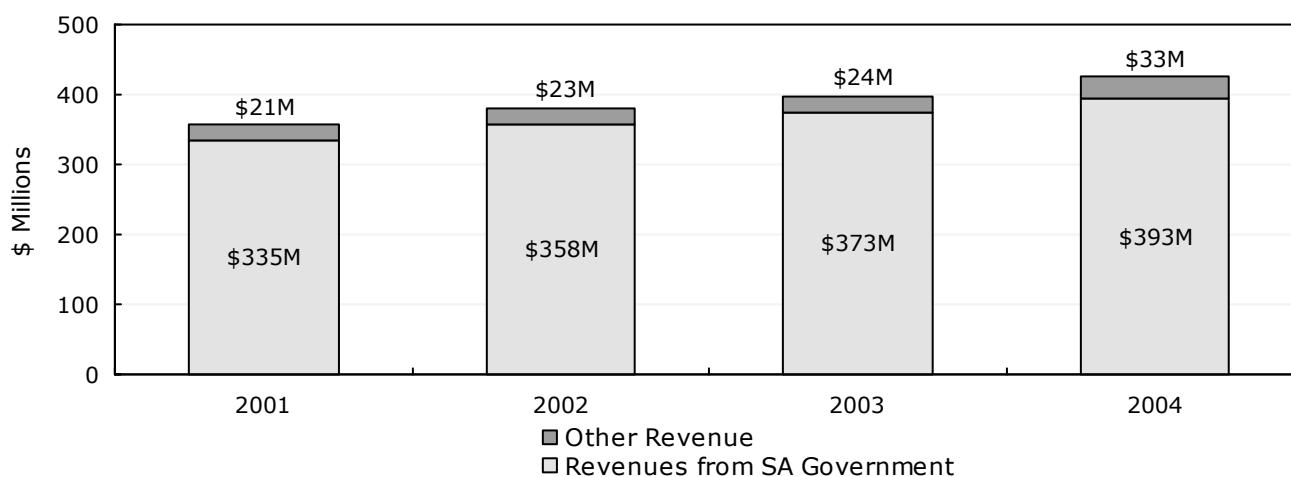
Statement of Financial Performance

Operating Revenues

Revenues from the State Government increased by \$20 million to \$393 million principally as a result of receiving for the first time funding from the Community Road Safety Fund (CRSF) which amounted to \$14.9 million.

Revenues from other sources increased by \$10 million to \$21 million mainly as a result of reimbursement from the Commonwealth for handgun buyback compensation payments made by the Department to members of the public and firearms dealers who surrendered handguns in accordance with the Council of Australian Government's Agreement on Firearms and the Intergovernmental Agreement on the Handgun Buyback. For more information refer Note 10 of the financial report.

A structural analysis of operating revenues for the Department in the four years to 2004 is presented in the following chart.

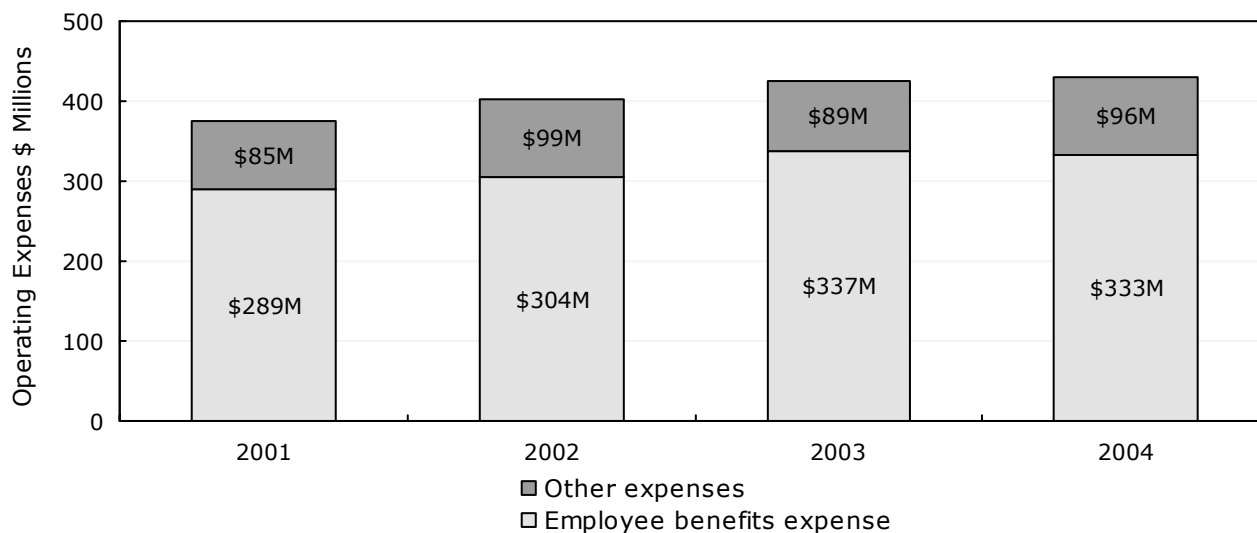


Operating Expenses

Employee benefits expenses decreased by \$4 million to \$333 million due largely to a reduction in the expense associated with the workers compensation provision. The expense for 2003 was unusually high as a result of a \$19.1 million increase in the provision for workers compensation in 2003 which reflected a change in the method for calculating the provision as detailed in Note 2.17 of the financial report. Actual salaries and wages paid to employees during 2004 increased by \$8 million to \$220 million.

Other expenses increased by \$7 million to \$96 million. This increase was due mainly to once off payments under the handgun buy back compensation scheme of \$13 million, offset by savings in computing expenses and other administrative expenses.

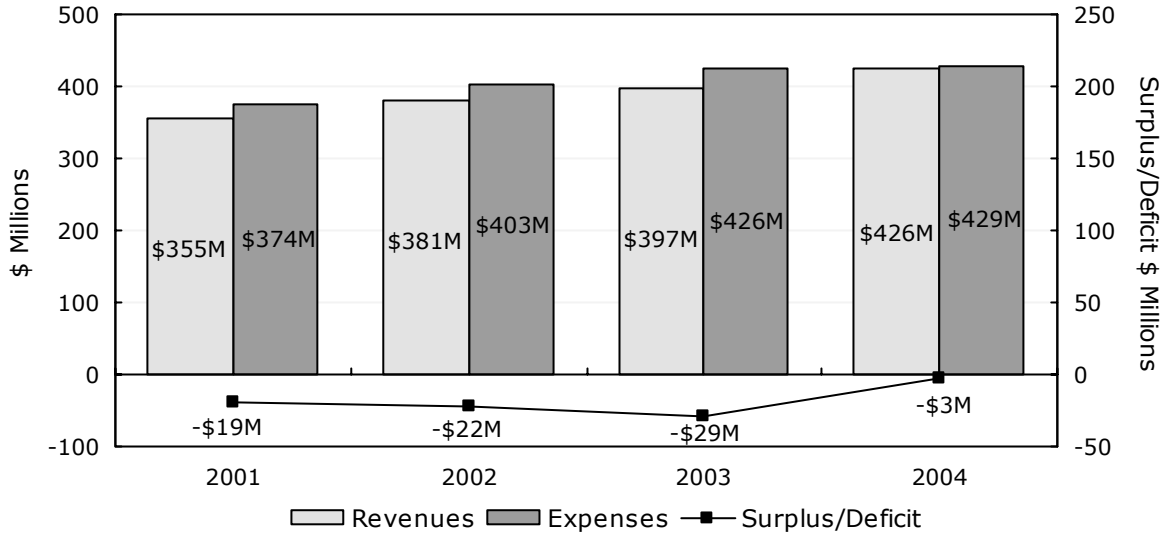
For the four years to 2004, a structural analysis of the main operating expense items for the Department is shown in the following chart.



Operating Result

The Department receives government funding based on annual budgeted expenditure, less estimated revenues from fees and charges and other sources. The Department recorded a minor operating deficit in 2004. Large deficits were reported in 2001 and 2002 following the write-off of assets that had a purchase price below the Department’s revised capitalisation threshold. The deficit reported in 2003 reflected the significant increase in the provision for workers compensation.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2004.



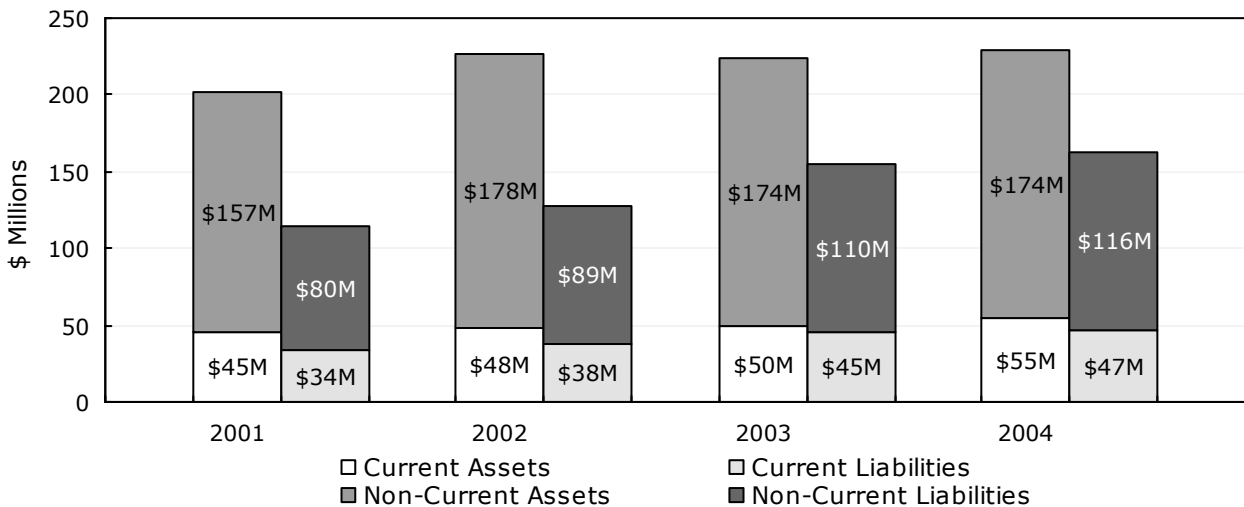
Statement of Financial Position

The Department’s non-current assets increased significantly in 2002 when it revalued its land, buildings and leasehold improvements resulting in a revaluation increment of \$23 million.

Non-current liabilities have increased each year since 2001 due mainly to increases in employee benefit entitlements and the provision for workers compensation.

Current assets and current liabilities have increased marginally each year since 2001.

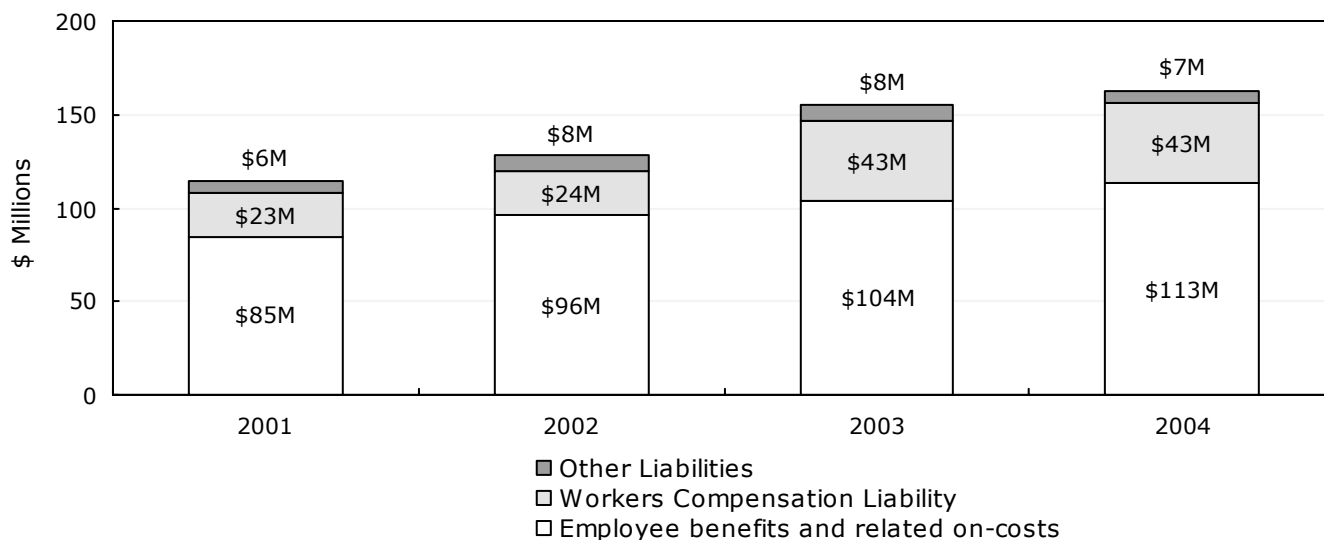
A structural analysis of assets and liabilities for the current year and the three preceding years is shown in the following chart.



Employee Benefits and Workers Compensation

Employee benefits, related on-costs and workers compensation liabilities represent 96 percent of the Department's total liabilities. At June 2004 the workers compensation liability of \$43 million represented 26 percent of the Department's total liabilities of \$163 million.

The significance of employee related liabilities compared to total liabilities is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	15	10	16	3
Investing	(10)	(5)	(21)	(28)
Financing	0	0	10	15
Change in Cash	5	5	5	(10)
Cash at 30 June	49	44	39	34

The analysis of cash flows shows an accumulation of funds each year since 2001. The increase in cash in 2004 was mainly the result of delays in progressing major capital projects, while the increase in cash experienced in 2003 was due mainly to cash received as reimbursement for payments made during 2002 on behalf of the Minister for the Audio Management System and an increase in funds held to meet planned expenditure on the Road Safety Reform Program.

In October 2003 the Department of Treasury and Finance (DTF) introduced a 'Cash Alignment Policy' designed to ensure that government agencies have adequate cash to meet their approved expenditure requirements while discouraging the accumulation of large cash balances. At 30 June each year cash deemed to be surplus to the Department's requirements will be transferred back to the Consolidated Account. It is anticipated that there will be a reduction in the level of cash held by the Department at June 2005.

Administered Items

Expiation Fees

Expiation fees collected by the Department and paid into the Consolidated Account, as reflected in the following chart, increased by \$1.2 million in 2003-04.

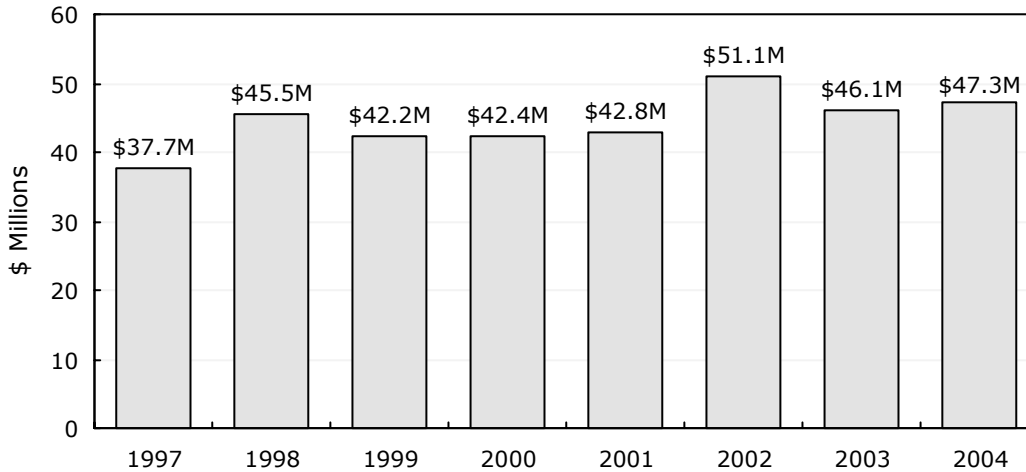
Police Department

The Police Department has in the current and previous years identified a range of factors which may have contributed to variations in the level of Expiation Fee revenue year to year. The reasons include:

- changes in the number and type of speed detection devices;
- other changes to police methodology which may impact on detection of offences;
- changes in driver behaviour in response to changed policing techniques.

Audit have not validated the Department’s explanations.

Expiation Fees Collected by the Department



FURTHER COMMENTARY ON OPERATIONS

Handgun Buyback

Between 1 October 2003 and 31 March 2004 the Department participated in a handgun buyback scheme whereby members of the public and firearms dealers surrendered handguns in accordance with the Council of Australian Governments Agreement on Firearms and the Intergovernmental Agreement on the Handgun Buyback.

The Department has advised that a total of 8871 handguns and 46 145 parts and accessories were received during the buyback period. Total compensation payments amounted to \$13.2 million. As at reporting date \$10.9 million had been received by the Department from the Commonwealth in reimbursement of compensation payments and administrative expenses. It is estimated that a further \$0.6 million will be recovered from the Commonwealth once a final reconciliation of the total number of handguns received by all State’s has been performed. In accordance with the Scheme the State Government is responsible for funding the balance which is estimated to be \$1.7 million.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004	2003
		\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	5	332 764	337 396
Supplies and services	6	86 322	79 576
Depreciation and amortisation	7	9 391	9 546
Total Expenses		428 477	426 518
REVENUES FROM ORDINARY ACTIVITIES:			
Fees and charges	9	12 547	12 659
Commonwealth revenue	10	11 516	-
Interest		2 039	2 050
Net gain from disposal of assets	11	228	184
Other	12	6 524	9 354
Total Revenues		32 854	24 247
NET COST OF SERVICES		395 623	402 271
REVENUES FROM SA GOVERNMENT:			
Revenues from SA Government	13	346 680	341 534
Contributions from the Community Emergency Services Fund	13	16 750	16 750
Contributions from the Community Road Safety Fund	13	14 900	-
Contributions from the Highways Fund	13	14 700	14 700
Net Revenues from SA Government	13	393 030	372 984
NET RESULT FROM ORDINARY ACTIVITIES		(2 593)	(29 287)
TAX EQUIVALENT PAYMENTS	2.5	(186)	(106)
NET RESULT FROM ORDINARY ACTIVITIES AFTER TAX			
EQUIVALENT PAYMENTS		(2 779)	(29 393)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING			
FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS			
OWNER		(2 779)	(29 393)

**Statement of Financial Position
as at 30 June 2004**

	Note	2004 \$'000	2003 \$'000
CURRENT ASSETS:			
Cash	14	49 233	43 831
Receivables	15	4 340	5 299
Inventories		208	250
Other	16	1 446	1 284
Total Current Assets		55 227	50 664
NON-CURRENT ASSETS:			
Property, plant and equipment	17	166 864	171 028
Capital works in progress		7 232	2 785
Total Non-Current Assets		174 096	173 813
Total Assets		229 323	224 477
CURRENT LIABILITIES:			
Payables	18	11 045	11 804
Employee benefits	19(a)	27 094	25 277
Provisions	20	8 473	8 380
Total Current Liabilities		46 612	45 461
NON-CURRENT LIABILITIES:			
Payables	18	8 843	7 824
Borrowings		200	200
Employee benefits	19(a)	72 475	66 766
Provisions	20	34 888	35 142
Total Non-Current Liabilities		116 406	109 932
Total Liabilities		163 018	155 393
NET ASSETS		66 305	69 084
EQUITY:			
Contributed capital	21	25 069	25 069
Accumulated surplus	21	18 581	21 360
Asset revaluation reserve	21	22 655	22 655
TOTAL EQUITY		66 305	69 084
Commitments for Expenditure	23		
Contingent Assets	24		
Contingent Liabilities	25		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
OUTFLOWS:			
Employee payments		(320 985)	(305 893)
Supplies and services		(86 814)	(77 405)
GST payments on purchases		(13 435)	(9 362)
Total Outflows		(421 234)	(392 660)
INFLOWS:			
Receipts from Government		393 030	372 984
Fees and charges		13 900	15 464
Receipts from Commonwealth		10 866	-
Interest received		2 031	2 032
GST receipts from Australian Taxation Office		11 527	6 773
GST receipts on revenues		1 588	2 104
Other		3 235	3 379
Total Inflows		436 177	402 736
Net Cash Inflows from Operating Activities	26	14 943	10 076
CASH FLOWS FROM INVESTING ACTIVITIES:			
OUTFLOWS:			
Purchase property, plant and equipment	17	(9 722)	(5 266)
Total Outflows		(9 722)	(5 266)
INFLOWS:			
Proceeds from sale of property, plant and equipment	11	181	237
Total Inflows		181	237
Net Cash Outflows from Investing Activities		(9 541)	(5 029)
NET INCREASE IN CASH HELD		5 402	5 047
CASH AT 1 JULY		43 831	38 784
CASH AT 30 JUNE	14	49 233	43 831

Program Schedule of Revenues and Expenses for the year ended 30 June 2004

(refer Note 4)	Program 1		Program 2		Program 3	
	Public Order		Crime Prevention		Road Safety	
	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:						
Employee expenses	124 527	141 384	103 697	97 979	33 821	33 134
Supplies and services	36 940	30 519	23 494	22 441	9 004	9 575
Depreciation and amortisation	3 707	4 192	2 589	2 496	1 091	1 043
Total Expenses	165 174	176 095	129 780	122 916	43 916	43 752
REVENUES FROM ORDINARY ACTIVITIES:						
Fees and charges	8 194	8 450	1 042	957	2 629	2 624
Commonwealth revenue	11 516	-	-	-	-	-
Interest	863	915	667	636	226	226
Net gain from disposal of assets	102	81	70	48	29	20
Other	2 760	5 302	2 136	2 269	723	807
Total Revenues	23 435	14 748	3 915	3 910	3 607	3 677
Net Cost of Services from Ordinary Activities	141 739	161 347	125 865	119 006	40 309	40 075
Revenues from/payments to SA Government	140 620	149 293	125 102	110 536	40 110	37 084
NET RESULT FROM ORDINARY ACTIVITIES	(1 119)	(12 054)	(763)	(8 470)	(199)	(2 991)
TAX EQUIVALENT PAYMENTS	(143)	(82)	-	-	(43)	(24)
NET RESULT FROM ORDINARY ACTIVITIES AFTER TAX EQUIVALENT PAYMENTS	(1 262)	(12 136)	(763)	(8 470)	(242)	(3 015)
Total Revenues, Expenses and Valuation						
Adjustments Recognised in Equity	-	-	-	-	-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER	(1 262)	(12 136)	(763)	(8 470)	(242)	(3 015)

Program Schedule of Revenues and Expenses for the year ended 30 June 2004 (continued)

(refer Note 4)	Program 4		Program 5		Program Total	
	Emergency Response & Management		Criminal Justice Services			
	2004	2003	2004	2003	2004	2003
EXPENSES FROM ORDINARY ACTIVITIES:	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Employee expenses	25 603	21 442	45 116	43 457	332 764	337 396
Supplies and services	7 977	8 585	8 907	8 456	86 322	79 576
Depreciation and amortisation	1 017	861	987	954	9 391	9 546
Total Expenses	34 597	30 888	55 010	52 867	428 477	426 518
REVENUES FROM ORDINARY ACTIVITIES:						
Fees and charges	-	-	682	628	12 547	12 659
Commonwealth revenue	-	-	-	-	11 516	-
Interest	-	-	283	273	2 039	2 050
Net gain from disposal of assets	-	17	27	18	228	184
Other	-	-	905	976	6 524	9 354
Total Revenues	-	17	1 897	1 895	32 854	24 247
Net Cost of Services from Ordinary Activities	34 597	30 871	53 113	50 972	395 623	402 271
Revenues from/Payments to SA Government	34 407	28 742	52 791	47 329	393 030	372 984
NET RESULT FROM ORDINARY ACTIVITIES	(190)	(2 129)	(322)	(3 643)	(2 593)	(29 287)
TAX EQUIVALENT PAYMENTS	-	-	-	-	(186)	(106)
NET RESULT FROM ORDINARY ACTIVITIES AFTER TAX EQUIVALENT PAYMENTS	(190)	(2 129)	(322)	(3 643)	(2 779)	(29 393)
Total Revenues, Expenses and Valuation Adjustments Recognised in Equity	-	-	-	-	-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER	(190)	(2 129)	(322)	(3 643)	(2 779)	(29 393)

A Program Schedule for Police Department assets and Liabilities has not been produced as that information is not readily available.

The allocation of resources to programs is based upon both work activity surveys from a representative sample of four major local service areas in February/March 2004 and surveys completed by service areas.

Schedule of Administered Expenses and Revenues for the year ended 30 June 2004

	Firearms Buyback Scheme	Special Acts	Expiation Fees	Provision of Helicopter Service	CIC Levy	Audio Mgmt Systems	SA Ambulance Service
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ADMINISTERED EXPENSES:							
Employee benefits	-	284	-	-	-	-	-
Supplies and services	4	-	-	3 790	-	380	966
Intra Government transfers	-	-	-	-	-	-	41 842
Grants and subsidies	-	-	-	-	-	-	-
Payments to consolidated account	-	-	47 331	2 114	-	-	-
Criminal injury compensation levy	-	-	-	-	2 545	-	-
Total	4	284	47 331	5 904	2 545	380	42 808
ADMINISTERED REVENUES:							
Intra Government transfers	-	-	-	487	-	2 225	-
Sales of goods and services	-	-	-	1 615	-	950	-
Fines and penalties	-	-	47 331	-	-	-	-
State Government appropriations	-	284	-	3 987	-	1 790	42 808
Criminal injury compensation levy	-	-	-	-	2 545	-	-
Total	-	284	47 331	6 089	2 545	4 965	42 808
REVENUES LESS EXPENSES	(4)	-	-	185	-	4 585	-

	Commnty Develmnt Fund - St John	Safer Commun- ities Australia	SA Water Concessn for Emergy Services	Crime Preventn Council	2004 Total \$'000	2003 Total \$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ADMINISTERED EXPENSES:						
Employee benefits	-	-	-	-	284	261
Supplies and services	-	-	-	-	5 140	4 675
Intra Government transfers	-	-	50	-	41 892	50
Grants and subsidies	100	74	-	3	177	174
Payments to consolidated account	-	-	-	-	49 445	47 772
Criminal injury compensation levy	-	-	-	-	2 545	2 163
Total	100	74	50	3	99 483	55 095
ADMINISTERED REVENUES:						
Intra Government transfers	-	-	-	-	2 712	3 834
Sales of goods and services	-	-	-	-	2 565	1 694
Fines and penalties	-	-	-	-	47 331	46 077
State Government appropriations	100	74	50	3	49 096	4 984
Criminal injury compensation levy	-	-	-	-	2 545	2 163
Total	100	74	50	3	104 249	58 752
REVENUES LESS EXPENSES	-	-	-	-	4 766	3 657

Schedule of Administered Assets and Liabilities as at 30 June 2004

	Firearms Buyback Scheme \$'000	Special Acts \$'000	Expiation Fees \$'000	Provision of Helicopter Service \$'000	SA Water Concessn for Energy Services \$'000
ADMINISTERED ASSETS:					
Cash assets	43	(81)	3 592	404	(50)
Receivables	-	81	-	584	50
Prepayments	-	-	-	197	-
Works in progress	-	-	-	-	-
Total	43	-	3 592	1 185	-
ADMINISTERED LIABILITIES:					
Payables	-	-	3 592	776	-
Total	-	-	3 592	776	-
NET ASSETS	43	-	-	409	-

	CIC Levy \$'000	Audio Mgmt Systems \$'000	2004 Total \$'000	2003 Total \$'000
ADMINISTERED ASSETS:				
Cash assets	214	(826)	3 296	427
Receivables	-	826	1 541	20
Prepayments	-	-	197	-
Works in progress	-	9 701	9 701	6 114
Total	214	9 701	14 735	6 561
ADMINISTERED LIABILITIES:				
Payables	214	2	4 584	1 176
Total	214	2	4 584	1 176
NET ASSETS	-	9 699	10 151	5 385

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Police Department (SAPOL)

The South Australia Police Department (SAPOL) operates within the *Police Act 1998*, the *Police Regulations 1999*, and the *Public Sector Management Act 1995*.

The mission statement of SAPOL, as set out in the Corporate Business Plan 2002 – 2004, is 'working together to reassure and protect the community from crime and disorder'. This mission statement is reflected in the following core strategies:

- Sustain community support for the delivery of police services.
- Adopt a problem solving approach for the delivery of police services.
- Establish police services which are reasonably accessible to the community.
- Respond efficiently and effectively to emergencies and calls for assistance.
- Deploy personnel for the effective detection and deterrence of public order, road traffic and criminal offences.
- Establish systems and structures for the efficient and effective investigation of public order, road traffic and criminal offences.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

The financial report is a general purpose financial report. The accounts have been prepared in accordance with:

- Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act 1987*
- Applicable Australian Accounting Standards
- Other mandatory professional reporting requirements in Australia

SAPOL's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The continued existence of SAPOL in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by Parliament for SAPOL's administration and outputs.

2.2 Reporting Entity

The financial report encompasses all activities transacted through an interest bearing Special Deposit Account titled 'SA Police Operating Account'. SAPOL's principal source of funds consists of monies appropriated by Parliament.

Administered Resources

SAPOL administers on behalf of the Government of South Australia certain resources over which it does not have control. Although accountable for the transactions relating to these administered resources, SAPOL does not have the control or discretion to apply these resources to achieve its objectives.

Transactions and balances relating to these administered resources are not recognised as SAPOL's revenues, expenses, assets or liabilities, but are disclosed separately in the Schedule of Administered Expenses and Revenues, and the Schedule of Administered Assets and Liabilities as appropriate.

2.3 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

2.4 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

2.5 Tax Equivalent Payments

SAPOL is not subject to income tax. SAPOL is liable for payroll tax, Fringe Benefits Tax, Goods and Services Tax, Emergency Services Levy, land tax equivalents and local government rate equivalents.

In accordance with the National Competition Policy principles, it was agreed that State Government Business Enterprises (GBEs) in competition with private industry would be liable for payment of Commonwealth, State and Local Government taxes. Although GBEs cannot legally pay the income tax, an equivalent payment is made to the Department of Treasury and Finance. For the purpose of determining Income Tax Equivalent payments, which are applicable only to the Police Security Services Branch of SAPOL's operations, the Income Tax liability is deemed to be equal to 30 percent of the net profit for the Police Security Services Branch.

2.6 Accounting for Goods and Services Tax

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing activities, which are recoverable from, or payable to the Australian Taxation Office have however been classified as operating cash flows.

2.7 Revenue and Expenses

Revenue and Expense are recognised in SAPOL's Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Revenue and Expenses have been classified according to their nature in accordance with APS 13 'Form and Content of General Purpose Financial Reports' and have not been offset unless required or permitted by another accounting standard.

2.7 Revenue and Expenses (continued)

Revenue from fees and charges is derived from the provision of goods and services to other SA Government agencies and to the public. This revenue is driven by consumer demand.

Fees and charges controlled by SAPOL are recognised as revenues. Fees and charges are deemed to be controlled where they can be deployed for the achievement of SAPOL objectives. Such amounts are not required to be paid to the Consolidated Account or other Funds not controlled by SAPOL.

Fees and charges collected by SAPOL but not controlled by it are not recognised as revenues, but are reported as administered revenues in the Schedule of Administered Expenses and Revenues. Such amounts are required to be paid to the Consolidated Account or other Funds not controlled by SAPOL.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

2.8 Revenues from/Payments to SA Government

Appropriations for program funding are recognised as revenues when SAPOL obtains control over the assets. Control over appropriations is normally obtained upon their receipt and are accounted for in accordance with Treasurer's Instruction 3 'Appropriation'.

2.9 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. SAPOL has a clearly identifiable operating cycle of 12 months. Therefore assets and liabilities that will be realised as part of the normal operating cycle will be classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

2.10 Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank and deposits at call that are readily converted to cash and are used in the cash management function on a day-to-day basis. Administered cash is not included in the Statement of Cash Flows.

2.11 Receivables

Trade receivables arise in the normal course of selling goods and services to other agencies and to the public. Trade receivables are payable within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

Other debtors arise outside the normal course of selling goods and services to other agencies and to the public.

SAPOL determines the provision for doubtful debts based on a review of balances within trade receivables that are unlikely to be collected. These are generally receivables that are 90 days or more overdue.

2.12 Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position.

Where the payment for an asset is deferred, SAPOL measures it at the present value of the future outflow, discounted using the interest rate of a similar length borrowing.

SAPOL capitalises all non-current physical assets with a value of \$10 000 or greater in accordance with Accounting Policy Statement 2 'Asset Recognition'.

2.13 Revaluation of Non-Current Assets

In accordance with APS 3 'Valuation of Non-Current Assets':

- all non-current physical assets are valued at written down current cost (a proxy for both the fair value and deprival method of valuation)
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years

The Statement of Financial Position includes all property, plant and equipment controlled by SAPOL.

Land and Buildings controlled by SAPOL were revalued, as at 30 June 2002, following an independent valuation prepared by Colliers International Consultancy and Valuation Pty Limited using the deprival value methodology. Other non-current assets have been valued at their written down historic cost.

If at any time management considers that the carrying amount of an asset materially differs from its fair value then the asset will be revalued regardless of when the last valuation took place. Non-current physical assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value.

2.14 Depreciation and Amortisation of Non-Current Assets

SAPOL recognises plant and equipment as a Non-Current Asset where the purchase cost is greater than \$10 000, all other plant and equipment purchases are expensed in the year of purchase. Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each depreciable non-current asset over its expected useful life. Estimates of the remaining useful lives are made on a regular basis for all assets.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Depreciation/amortisation for non-current assets is determined as follows:

Class of Asset	Depreciation Method	Useful Life (Years)
Buildings	Straight Line	15-60
Vehicles and transport	Straight Line	3-10
Computers and communications	Straight Line	3-7
Office furniture and equipment	Straight Line	10
Weaponry	Straight Line	2
Other plant and equipment	Straight Line	10
Leasehold improvements	Straight Line	Life of lease

2.15 Payables

Payables include creditors, accrued expenses and employment on-costs.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of SAPOL.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services' after SAPOL receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

SAPOL makes contributions to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as the Police Superannuation Board (PSB) and South Australian Superannuation Board (SASB) have assumed these. The only liability outstanding at balance date relates to any contributions due but not yet paid to PSB and SASB.

2.16 Employee Benefits

Annual Leave

A provision is raised at the end of the reporting period to reflect employee entitlements to annual leave. Liabilities for annual leave are recognised, and are measured as the amount unpaid at the reporting date, at the rate of pay expected to be paid when the leave is taken, in respect of employee's services up to that date.

Long Service Leave

A provision is raised at the end of the reporting period to reflect employee entitlements to long service leave. The provision for long service leave represents the amount which SAPOL has a present obligation to pay resulting from employees' services provided up to the reporting date.

The provision has been calculated at nominal amounts based on current salaries and wages rates using an independent actuarial assessment benchmark of 12 years service as a shorthand estimation of long service leave liability. The Department of Treasury and Finance provided the actuarial benchmark in 2003. Related on-costs of payroll tax and superannuation are shown under Payables employment on-costs (refer Note 18). This policy is consistent with the requirements of Australian Accounting Standard AASB 1028 'Employee Benefits'.

Sick Leave

No provision has been made for sick leave as entitlements are non-vesting and it is considered that sick leave is taken from the current year's entitlement.

2.17 Provisions

Provisions are recognised when SAPOL has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation liability, which was based on an actuarial assessment, was provided by the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services.

The workers compensation provision is based on an actuarial assessment prepared by Taylor Fry Consulting Actuaries. The Justice Portfolio was analysed separately for the first time for the 2003 valuation. The new valuation methodology has resulted in the Justice Portfolio's liability being more specifically measured. The SA Police liability is an allocation of the Justice Portfolio's total assessment.

Civil Actions against Police

A liability has been reported to reflect unsettled actions against SA Police.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Professional Indemnity and General Public Liability Insurance

The Department is a participant in the State Government's Insurance Program. The Department pays a premium to the SA Government Captive Insurance Corporation (SAICORP) and is responsible for the payment of claim amounts up to an agreed amount (the deductible). SAICORP provides the balance of the funding for claims in excess of the deductible.

2.18 Leases

SAPOL has entered into a number of operating lease agreements for buildings and vehicles where the lessors effectively retain all of the risks and benefits incidental to ownership of the items. Operating lease payments are representative of the pattern of benefits to be derived from the leased items and accordingly are charged to the Statement of Financial Performance in the period in which they are incurred (refer Note 23).

3. Changes in Accounting Policies**3.1 Impact of Adopting Australian Equivalents to International Financial Reporting Standards**

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. SAPOL will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', the Commissioner is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). SAPOL has analysed the exposure drafts issued by the AASB and has identified a number of potential issues that may need to be addressed. SAPOL is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems; and
- key dates for monitoring and reviewing progress.

SAPOL is using the Model Financial Report for SA Government entities developed by the Department of Treasury and Finance (DTF) and keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements (APS) by attending exposure draft reference group meetings (facilitated by DTF) and information forums organised by the DTF and professional accounting bodies.

Changes in Accounting Policy

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Non-Current Asset Acquisition and Recognition

The Australian equivalent to IAS 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life is greater than three years) will continue to apply.

Employee Benefits

Employee benefits payable later than 12 months from year-end will be measured at present value rather than at nominal amounts.

Income Tax (Relevant to NTER Entities Only)

The Australian equivalent to IAS 12 is proposing a comprehensive method/balance sheet approach to account for income tax. It is anticipated that a TI or APS will continue to mandate the profit and loss approach. Therefore it is not anticipated that there will be a change in income tax accounting policy for SAPOL.

4. Programs of SAPOL

SAPOL has identified five programs that it delivers to the community and the Minister for Police. The identity and description of each SAPOL program during the year ended 30 June 2004 is summarised below. Financial information relating to each Program is reported in the Program Schedule of Department's Expenses and Revenues.

Program 1 Public Order

Provision of police services to the community, the investigation and management of public order offences, and the management of major events in the State. The outcome is a community that is reassured and protected from crime and disorder, making South Australia a safer place to live, visit and conduct business.

Program 2 Crime Prevention

Conducting investigations and management by police of crimes against the person, property offences, drug related offences and other crimes in the community; application of SAPOL's crime reduction strategy to achieve identified crime reduction outcomes; provision of services that support crime prevention, such as Watch programs and Crime Stoppers; and the production and dissemination of information, education and training. The outcome is that the incidence and effects of crime will be reduced, making South Australia a safer place to live, visit and conduct business.

Program 3 Road Safety

Regulation of road use, investigation of vehicle collisions and promotion of road safety. The outcomes are improved road safety and efficient traffic movement, in addition to related economic and personal benefits, making South Australia a safer place to live, visit and conduct business.

Program 4 Emergency Response and Management

Maximising the capacity to receive and manage calls for assistance, and to respond to and manage emergencies. The outcome is that the effects on individuals and the community of emergency and disaster situations are minimised, making South Australia a safer place to live, visit and conduct business.

Program 5 Criminal Justice Services

Enforcement of court orders and execution of warrants, the provision of prosecution services and services to the judicial system, and the safekeeping and supervision of persons in police custody. The outcome is an efficient, effective, safe and fair support service to the judicial system, making South Australia a safer place to live, visit and conduct business.

5. Employee Expenses

Employee benefits for the reporting period comprise:

	2004	2003
	\$'000	\$'000
Salaries and wages	220 276	211 675
Superannuation and payroll expenses	51 379	49 325
Annual, sick, long service leave and leave bank expenses	45 931	44 189
Workers compensation	10 011	28 110
Other employee related expenses	5 167	4 097
	332 764	337 396

Remuneration of Employees

The number of employees whose remuneration received or receivable falls within the following bands:

	Number of Employees	Number of Employees
\$100 000 - \$109 999	32	16
\$110 000 - \$119 999	8	6
\$120 000 - \$129 999	3	1
\$130 000 - \$139 999	1	2
\$140 000 - \$149 999	1	-
\$150 000 - \$159 999	1	3
\$160 000 - \$169 999	3	1
\$210 000 - \$219 999	-	1
\$230 000 - \$239 999	1	-
\$250 000 - \$259 999	-	1
\$260 000 - \$269 999	1	-
	51	31

The total remuneration paid or payable to these employees was \$6.0 million (\$3.8 million). This employee group is made up of 9 current senior executive, 40 senior management and 2 secondments to East Timor, of which 48 are sworn police and 3 are public servants.

6. Supplies and Services	2004	2003
Supplies and services provided by entities within the SA Government:	\$'000	\$'000
Occupancy rent and rates	8 960	8 674
Computing expenses	8 797	9 161
Repairs and maintenance - Buildings	2 650	2 568
Operating leases	2 605	2 645
Communication expenses	993	840
Motor vehicle expenses	982	1 100
Insurance and risk management	761	665
Electricity, gas and fuel	495	710
Aircraft operations	298	363
Civil actions against police	86	76
Other administrative expenses	4 172	4 447
	30 799	31 249
Supplies and services provided by entities external to the SA Government:		
Hand gun Buy Back compensation payments	13 214	-
Motor vehicle expenses	8 097	7 829
Communication expenses	7 342	7 338
Operating leases	3 773	3 572
Electricity, gas and fuel	2 315	2 402
Computing expenses	2 259	3 762
Travel and accommodation	2 269	2 000
Minor equipment expenses	2 177	2 674
Cleaning infrastructure	1 824	1 746
Uniform issues	1 576	2 311
Stationery	1 275	1 508
Alarm installations, maintenance and monitoring	1 230	1 731
Staff development	1 132	1 083
Agency staffing	873	1 184
Repairs and maintenance - Equipment	591	871
Cost against Police	482	430
Civil actions against police	264	720
Occupancy rent and rates	258	225
Occupational Health and Safety	240	323
Aircraft operations	176	230
Consultancies	71	70
Other administrative expenses	4 085	6 318
	55 523	48 327
Total Supplies and Services	86 322	79 576

The number and dollar amount of consultancies paid/payable that fell within the following band:	2004	2004	2003
	Number	\$'000	\$'000
Below \$10 000	6	26	5
Between \$10 000 - \$50 000	1	45	13
Above \$50 000	-	-	52
	7	71	70

7. Depreciation and Amortisation	2004	2003
	\$'000	\$'000
Buildings and improvements	3 305	3 610
Leasehold improvements	3 194	3 501
Computers and communications equipment	1 407	946
Weaponry and other	845	821
Vehicles and transport vessels	625	623
Office furniture and equipment	15	45
	9 391	9 546

8. Auditor's Remuneration	2004	2003
Audit fees paid/payable to the Auditor-General's Department for auditing the financial report	171	156

Other Services

No other services were provided by the Auditor-General's Department.

9. Fees and Charges	2004	2003
Fees and charges received/receivable from entities within the SA Government for the reporting period comprise:	\$'000	\$'000
Police Security Services	5 976	6 678
Prosecution and other court fees	519	487
Other fees	21	32
	6 516	7 197
Fees and charges received/receivable from entities external to the SA Government for the reporting period comprise:		
Firearms licence and registration fees	3 005	2 635
Police information requests	1 303	1 190
Escorts - Wide load/other	1 043	861
Police security services	181	253
Other fees	499	523
	6 031	5 462
Total Fees and Charges	12 547	12 659
10. Commonwealth Revenue		
Reimbursement of Handgun Buyback compensation payments	9 708	-
Reimbursement of administrative expenses	1 808	-
	11 516	-
<p>South Australia, through SAPOL, implemented a handgun buyback, operating between 1 October 2003 and 31 March 2004 during which members of the public and firearms dealers surrendered handguns in accordance with the Council of Australian Governments Agreement on Firearms and the Intergovernmental Agreement on the Handgun Buyback.</p> <p>SAPOL paid out \$13.214 million in compensation payments (refer Note 6), with reimbursement from the Commonwealth being generally 66.6 percent of the compensation payment or 100 percent of the compensation payment where a person elected to leave the sport.</p>		
11. Net Gain from Disposal of Assets	2004	2003
Total Assets:	\$'000	\$'000
Proceeds from disposal	181	237
Net book value of assets disposed	(215)	(293)
Write down of non-current assets - Stocktake	(221)	(129)
Assets identified as part of stocktake/other	483	369
Net Gain from Disposal of Total Assets	228	184
12. Other Revenue		
Other revenues from the reporting period include:		
Employee benefits recoveries	2 542	3 748
Grants	1 033	856
Other	2 949	4 750
	6 524	9 354
13. Revenues from SA Government		
Revenues from SA Government:		
Appropriation from Consolidated Account pursuant to the <i>Appropriation Act</i>	346 680	341 534
Contributions from the Community Emergency Services Fund	16 750	16 750
Contributions from the Community Road Safety Fund	14 900	-
Contributions from the Highways Fund	14 700	14 700
	393 030	372 984
There were no payments to SA Government		
14. Cash		
Deposits at Call - Westpac	40 259	35 300
Deposits with the Treasurer	8 538	8 101
Cash held in imprest account and petty cash	436	430
	49 233	43 831

Deposits with the Treasurer includes Accrual Appropriation Account. With the implementation of the cash alignment policy it is anticipated there will be a reduction in the level of cash held by SAPOL at June 2005.

15. Receivables	2004	2003
Current:	\$'000	\$'000
Receivables	1 661	2 369
Less: Provision for doubtful debts	(6)	(6)
Accrued revenue	26	65
Accrued interest	153	144
GST receivable	2 506	2 727
Total Current Receivables	4 340	5 299
Government/Non-Government Receivables		
Receivables from SA Government Entities:		
Receivables	592	579
Accrued revenues	26	65
	618	644
Receivables from Non-SA Government Entities:		
Receivables	1 069	1 790
Less: Provision for doubtful debts	(6)	(6)
Accrued interest	153	144
GST receivable	2 506	2 727
	3 722	4 655
Total Receivables	4 340	5 299
16. Other Current Assets		
Prepayments	1 443	1 282
Other	3	2
	1 446	1 284
17. Property, Plant and Equipment		
Land and Buildings: ¹		
Land	23 002	22 987
Buildings	179 797	178 958
Accumulated depreciation	(64 596)	(61 290)
	138 203	140 655
Leasehold Improvements: ²		
Leasehold improvements	31 026	30 396
Accumulated amortisation	(15 953)	(12 759)
	15 073	17 637
Weaponry:		
Weaponry	1 460	1 416
Accumulated depreciation	(1 301)	(1 353)
	159	63
Computing and Communications Equipment:		
Computing and communications equipment	7 629	7 475
Accumulated depreciation	(3 636)	(3 365)
	3 993	4 110
Office Furniture and Equipment:		
Office furniture and equipment	532	518
Accumulated depreciation	(486)	(471)
	46	47
Vehicle and Transport Vessels:		
Vehicle and transport vessels	8 621	7 286
Accumulated depreciation	(4 295)	(3 855)
	4 326	3 431
Other:		
Other	9 224	8 741
Accumulated depreciation	(4 160)	(3 656)
	5 064	5 085
Total Property Plant and Equipment	166 864	171 028

1 Land, buildings and improvements were revalued as at 30 June 2002 by the following officers from Colliers International Consultancy and Valuation Pty Limited:

- Richard Wood, AAPI, Certified Practising Valuer B.App.Sc PRM (Valuation); John Conrick, AAPI, Certified Practising Valuer B.App.Sc PRM (Valuation); Tracy Gornall, AAPI, B.Bus (Prop) Hons.

2 Leasehold Improvements were revalued on a deprival basis as at 30 June 2002 by SAPOL Management.

17. Property, Plant and Equipment (continued)

Reconciliation of Property, Plant and Equipment

The following table shows the movement of property, plant and equipment during 2003-04.

	Land \$'000	Buildings Improvements \$'000	Leasehold Improvements \$'000	Weaponry \$'000	Computer and Communication Equipment \$'000
Carrying amount at the beginning of the financial year	22 987	117 668	17 637	63	4 110
Additions	15	638	549	-	449
Disposals	-	-	-	-	-
Write-offs non-current asset	-	-	-	-	(62)
Depreciation and amortisation	-	(3 305)	(3 194)	(92)	(1 407)
Assets identified as part of stocktake	-	-	-	189	225
Assets transferred between classes	-	200	81	(1)	677
Works in progress expenses	-	-	-	-	-
Other movements	-	-	-	-	1
Carrying Amount at the End of the Financial year	23 002	115 201	15 073	159	3 993

	Office Furniture and Equipment \$'000	Vehicles and Transport Vessels \$'000	Other \$'000	Work in Progress \$'000	2004 Total \$'000
Carrying amount at the beginning of the financial year	47	3 431	5 085	2 785	173 813
Additions	14	1 733	736	5 588	9 722
Disposals	-	(215)	-	-	(215)
Write-offs non-current asset	-	-	(159)	-	(221)
Depreciation and amortisation	(15)	(625)	(753)	-	(9 391)
Assets identified as part of stocktake	-	-	69	-	483
Assets transferred between classes	-	2	86	(1 045)	-
Works in progress expenses	-	-	-	(96)	(96)
Other movements	-	-	-	-	1
Carrying Amount at the End of the Financial year	46	4 326	5 064	7 232	174 096

18. Payables and Accruals

Current:	2004 \$'000	2003 \$'000
Creditors	6 365	7 175
Payables employment on-costs	3 228	3 145
Accrued employment on-costs	1 263	853
GST payable	185	631
Prepaid revenue	4	-
	11 045	11 804
Non-Current:		
Payables employment on-costs	8 814	7 824
Other	29	-
	8 843	7 824

Government/Non-Government Payables

Payables to SA Government Entities:

Payables employment on-costs	12 042	10 969
Creditors	2 663	2 762
Accrued employment on-costs	1 263	853
	15 968	14 584

Payables to Non-SA Government Entities:

Creditors	3 702	4 413
GST payable	185	631
Other	29	-
Prepaid revenue	4	-
	3 920	5 044

19. (a) Employee Benefits

Current:

Accrued salaries and wages	6 911	4 668
Annual leave	14 422	13 928
Long service leave	5 761	6 681
	27 094	25 277

Non-Current:

Long service leave	72 475	66 766
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Total Employee Benefits

	99 569	92 043
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(b) Employee Benefits and Related On-Costs	2004	2003
Accrued Salary and Wages:	\$'000	\$'000
On-costs included in Payables - Current (Note 18)	1 263	853
Employee Benefits - Current (Note 19(a))	6 911	4 668
	8 174	5 521
Annual Leave:		
On-costs included in Payables - Current (Note 18)	2 529	2 374
Employee Benefits - Current (Note 19(a))	14 422	13 928
	16 951	16 302
Long Service Leave:		
On-costs included in Payables - Current (Note 18)	699	771
Employee Benefits - Current (Note 19(a))	5 761	6 681
	6 460	7 452
On-costs included in Payables - Non-Current (Note 18)	8 814	7 824
Employee Benefits - Non-Current (Note 19(a))	72 475	66 766
	81 289	74 590
Aggregate Employee Benefit and Related On-Costs	112 874	103 865
20. Provisions		
Current:		
Provisions for workers compensation	7 908	7 737
Provisions for civil actions against Police	565	643
	8 473	8 380
Non-Current:		
Provisions for workers compensation	34 888	35 142
Civil Actions Against Police:		
Carrying amount at the beginning of the period	643	-
Increase in the provision	147	643
Decrease in the provision	(225)	-
Carrying Amount at the End of the Period	565	643
21. Equity and Changes in Equity		
Contributed capital	25 069	25 069
Accumulated surplus	18 581	21 360
Asset revaluation reserve	22 655	22 655
	66 305	69 084

Accumulated surplus represents the residual interest in SAPOL's net assets. The South Australian Government holds the accumulated surplus interest in SAPOL on behalf of the community. The asset revaluation reserve represents that portion of equity resulting from the revaluation of non-current assets.

	2004	2003
Accumulated Surplus:	\$'000	\$'000
Balance at beginning of financial year	21 360	50 753
Decrease in net assets resulting from ordinary activities after tax equivalent payments	(2 779)	(29 393)
Balance at the End of the Financial Year	18 581	21 360

The decrease in net assets resulting from ordinary activities after tax equivalent payments in 2002-03 of \$29.4 million mainly reflects a non-cash increase in the workers compensation liability of \$19.1 million. This increase was due partly to a change in the method for calculating the liability. For more information on the method for calculating the liability refer Note 2.17. The operating result for 2002-03 was also impacted by a \$6.1 million increase in the Department's liabilities to employees for long service and annual leave. Increases in long service and annual leave liabilities are recognised in the Statement of Financial Performance as an expense. These areas do not impact on the Department's cash position.

The decrease in net assets resulting from ordinary activities after tax equivalent payments in 2003-04 of \$2.8 million was impacted by a further increase of \$5.3 million in the Department's long service and annual leave liabilities. This area does not impact on the Department's cash position.

22. Financial Instruments

(a) Terms, Conditions and Accounting Policies

(i) Financial Assets

Cash at bank comprises cash held, available at call, and cash held in the Department of Treasury and Finance Accrual Appropriation Excess Funds Special Deposit Account. All cash is recorded at cost. Interest revenue is recorded on an accrual basis.

Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 30 days.

(ii) *Financial Liabilities*

Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days.

(iii) *Borrowings*

SAPOL maintains an imprest amount of \$200 000 representing monies advanced by the Department of Treasury and Finance. The advance is interest free.

(b) Interest Rate Risk

<i>Financial Instrument</i>	Effective Interest Rate at 30.06.04	Interest Bearing \$'000	Non-Interest Bearing \$'000	2004 Total \$'000
Financial Assets:	Percent			
Cash at bank (Note 14)	5.10	48 797	-	48 797
Cash held in imprest account and petty cash (Note 14)		-	436	436
Receivables (Note 15)		-	4 340	4 340
		<u>48 797</u>	<u>4 776</u>	53 573
Financial Liabilities:				
Payables (Note 18)		-	6 550	6 550
Borrowings:				
Advance from Department of Treasury and Finance		-	200	200
		<u>-</u>	<u>6 750</u>	6 750

<i>Financial Instrument</i>	Effective Interest Rate at 30.06.03	Interest Bearing \$'000	Non-Interest Bearing \$'000	2003 Total \$'000
Financial Assets:	Percent			
Cash at bank (Note 14)	4.60	43 401	-	43 401
Cash held in imprest account and petty cash (Note 14)		-	430	430
Receivables (Note 15)		-	5 299	5 299
		<u>43 401</u>	<u>5 729</u>	<u>49 130</u>
Financial Liabilities:				
Payables (Note 18)		-	7 806	7 806
Borrowings:				
Advance from Department of Treasury and Finance		-	200	200
		<u>-</u>	<u>8 006</u>	<u>8 006</u>

Receivables and Payables are shown inclusive of GST.

(c) Net Fair Values

Financial instruments are valued at the carrying amount as per the Statement of Financial Position which approximates the net fair value. The carrying amount of financial assets approximates net fair value due to their short term to maturity or being receivable on demand. The carrying amount of financial liabilities is considered to be a reasonable estimate of net fair value.

(d) Credit Risk Exposure

SAPOL's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. SAPOL has no significant exposures to any concentration of credit risk.

23. Commitments for Expenditure	2004	2003
Capital and Recurrent Commitments:	\$'000	\$'000
Capital and recurrent expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:		
Not later than one year	5 698	5 201
Later than one year but not later than five years	770	444
Later than five years	-	96
Total Capital Commitments	6 468	5 741
GST included in Capital and Recurrent Commitments	588	522
Operating Lease Commitments:		
Commitments under non-cancellable operating leases, related to property and vehicles, at the reporting date but not recognised as liabilities in the financial report, are payable as follows:		
Not later than one year	14 094	12 576
Later than one year but not later than five years	27 582	33 412
Later than five years	5 456	7 547
Total Lease Commitments	47 132	53 535
GST included in Operating Lease Commitments	4 285	4 867

23. Commitments for Expenditure (continued)

The property leases are non-cancellable leases with rental payable in advance. Contingent rental provisions within the lease agreements require minimum lease payments to be increased periodically and generally in line with CPI movements and market conditions. Options exist to renew the leases at the end of the term of the leases.

24. Contingent Assets

The Audio Management System (AMS) project encompasses the replacement of the telephone call-handling and radio dispatch systems in the communications centres of the SAPOL, SA Ambulance Service and Metropolitan Fire Service. The AMS project is administered by the Department of Justice on behalf of these agencies. SAPOL's component of the AMS project was completed in June 2004.

It is understood that the total AMS project costs should not exceed \$12 million. As at reporting date information on SAPOL's share of the total project costs were not available. SAPOL's share of the AMS project cost will be capitalised in SAPOL's Statement of Financial Position during 2004-05.

SAPOL is currently reporting AMS project costs as a Work in Progress in the Schedule of Administered Assets and Liabilities as at 30 June 2004.

25. Contingent Liabilities**Rewards**

As at 30 June 2004 the value of outstanding rewards for unsolved murders was \$4.3 million (\$4.3 million). No provision has been made in the financial report for this amount as there exists considerable doubt as to the amount and timing of rewards that may actually be paid.

26. Reconciliation of Net Cash Inflows from Operating Activities to Net Cost of Services from Ordinary Activities	2004 \$'000	2003 \$'000
Reconciliation of Cash - Cash at year end as per:		
Statement of Cash Flows	49 233	43 831
Statement of Financial Position	49 233	43 831
Reconciliation on Net Cash Inflows from Operating Activities to Net Cost of Services from Ordinary Activities:		
Net cash inflows from operating activities	14 943	10 076
Less: Revenues from Government	(346 680)	(341 534)
Less: Contributions from the Community Emergency Services Fund	(16 750)	(16 750)
Less: Contribution for traffic policing services	(29 600)	(14 700)
Add/Less Non-Cash Items:		
Depreciation of Property, plant and equipment	(9 391)	(9 546)
Net (revenue) expense from disposal and write-down of non-current assets	228	184
Tax equivalent payments	186	106
Work in progress expensed	(96)	(2)
Asset transfers	1	9
Change in Assets and Liabilities:		
Increase in receivables	(959)	(2 357)
Decrease in other current assets	162	356
(Increase) Decrease in inventories	(42)	11
Decrease in payables and provisions	(99)	(7 051)
Decrease in other liabilities	(7 526)	(21 073)
Net Cost of Services from Ordinary Activities	(395 623)	(402 271)

SOUTH AUSTRALIAN METROPOLITAN FIRE SERVICE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Metropolitan Fire Service (SAMFS), a Corporation constituted of the Minister, was established under the *South Australian Metropolitan Fire Service Act 1936*. SAMFS is responsible to the Minister for Emergency Services.

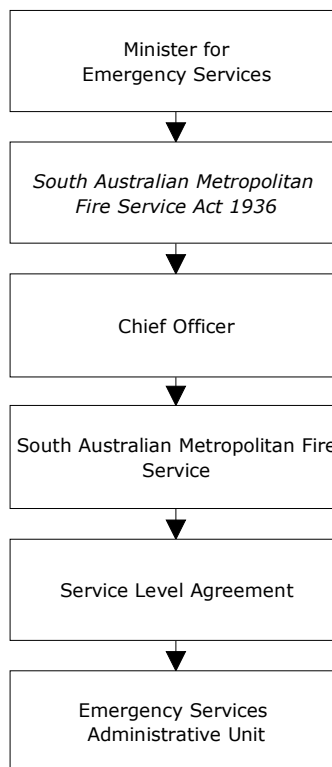
Functions

SAMFS is primarily responsible for the provision of:

- efficient fire fighting services;
- services to prevent the outbreak of fires in fire districts;
- services to deal with other emergencies.

Structure

The structure of the South Australian Metropolitan Fire Service is illustrated in the following organisation chart.



The Emergency Services Administrative Unit (ESAU) provides various services to SAMFS in support of its primary functions, including strategic risk management, financial management and accounting services. These were subject to corporate service level agreements. SAMFS' financial management is heavily reliant on information and reporting provided by ESAU.

The operations of SAMFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998*.

Changes to Functions and Structure

In October 2002 a review was commissioned to examine and identify improvements to the management, administration and governance arrangements of emergency services in relation to:

- Country Fire Service
- State Emergency Service
- South Australian Metropolitan Fire Service
- Emergency Services Administrative Unit.

The Emergency Services Review was released on 13 May 2003 and recommended the creation of a Fire and Emergency Services Commission. The Government supported this recommendation and established a task force to undertake a detailed assessment of the operational requirements of the new Commission.

Significant work was undertaken in 2003-04 by the task force which culminated in the Fire and Emergency Services Bill 2004 being introduced into Parliament in May 2004. The Bill provides for the establishment of the South Australian Fire and Emergency Services Commission, the continuation of a metropolitan fire service and emergency service, a country fire and emergency service, and a State emergency service to provide for the prevention, control and suppression of fires and for the handling of emergency situations.

It is anticipated that SAMFS will continue as a separate corporate entity under the proposed new arrangements. At the time of preparing this Report the Bill was still before Parliament.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 11(2) of the *South Australian Metropolitan Fire Service Act 1936* provides for the Auditor-General to audit the accounts of SAMFS for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the South Australian Metropolitan Fire Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

The audit of SAMFS during 2002-03 required Audit to direct much of its focus to the audit of the 'centralised accounting' structure maintained by ESAU and to test transactions at this level.

During 2003-04, specific areas of audit attention included:

- expenditure, including accounts payable and salaries and wages
- plant and equipment, including the adequacy of asset register maintenance
- revenue, debtors, receipting and banking
- service level agreements and
- general ledger.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Metropolitan Fire Service as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the South Australian Metropolitan Fire Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities except for the issues raised in relation to corporate governance as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Metropolitan Fire Service have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Officer. The response to the management letter was considered to be satisfactory. Major matters raised with SAMFS and the related responses are considered herein.

Corporate Governance

The audit revealed that the SAMFS strategic plan covering 2003-2007 remained in draft form during 2003-04 while a review of governance arrangements was undertaken. A revised Corporate Plan 2004-2009 was endorsed in July 2004. As a result of the delay in finalising the strategic plan, business plans had not been completed on a timely basis for the 2003-04 financial year. Audit also noted that although risk management is practiced throughout the agency there was no overall risk management plan.

Audit noted that as part of the review of governance arrangements a draft Corporate Governance Framework has been developed which includes a Corporate Governance Manual, Risk Management Framework, Risk Management and Internal Control Policy and Risk Management Guidelines.

SAMFS indicated that the business/operating plans and the risk management plan will be completed early in 2004-05 and processes established to ensure they are regularly updated and endorsed.

Credit Cards

The audit of the use of credit cards revealed the need to ensure that purchases are appropriately costed on the monthly statement.

In response SAMFS advised that the Business Manager will review the costing of purchases prior to processing.

Accounts Payable and Purchasing

The audit of accounts payable revealed room for improvement in relation to compliance with policies and procedures relating to the use of local orders.

SAMFS indicated it will ensure officers are reminded of the need to comply with approved policies and procedures.

Payroll

The audit of payroll revealed that the transfer of information from SAMFS to ESAU for processing into the payroll system could be improved, particularly in relation to changes affecting the payroll such as employee terminations.

SAMFS advised that it will give consideration to how the process could be improved in the light of proposed organisation structure changes.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

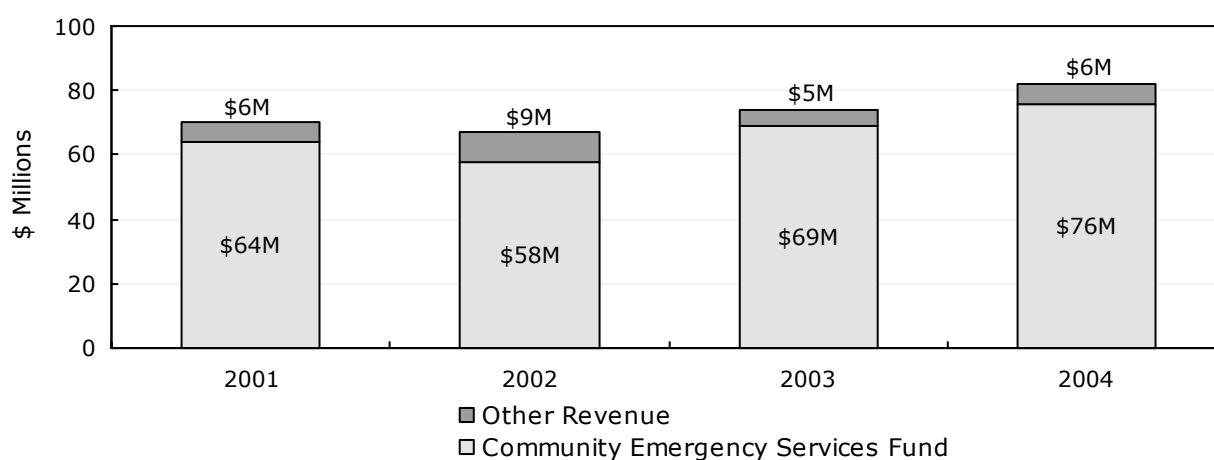
	2004	2003	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Contributions from government	76	69	10
Other revenue	6	4	50
Total Operating Revenue	82	73	12
OPERATING EXPENDITURE			
Employment benefits	58	59	(2)
Other	18	17	6
Total Operating Expenses	76	76	-
(Surplus) Deficit from Ordinary Activities	6	(3)	-
Net Cash Flows from Operations	9	6	50
ASSETS			
Current assets	36	31	16
Non-current assets	81	77	5
Total Assets	117	108	8
LIABILITIES			
Current liabilities	9	11	(18)
Non-current liabilities	21	21	-
Total Liabilities	30	32	(6)
EQUITY	87	76	14

Statement of Financial Performance**Operating Revenues**

SAMFS is essentially funded from the contribution from the Community Emergency Services Fund established on 1 July 1999. Other revenue has typically represented only a small percentage of revenue since that time.

The Contribution from the Community Emergency Services Fund for the current year increased by \$7.7 million (11 percent) to \$76.2 million which represents 92 percent of SAMFS' total revenue.

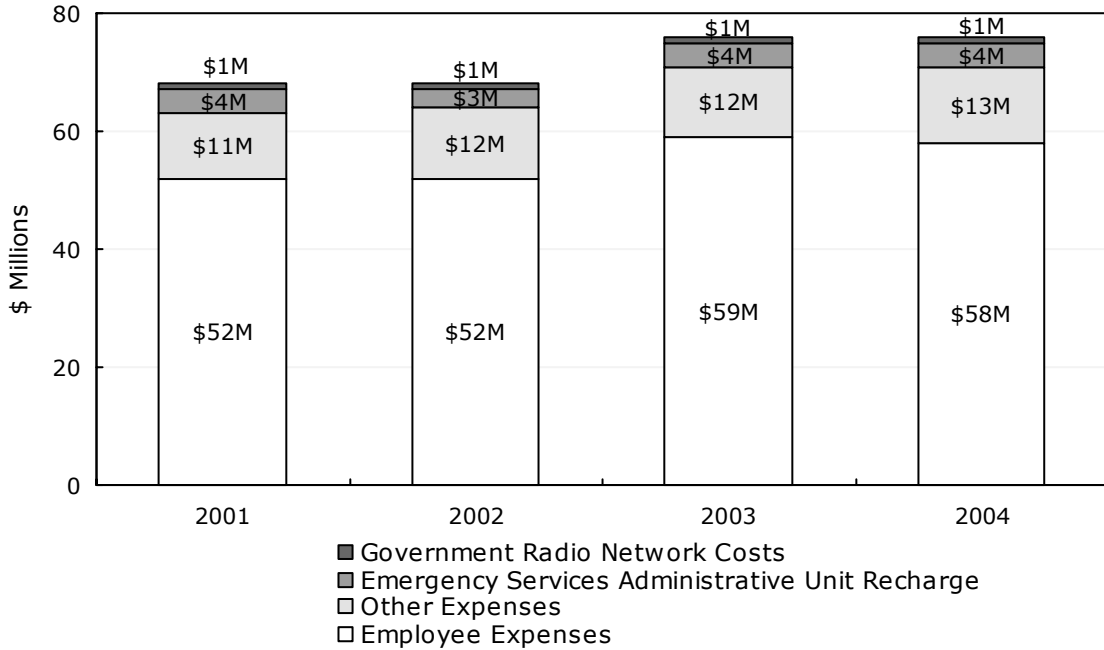
A structural analysis of operating revenues for SAMFS for the four years to 2004 is presented in the following chart.

**Operating Expenses**

Total operating expenses did not change between the 2003 and 2004 years. In 2003 employee expenses increased by \$7.1 million (14 percent) to \$58.7 million. The primary reason for this increase was a change in valuation methodology being adopted to measure workers compensation liability which resulted in an increase in expense of \$3.3 million.

Employee expenses account for over 77 percent of the operating expenses of SAMFS. Other expense categories have remained relatively constant over the period under review.

For the four years to 2004, a structural analysis of the main operating expense items for SAMFS is shown in the following chart.



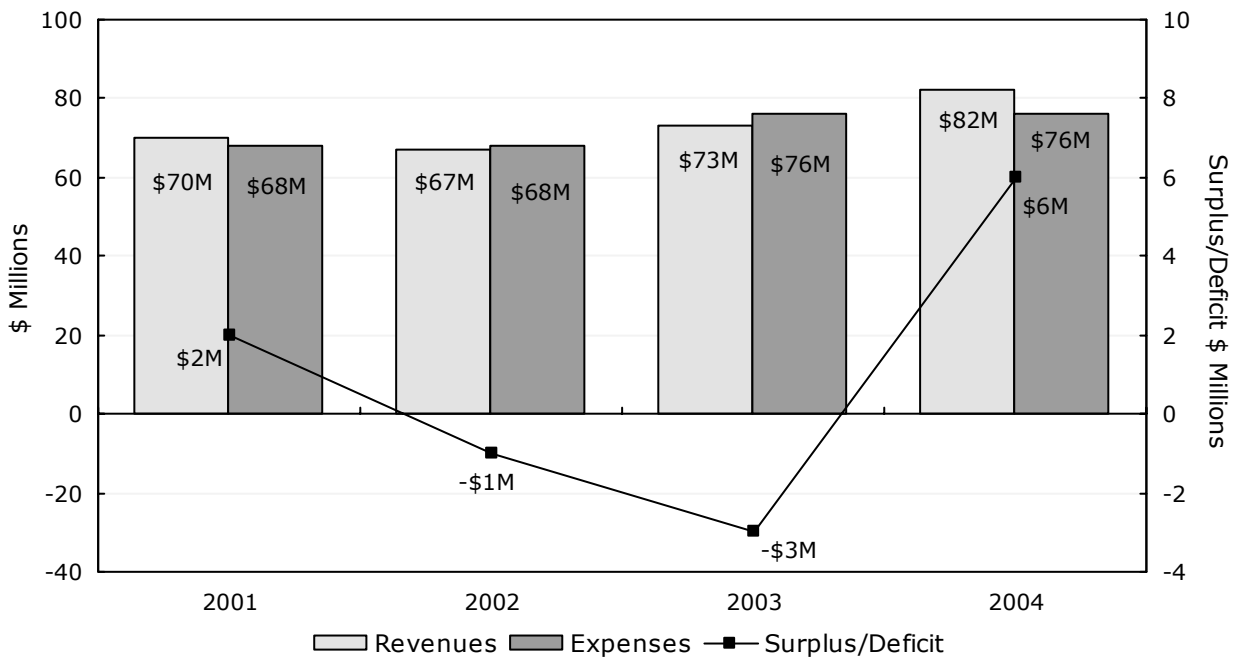
Operating Result

After recording deficits in both 2002 and 2003 SAMFS returned to a surplus position in 2004. This came about due to an increase in revenue from the Community Emergency Services Fund in 2004.

The deficit in 2003 primarily resulted from the increase in workers compensation expense which was a year end adjustment and as such was not considered when determining the appropriate level of funding from the Community Emergency Services Fund.

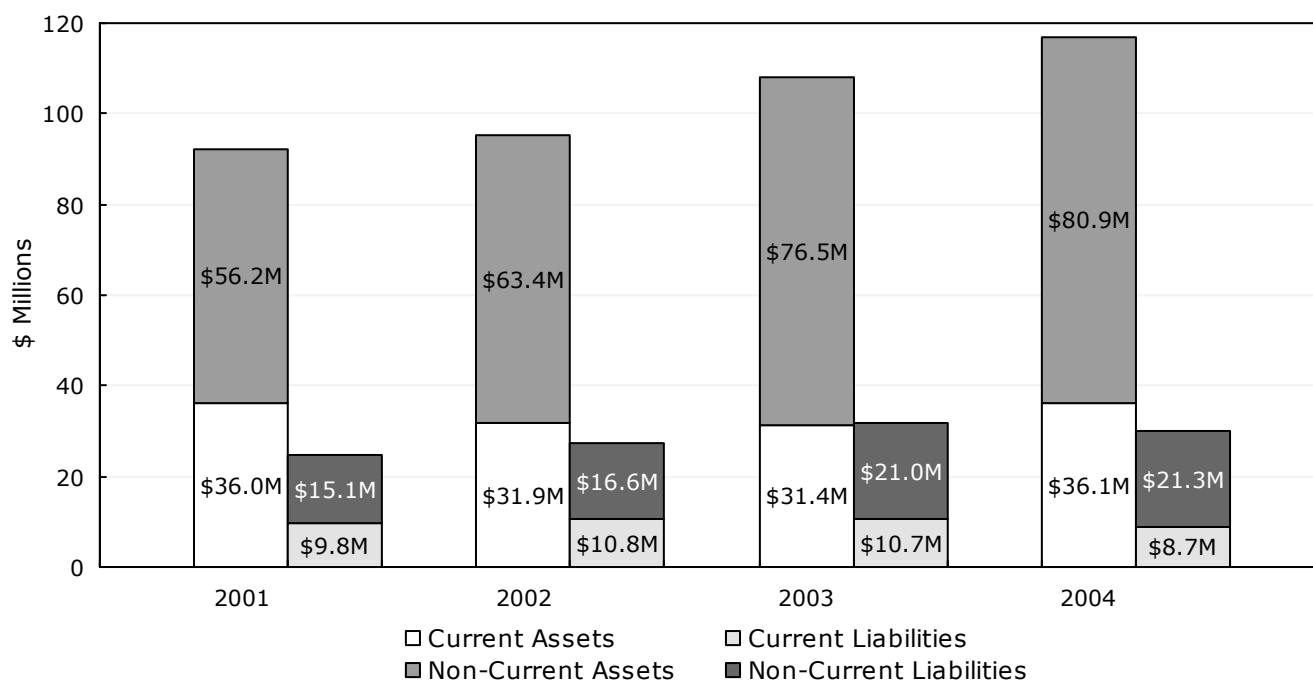
The result in 2002 reflected the budgetary decision to reduce contributions from the Community Emergency Services Fund by \$6 million offset by net revenue from restructuring of \$5 million arising from the transfer of the former ETSA Skills Centre.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2004.



Statement of Financial Position

For the four years to 2004, a structural analysis of assets and liabilities is shown in the following chart.



SAMFS' financial position is dominated by non-current property, plant and equipment assets which have grown by 44 percent over the four year period primarily as a result of revaluation of assets. Non-current liabilities increased significantly in 2003 due mainly to increases in provisions for workers compensation.

The chart also demonstrates that SAMFS has had a strong position in relation to its coverage of current assets to current liabilities over the four year period.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	9.4	5.5	0.5	10.1
Investing	(5.6)	(6.7)	(5.0)	(2.7)
Change in Cash	3.8	(1.2)	(4.5)	7.4
Cash at 30 June	33.2	29.4	30.6	35.0

Cash received from the Community Emergency Services Fund, which is accounted for in cash flows from operations, includes funding for capital expenditure which is accounted for in investing activities. Therefore a portion of the cash generated by operations is used to fund investing activities. Over the period under review the cash holdings have fluctuated which reflects the timing differences between the receipt and use of funds for capital purposes. As at 30 June 2004 SAMFS had commitments for capital expenditure totalling \$2.3 million which are expected to be paid within the next year.

Overall SAMFS' cash reserves are strong in comparison to annual net cash flows.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004	2003
		\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	4	57 818	58 691
Supplies and services	5	7 047	6 824
Government Radio Network costs	7	1 389	1 413
Emergency Services Administrative Unit recharge		3 623	3 550
Interest		672	672
Depreciation	8	5 572	4 842
Net loss from disposal of assets	9	135	9
Total Expenses		76 256	76 001
REVENUES FROM ORDINARY ACTIVITIES:			
Fees and charges	10	2 279	2 116
Interest		1 793	1 298
Other revenue	11	2 295	1 202
Total Revenues		6 367	4 616
NET COST OF SERVICES FROM ORDINARY ACTIVITIES		69 889	71 385
REVENUES FROM STATE GOVERNMENT:			
Contributions from Community Emergency Services Fund		76 170	68 517
SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES		6 281	(2 868)
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Increase in the asset revaluation reserve	17	4 577	11 196
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		10 858	8 328

**Statement of Financial Position
as at 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	12	33 222	29 388
Receivables	13	2 885	2 000
Other		3	56
Total Current Assets		36 110	31 444
NON-CURRENT ASSETS:			
Property, plant and equipment	14	80 954	76 499
Total Non-Current Assets		80 954	76 499
Total Assets		117 064	107 943
CURRENT LIABILITIES:			
Payables	15	2 167	4 703
Provision for employee benefits	16	6 561	6 033
Total Current Liabilities		8 728	10 736
NON-CURRENT LIABILITIES:			
Payables	15	1 103	1 001
Provision for employee benefits	16	14 936	14 767
Interest bearing liabilities		5 226	5 226
Total Non-Current Liabilities		21 265	20 994
Total Liabilities		29 993	31 730
NET ASSETS		87 071	76 213
EQUITY:			
Accumulated surplus	17	31 171	24 890
Asset revaluation reserve		55 900	51 323
TOTAL EQUITY		87 071	76 213
Commitments	19		
Contingent Liabilities and Contingent Assets	22		

Statement of Cash Flows for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		(Outflows)	(Outflows)
CASH OUTFLOWS:	Note	\$'000	\$'000
Employee payments		(57 705)	(53 546)
Supplies and services		(7 841)	(7 686)
Government Radio Network costs		(2 390)	(1 488)
Emergency Services Administrative Unit recharge		(3 623)	(3 550)
Borrowing costs		(672)	(672)
GST payment on purchases		(1 539)	(1 257)
Total Outflows from Operating Activities		(73 770)	(68 199)
CASH INFLOWS:			
Contributions from Community Emergency Services Fund		76 170	68 517
Fees and charges		2 279	2 117
Interest received		1 730	1 273
GST receipts on receivables		586	246
GST input tax credits		972	1 181
Other receipts		1 454	405
Total Inflows from Operating Activities		83 191	73 739
Net Cash Inflows from Operating Activities	20	9 421	5 540
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of property, plant and equipment		(5 587)	(6 706)
Total Outflows from Investing Activities		(5 587)	(6 706)
CASH INFLOWS:			
Proceeds from the sale of property, plant and equipment		-	4
Total Inflows from Investing Activities		-	4
Net Cash Outflows from Investing Activities		(5 587)	(6 702)
NET INCREASE (DECREASE) IN CASH HELD		3 834	(1 162)
CASH AT 1 JULY		29 388	30 550
CASH AT 30 JUNE	12	33 222	29 388

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

The SA Metropolitan Fire Service (the Corporation) is a statutory authority established under the *South Australian Metropolitan Fire Service Act 1936* (the Act).

(a) Objectives

The Corporation's objectives are to provide for the fighting and prevention of fires in its fire districts, and to provide for the protection of life, property and the environment threatened by other emergencies.

(b) Funding and Administrative Arrangements

The Corporation is funded from the Community Emergency Services Fund (the Fund), which was established by the *Emergency Services Funding Act 1998*, for the cost of its operational services in the protection of South Australian citizens and their property, and the cost of strategic and administrative services delivered to it by the Emergency Services Administrative Unit (ESAU).

2. Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with Treasurer's Instructions (TI) and Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987*, Statements of Accounting Concepts (SAC), applicable Australian Accounting Standards (AAS), and mandatory professional reporting requirements (Urgent Issues Group Consensus Views (UIG)). It has been prepared on the accrual basis of accounting using the historical cost accounting method, with the exception of certain major non-current assets, which have been revalued to their fair value.

(b) Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

(c) Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

(d) Taxation

The Corporation is not subject to income tax. The Corporation is liable for payroll tax, fringe benefits tax and goods and services tax.

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

(e) Revenues and Expenses

Revenues and Expenses are recognised in the Corporation's Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

(f) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and cash at bank.

(g) Receivables

Trade receivables arise in the normal course of selling services to other agencies and to the public. Trade receivables are payable within 30 days after the issue of an invoice or the services have been provided under a contractual arrangement.

(h) Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost plus any incidental cost involved with the acquisition. In accordance with APS 2 'Asset Recognition', the Corporation capitalises all non-current assets with a value of \$10 000 or greater.

(i) Valuation of Non-Current Assets

Property, plant and equipment are brought to account at fair value. On an ongoing basis, revaluations are made in accordance with a regular policy whereby independent valuations are obtained every three years and carrying amounts are adjusted accordingly.

- (i) Plant and equipment, computer equipment and communications equipment are at historical cost
- (ii) Independent valuations for land and buildings were obtained in 2003-04 from Liquid Pacific Holdings Pty Ltd and in 2002-03 from Valcorp Australia Pty Ltd for one-third of metropolitan fire stations and was determined on the basis of open market values for existing use. Independent valuations for country fire stations were obtained in 2001-02.
- (iii) An independent valuation of vehicles was obtained in 2002-03 for current operational response vehicles acquired prior to 2002-03, from Valcorp Australia Pty Ltd and represents the written down current cost of vehicles.
- (iv) Capital works in progress represent costs accumulated during the construction or development of an asset and is valued at cost.

(j) Depreciation of Non-Current Assets

Depreciation on property, plant and equipment, excluding freehold land, is calculated on a straight-line basis, based on the expected useful lives of the assets which are reviewed annually.

The depreciation periods are:	Years
Vehicles	15
Computer equipment	5
Communications equipment	10
Plant and equipment	10
Buildings	1-30

(k) Payables

Payables include creditors, accrued expenses and employment on-costs.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Corporation.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services' after the Corporation receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

(l) Employee Benefits

(i) Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages, salaries and annual leave expected to be settled within twelve months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Corporation expects to pay at the time the liability is settled. Accrued salaries and wages and employment on-costs are shown under the item 'Payables'. Sick leave is not provided for as it is non-vesting.

(ii) Long Service Leave

Long service leave is recognised on a pro-rata basis in respect of services provided by employees to balance date. The liability has been calculated at nominal amounts based on current salaries and wages rates using a short hand benchmark of 12 years as advised by the Department of Treasury and Finance. Relevant employment on-costs are shown under the item 'Payables'.

(iii) Superannuation

Contributions are made by the Corporation to several Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. The Corporation has no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes.

(iv) Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment prepared by Taylor Fry Consulting Actuaries. The Corporation's liability is an allocation of the Justice Portfolio's total assessment.

A separate valuation of the liabilities of the Corporation has not been undertaken and if such a valuation was performed it may result in a different assessed liability. The Corporation fully funds this provision.

(m) Revenue Recognition

Interest

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of Non-Current Assets

The gross proceeds of non-current asset sales are included as revenue at the date control of assets passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Fees and Charges for Services

Revenues are recognised when services are provided, at fair value of the consideration received.

Charges for a number of services, including Fire Safety, Brigade Attendance and Private Fire Alarms, are made on a fee-for-service basis. These charges are reviewed and approved by the State Government annually. (Refer Note 10)

Grants

The Commonwealth Government provides reimbursement to the State for the provision of emergency services to protect Commonwealth properties. Under a South Australian Department of Treasury and Finance formula, this grant is apportioned between the Country Fire Service Board and the Corporation. The grant reported as revenue is the portion received by the Corporation.

Revenues from the Fund

Funding for programs are recognised as revenues when the Corporation obtains control over the assets. Control over funding is normally obtained upon their receipt.

(n) State Government Funding

The financial report is prepared under the assumption of ongoing financial support being provided to the Corporation by the State Government.

(o) Leases

The Corporation has entered into both operating and finance leases. In respect of these finance leases the Corporation retains substantially the entire risks and benefits incidental to ownership of the leased assets. Operating lease payments are charged to the Statement of Financial Performance on a basis which is representative of the pattern of benefits derived from the leased assets.

3. Changes in Accounting Policies**Impact of Adopting Australian Equivalents to International Financial Reporting Standards**

Australia will be adopting Australian equivalents to International Financial Reporting Standards (IFRS) for reporting periods commencing on or after 1 January 2005. The Corporation will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', the Corporation's Chief Executive is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). The Corporation has analysed the exposure drafts issued by the Australian Accounting Standards Board (AASB) and has identified a number of potential issues that may need to be addressed and is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems; and
- key dates for monitoring and reviewing progress.

The Corporation is using the Model Financial Report for SA Government entities developed by the Department of Treasury and Finance (DTF) and keeping abreast of changes in Accounting Standards, TI and APS by attending exposure draft reference group meetings (facilitated by DTF) and information forums organised by the DTF and professional accounting bodies.

Key Potential Implications

Set out below are the key areas where accounting policies will change and where they may have an impact on the financial statements. From investigations undertaken to date it is unlikely that the impact on the financial statements from these changes will be material.

Changes in Accounting Policies

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Non-Current Asset Acquisition and Recognition

The Australian Equivalent to IAS 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life is greater than 3 years) will continue to apply. Asset values will be maintained at fair value.

4. Employee Expenses

Employee expenses from the reporting period comprised:

	2004	2003
	\$'000	\$'000
Salaries and wages	46 780	43 994
Payroll tax and superannuation	7 887	7 404
Long service leave	1 589	2 397
Workers compensation	1 327	4 669
Other employee related expenses	235	227
	57 818	58 691

Average Number of Employees During the Reporting Period

On average, the Corporation employed 796 (781) people throughout the reporting period.

Remuneration of Employees

The number of employees whose remuneration received or receivable, including fringe benefits and superannuation payments made to various superannuation schemes, falling within the following bands were:

	2004	2003
	Number of Employees	Number of Employees
\$100 000 - \$109 999	18	3
\$110 000 - \$119 999	3	-
\$120 000 - \$129 999	2	1
\$140 000 - \$149 999	1	-
\$190 000 - \$199 999	-	1
\$200 000 - \$209 999	1	-

The aggregate remuneration for all employees referred to above was \$2 783 000 (\$633 000). Salary, superannuation and other related payments to employees were made or payable under 27 fortnightly pays in 2004 compared with 26 fortnightly pays in 2003.

5. Supplies and Services	2004	2003
Supplies and services provided by entities within the SA Government for the reporting period comprised:	\$'000	\$'000
Consumables and minor purchases	52	58
Repairs and maintenance	3	3
Rates, taxes and rent	151	129
Communication expenses	-	3
Lease expenses	438	480
Travel and training	102	484
Other expenses	906	599
Total Supplies and Services - SA Government Entities	1 652	1 756
Supplies and services provided by entities external to the SA Government for the reporting period comprised:		
Consumables and minor purchases	1 165	1 307
Repairs and maintenance	1 275	1 412
Rates, taxes and rent	75	30
Uniforms	539	451
Communication expenses	630	572
Energy	412	379
Lease expenses	41	-
Travel and training	893	437
Other expenses	365	480
Total Supplies and Services - Non-SA Government Entities	5 395	5 068
Total Supplies and Services	7 047	6 824
Consultancies	2004	2003
The number and dollar amount of consultancies paid/payable that fell within the following bands were:	Number of	Number of
Less than \$10 000	Consultancies	Consultancies
\$10 000 - \$50 000	8	4
	1	1
	9	5
	2004	2003
	\$'000	\$'000
Less than \$10 000	22	8
\$10 000 - \$50 000	14	13
	36	21
6. Remuneration of Auditors		
The amount due and payable for audit services provided by the Auditor-General's Department	23	18
The auditors provided no other services.		
7. Government Radio Network (GRN) Costs		
The Corporation has been charged by the Department for Administrative and Information Services for costs associated with the provision of emergency communication services, including voice, paging and data transmission using the GRN.		
	2004	2003
	\$'000	\$'000
Contribution towards GRN - Voice	931	931
Contribution towards GRN - Paging	41	45
Other GRN costs	417	437
	1 389	1 413
8. Depreciation		
Depreciation expenses for the reporting period were charged in respect of:		
Buildings	2 445	2 394
Computer equipment	307	308
Plant and equipment	538	414
Communications equipment	227	269
Vehicles	2 055	1 457
	5 572	4 842
9. Net Loss from Disposal of Non-Current Assets		
Proceeds from disposal of non-current assets	-	4
Less: Written down value of non-current assets	135	13
	(135)	(9)

10. Fees and Charges		2004	2003
Fees and charges received/receivable from entities within the SA Government:		\$'000	\$'000
Fire alarm monitoring fees		109	95
Fire attendance fees		138	137
Fire safety fees		9	8
Other recoveries		7	12
Total Fees and Charges - SA Government Entities		263	252
Fees and charges received/receivable from entities external to the SA Government:			
Fire alarm monitoring fees		1 021	931
Fire attendance fees		618	625
Fire safety fees		234	218
Other recoveries		143	90
Total Fees and Charges - Non-SA Government Entities		2 016	1 864
Total Fees and Charges		2 279	2 116
11. Other Revenue			
Other revenue comprised:			
Fuel rebate		51	65
Rent received		186	147
Other		244	304
Receipts from Commonwealth Government		613	686
Receipts from the Department for Administrative and Information Services		928	-
Reimbursements from the Department of Treasury and Finance		30	-
Ministerial grant		243	-
		2 295	1 202
12. Cash			
Cash on hand		8	4
Cash at bank		33 214	29 384
		33 222	29 388
13. Receivables			
Current:			
Sundry debtors		2 565	1 732
Less: Allowance for doubtful debts		1	4
		2 564	1 728
Accrued revenues		184	117
GST receivables		137	155
		2 885	2 000
Government/Non-Government Receivables			
Receivables from SA Government entities:			
Sundry debtors		55	34
Total Receivables - SA Government entities		55	34
Receivables from Non-Government entities:			
Sundry debtors		2 509	1 694
Accrued revenues		184	117
GST receivables		137	155
Total Receivables - Non-SA Government entities		2 830	1 966
Total Receivables		2 885	2 000
14. Non-Current Assets		2004	
(a) Property, Plant and Equipment			Written Down Value
	Cost/Valuation	Accumulated Depreciation	\$'000
	\$'000	\$'000	
Land at independent valuation	16 278	-	16 278
Land at cost	457	-	457
Buildings at independent valuation	39 996	(2 677)	37 319
Buildings at cost	2 685	(196)	2 489
Vehicles at independent valuation	18 898	(5 519)	13 379
Vehicles at cost	6 163	(4 212)	1 951
Communications equipment at cost	3 473	(2 355)	1 118
Computer equipment at cost	3 373	(2 533)	840
Plant and equipment at cost	7 216	(4 320)	2 896
Work in progress at cost	4 227	-	4 227
Total Property, Plant and Equipment	102 766	(21 812)	80 954

(a) Property, Plant and Equipment (continued)

	2003		Written Down Value \$'000
	Cost/ Valuation \$'000	Accumulated Depreciation \$'000	
Land at independent valuation	14 981	-	14 981
Land at cost	7	-	7
Buildings at independent valuation	38 411	(2 669)	35 742
Buildings at cost	2 347	(101)	2 246
Vehicles at independent valuation	18 918	(3 892)	15 026
Vehicles at cost	5 695	(4 164)	1 531
Communications equipment at cost	3 356	(2 180)	1 176
Computer equipment at cost	3 285	(2 275)	1 010
Plant and equipment at cost	6 547	(3 971)	2 576
Work in progress at cost	2 204	-	2 204
Total Property, Plant and Equipment	95 751	(19 252)	76 499

(b) Asset Movement Schedule

	2004						
Gross Carrying Amount	Land and Buildings \$'000	Vehicles \$'000	Commun-ications Equipment \$'000	Computer Equipment \$'000	Plant and Equipment \$'000	Work in Progress \$'000	Total \$'000
Balance at 1 July 2003	55 746	24 613	3 356	3 285	6 547	2 204	95 751
Transfer of work in progress	1 072	923	4	84	302	(2 385)	-
Net adjustment on revaluation	2 490	-	-	-	-	-	2 490
Additions	363	5	165	56	588	4 408	5 585
Disposals	(255)	(480)	(52)	(52)	(221)	-	(1 060)
Balance at 30 June 2004	59 416	25 061	3 473	3 373	7 216	4 227	102 766
Accumulated Depreciation							
Balance at 1 July 2003	(2 770)	(8 056)	(2 180)	(2 275)	(3 971)	-	(19 252)
Net adjustment on revaluation	2 087	-	-	-	-	-	2 087
Depreciation expense	(2 445)	(2 055)	(227)	(307)	(538)	-	(5 572)
Disposals	255	380	52	49	189	-	925
Balance at 30 June 2004	(2 873)	(9 731)	(2 355)	(2 533)	(4 320)	-	(21 812)
Net Book Value at 30 June 2004	56 543	15 330	1 118	840	2 896	4 227	80 954
	2003						
Gross Carrying Amount	Land and Buildings \$'000	Vehicles \$'000	Commun-ications Equipment \$'000	Computer Equipment \$'000	Plant and Equipment \$'000	Work in Progress \$'000	Total \$'000
Balance at 1 July 2002	48 224	28 984	3 362	2 573	6 041	2 730	91 914
Transfer work in progress	1 807	3 997	-	461	188	(6 453)	-
Net adjustment on revaluation	5 388	(8 410)	-	-	-	-	(3 022)
Additions	354	95	-	261	359	5 927	6 996
Disposals	(27)	(53)	(6)	(10)	(41)	-	(137)
Balance at 30 June 2003	55 746	24 613	3 356	3 285	6 547	2 204	95 751
Accumulated Depreciation							
Balance at 1 July 2002	(4 292)	(16 714)	(1 918)	(1 978)	(3 596)	-	(28 498)
Net adjustment on revaluation	3 893	10 062	-	-	-	-	13 955
Depreciation expense	(2 395)	(1 457)	(269)	(307)	(414)	-	(4 842)
Disposals	24	53	7	10	39	-	133
Balance at 30 June 2003	(2 770)	(8 056)	(2 180)	(2 275)	(3 971)	-	(19 252)
Net Book Value at 30 June 2003	52 976	16 557	1 176	1 010	2 576	2 204	76 499

15. Payables					2004		2003	
Current Liabilities:					\$'000		\$'000	
Accrued expenses					266		2 738	
Employment on-costs					1 026		1 191	
Creditors					875		774	
					2 167		4 703	
Non-Current Liabilities:								
Employment on-costs					1 103		1 001	
Total Payables					3 270		5 704	
Government/Non-Government Payables								
Payables to SA Government Entities:								
Creditors					107		291	
Accrued expenses					107		1 207	
Total Payables - SA Government Entities					214		1 498	
Payables to Non-SA Government Entities:								
Creditors					768		483	
Accrued expenses					159		1 531	
Employment on-costs					2 129		2 192	
Total Payables - Non-SA Government Entities					3 056		4 206	
Total Payables					3 270		5 704	
16. Employee Benefits								
Current Liabilities:								
Annual leave					4 339		3 783	
Long service leave					800		800	
Workers compensation					1 422		1 450	
					6 561		6 033	
Accrued salaries and wages (included in payables)					62		1 747	
Employment on-costs (included in payables)					1 026		1 191	
Total Current Liabilities for Employee Benefits					7 649		8 971	
Non-Current Liabilities:								
Long service leave					9 015		8 538	
Workers compensation					5 921		6 229	
					14 936		14 767	
Employment on-costs (included in payables)					1 103		1 001	
Total Non-Current Liabilities for Employee Benefits					16 039		15 768	
17. Equity								
Accumulated Surplus:								
Balance at 1 July					24 890		27 758	
Surplus (Deficit) from ordinary activities					6 281		(2 868)	
Balance at 30 June					31 171		24 890	
Asset Revaluation Reserve								
The asset revaluation reserve is the cumulative balance of asset revaluation increments and decrements:								
Balance at 1 July					51 323		40 127	
Revaluation of land and buildings					4 577		9 258	
Revaluation of vehicles					-		1 938	
Balance at 30 June					55 900		51 323	
18. Financial Instruments								
(a) Interest Rate Risk								
		2004				2003		
Financial Instruments	Effective Interest Rate	Interest Bearing	Non-Interest Bearing	Total	Effective Interest Rate	Interest Bearing	Non-Interest Bearing	Total
Financial Assets:	Percent	\$'000	\$'000	\$'000	Percent	\$'000	\$'000	\$'000
Cash	4.91	33 214	8	33 222	4.60	29 384	4	29 388
Receivables		-	2 885	2 885		-	2 000	2 000
		33 214	2 893	36 107		29 384	2 004	31 388
Financial Liabilities:								
Payables		-	3 270	3 270		-	5 704	5 704
Interest bearing liabilities	12.86	5 226	-	5 226	12.86	5 226	-	5 226
		5 226	3 270	8 496		5 226	5 704	10 930

(b) Net Fair Values

Financial instruments are valued at the carrying amount as per the Statement of Financial Position which approximates the net fair value. The carrying amount of financial assets approximates net fair value due to their short maturity or being receivable on demand. The carrying amount of liabilities is considered to be a reasonable estimate of net fair value.

19. Commitments

(a) Commitments for Capital Expenditure

As at the reporting date the Corporation had entered into contracts for the following capital expenditure which are not included in the financial statements.

	2004	2003
	\$'000	\$'000
These amounts are due for payment within one year:		
Vehicles	891	941
Fire stations and other equipment	1 441	805
	2 332	1 746

(b) Operating Leases

Commitments under non-cancellable operating leases at the reporting date are payable as follows:

Payable not later than one year	282	240
Payable later than one year and not later than five years	128	85
	410	325

These operating leases are not recognised in the Statement of Financial Position as liabilities.

The non-cancellable leases are property leases, with rental payable monthly in arrears. Contingent rental provisions within the lease agreement require the minimum lease payments to be increased annually based on CPI movement. Options exist to renew the leases at the end of the term of the leases.

(c) Finance Leases

Commitments under non-cancellable finance leases at the reporting date are payable as follows:

	2004	2003
	\$'000	\$'000
Payable not later than one year	686	672
Payable later than one year and not later than five years	-	686
	686	1 358

The lease relates to a loan by the SA Metropolitan Fire Service Superannuation Fund on the building at 99 Wakefield Street. The lease termination date is 1 July 2025, but this may be terminated by the Corporation at the option date, 1 July 2005. The principal is repayable in termination. The commitments shown above represent the financing charges payable annually and are based on the assumption that the lease will be terminated at the option date of 1 July 2005.

(d) Contractual Commitments

At the end of the reporting period the Corporation had the following commitments on contracts.

	2004	2003
	\$'000	\$'000
Payable not later than one year	139	229
Payable later than one year and not later than five years	40	175
	179	404

Contracted commitments relate to a range of services and supplies including building repairs and maintenance.

20. Reconciliation of Net Cash Inflows from Operating Activities to Net Cost of Services from Ordinary Activities

Net cash inflows from operating activities	9 421	5 540
Less: Contribution from Community Emergency Services Fund	(76 170)	(68 517)
Add (Less) Non-Cash Items:		
Depreciation	(5 572)	(4 842)
Net loss from disposal of assets	(135)	(9)
Changes in Assets/Liabilities:		
Increase in provision for employee benefits	(697)	(4 830)
Decrease in payables	2 433	563
Increase in receivables	884	659
(Decrease) Increase in other current assets	(53)	51
Net Cost of Services from Ordinary Activities	(69 889)	(71 385)

21. Event After Balance Date**Review of Emergency Services**

The Report of the Emergency Services Review Taskforce, released by the Minister in May 2003, foreshadowed a number of major recommendations. Some of these may directly impact the structure and operations of the Corporation. In July 2003 the Government provided a formal response to that report and signalled its intention to implement many of the Report's recommendations. Principal among these was the Government's intention to disband ESAU and to transfer all or part of its functions to the proposed South Australian Fire and Emergency Services Commission.

The Fire and Emergency Services Bill 2004 was introduced to Parliament in May 2004. The Bill provides for the establishment of the South Australian Fire and Emergency Services Commission, the continuation of a metropolitan fire and emergency service, a country fire and emergency service, and a State emergency service to provide for the prevention, control and suppression of fires and for the handling of certain emergency situations.

It is anticipated that the Corporation will continue as a separate corporate entity under the proposed new arrangements.

22. Contingent Liabilities and Contingent assets**(a) Contingent Liabilities***Customs Duty on Fire Appliances*

The Australian Customs Service issued a notice of demand on the Corporation dated 3 February 2004 in respect of customs duty of \$189 000 allegedly short-paid in regard to ten fire appliances built in New Zealand by Fraser Fire and Rescue Ltd in 2001-02. The Corporation had previously paid Scania for the ten chassis and Chubb Australia for the ten pumps imported from the USA to Fraser NZ direct.

The Corporation, represented by the Crown Solicitor, has objected to the amount of duty alleged by the Australian Customs Service to be outstanding in a letter dated 25 June 2004. On 30 June 2004 the Australian Customs Service advised of the suspension of the demand pending further legal review.

(b) Contingent Assets*AMS Project*

The Audio Management System (AMS) project encompasses the replacement of the telephone call-handling and radio dispatch systems in the communications centres of the SA Ambulance Service, SA Police and the Corporation. The AMS project is administered by the Department of Justice on behalf of these agencies. The SA Ambulance component was completed in May 2004.

It is understood that the total AMS project costs should not exceed \$12 million. As at the reporting date information on the Corporation's share of the total project costs cannot be reliably estimated. It is anticipated that this information will be available early in 2004-05. The Corporation's share of the AMS project costs will be capitalised in the Statement of Financial Position of the Corporation during 2004-05.

STATE ELECTORAL OFFICE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Electoral Commissioner is appointed by the Governor under the provisions of the *Electoral Act 1985*. The State Electoral Office (the Office) is the administrative unit which has been established to assist the Electoral Commissioner to discharge his/her statutory duties.

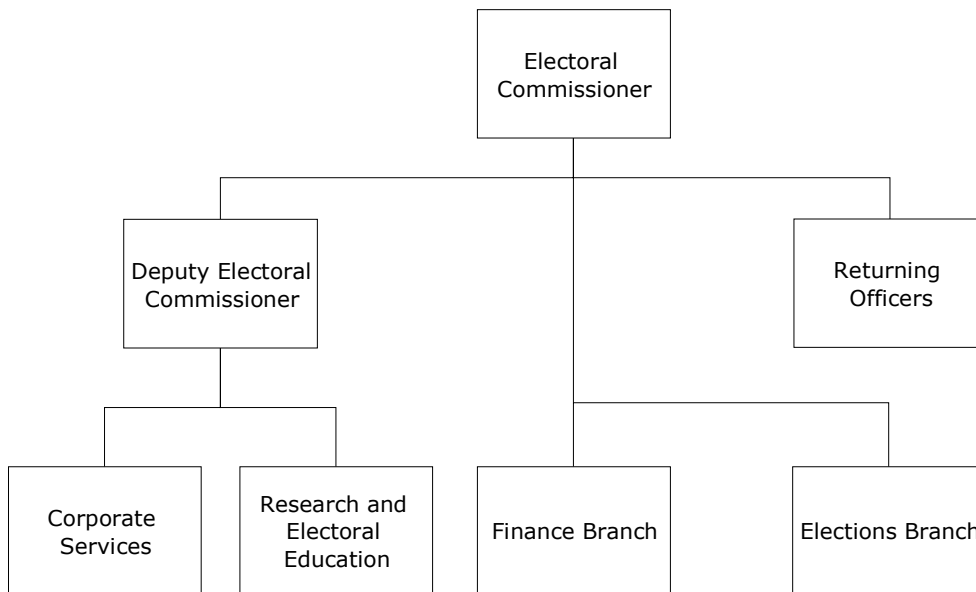
Functions

The functions of the State Electoral Office are as follows:

- To administer all South Australian parliamentary electoral events.
- To conduct elections for all Local Government Authorities and other organisations.
- To provide assistance in the formulation of appropriate election rules and procedures.
- To provide electoral rolls for local government elections and industrial ballots.
- To encourage community participation and promote an awareness of electoral matters.
- To provide support for parliamentary and council boundary reviews.

Structure

The structure of the State Electoral Office is illustrated in the following organisation chart.



The operations of the State Electoral Office are funded by appropriation from Treasury for conducting any Parliamentary elections. Costs for local government and non-government elections are recouped from councils or the organisation for which electoral services are provided.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the State Electoral Office for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the State Electoral Office in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- financial management framework
- salaries and wages
- accounts payable
- revenue, receipting and banking
- general ledger maintenance
- budgetary control
- fixed assets.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the State Electoral Office as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the State Electoral Office in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, are sufficient to provide reasonable assurance that the financial transactions of the State Electoral Office have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Electoral Commissioner. Responses to the management letters were generally considered to be satisfactory. Major matters concerning the Financial Management Framework raised with the State Electoral Office and the related responses are considered herein.

Strategic Plan

Audit noted that the Office's Strategic Plan expired at the end of 2002. Audit acknowledged that the Office was in the process of updating the Strategic Plan and that it was to be finalised in the near future. Notwithstanding this, the strategic directions of the Office were taken into account during the planning for the Local Government Elections held in May 2003.

The Office indicated that a draft strategic plan had been completed but it was still subject to final comments by all staff and other interested groups and persons. The reply indicated that the strategic plan would be completed by the end of August 2004 and a copy forwarded to Audit.

Risk Management Framework

In relation to risk management Audit noted that:

- a risk management plan covering the Office's operations is to be completed by June 2004;
- work on a risk management plan for the next State Election to be held in 2006, is to commence in October 2004 and be completed by June 2005;
- a review and update of the risk management plan in relation to Local Government elections is to commence in October 2004 and be completed by June 2005.

In response, the Office indicated that they had:

- established a Risk Management Committee in June 2004;
- undertaken an extensive risk assessment of the Office's ongoing operation. A separate risk management plan is to be developed and finalised by the end of August 2004;
- revised the Office's risk management policy;
- planned to develop a risk management plan for the 2006 State Election from October 2004 and to complete the plan no later than June 2005.

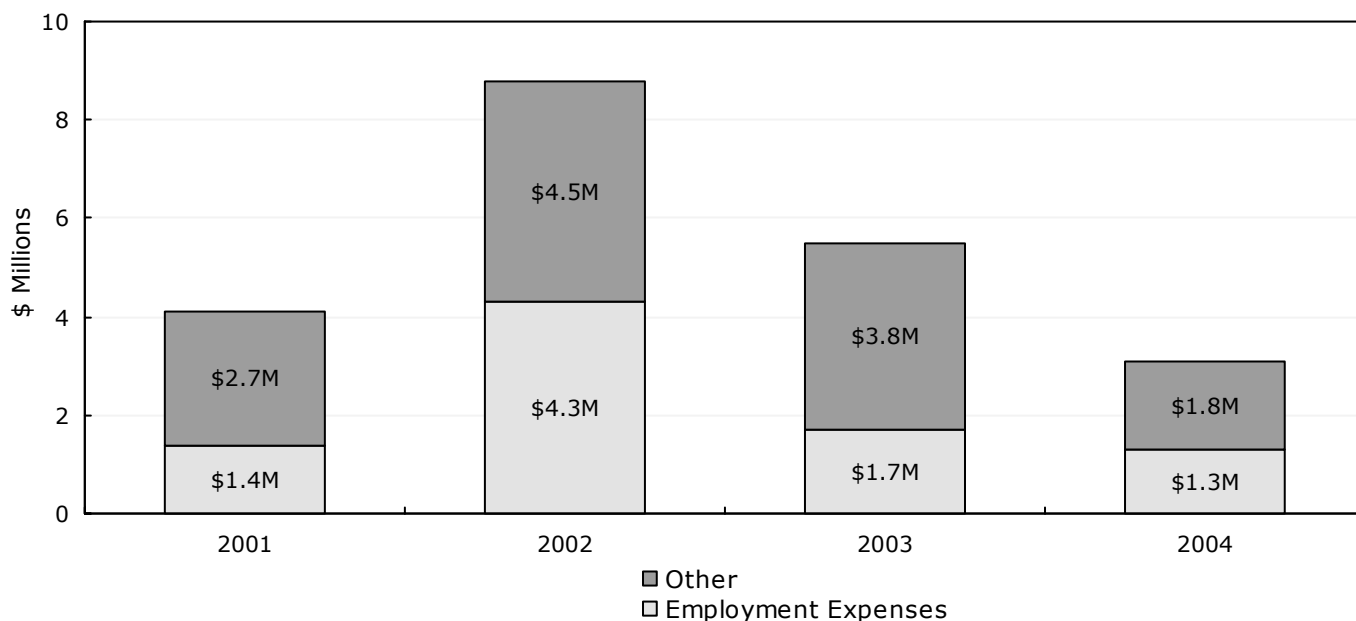
INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

	2004 \$'million	2003 \$'million	Percentage Change
OPERATING EXPENDITURE			
Employment expenses	1.3	1.7	(24)
Other	1.8	3.8	(53)
Total Operating Expenses	3.1	5.5	(44)
OPERATING REVENUE			
Revenues from SA Government	2.0	2.1	(5)
Other	1.0	3.5	(71)
Total Operating Revenue	3.0	5.6	(46)
Change in Net Assets	(0.1)	0.1	-
ASSETS			
Current assets	1.3	1.7	(24)
Non-current assets	0.3	0.4	(25)
Total Assets	1.6	2.1	(24)
LIABILITIES			
Current liabilities	0.3	0.7	(57)
Non-current liabilities	0.2	0.2	-
Total Liabilities	0.5	0.9	(44)
EQUITY	1.1	1.2	(8)

Statement of Financial Performance**Operating Expenses**

As with revenues, operating expenses for the Office reflect the timing of State and Local Government elections.

The total expenses for the current year decreased by 44 percent to \$3.1 million. The decrease in expenses is due primarily to a decrease in supplies and services expenses of \$1.9 million. Higher supplies and services expenses were incurred in 2002-03 due to the conduct of Local Government elections in May 2003. In 2002 a State Election was held. The fluctuations in expenditure are in line with elections held and is evident in the structural analysis of operating expenses for the Office for the four years to 2004 as presented in the following chart.

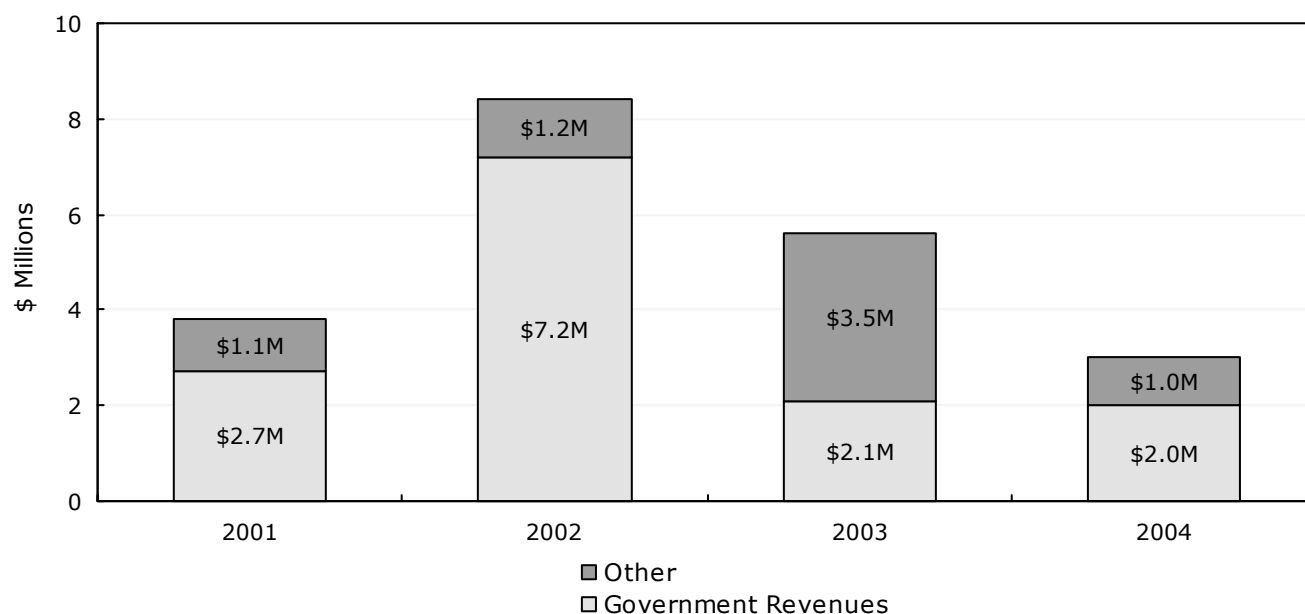


Operating Revenues

Total revenues for the Office fluctuate significantly from year to year in line with the timing of State and Local Government elections. No State or Local Government elections were held during 2003-04.

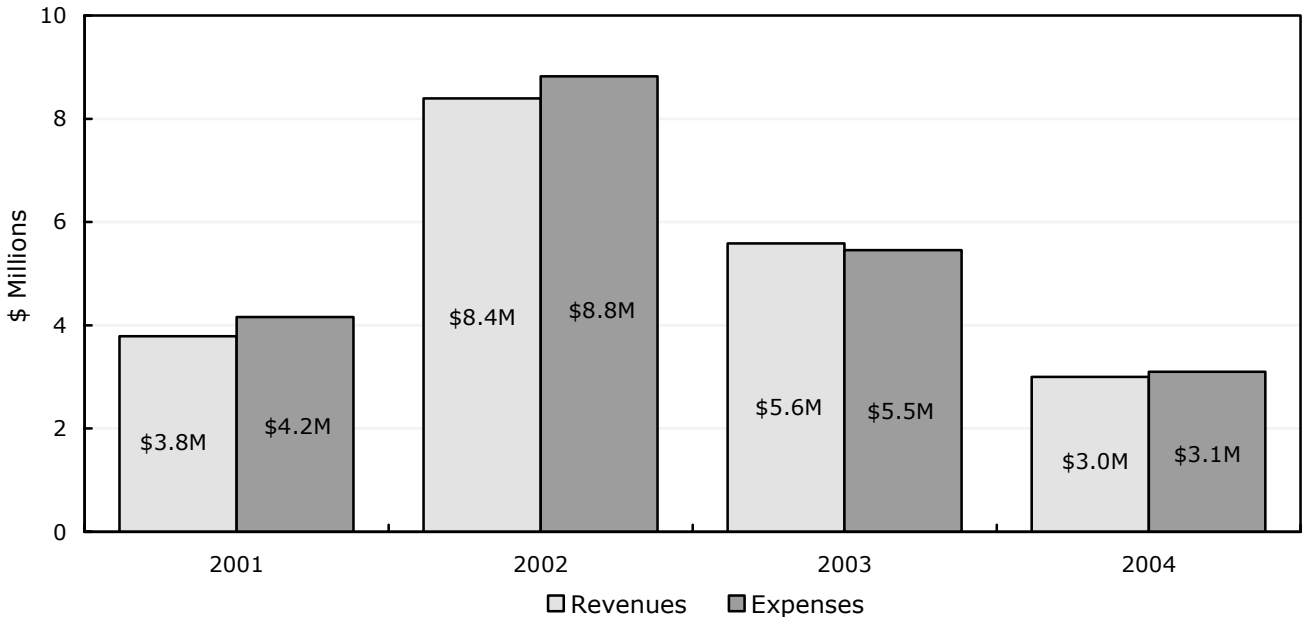
The total revenue for the current year decreased by 46 percent to \$3 million. The decrease in revenue is due primarily to \$2.5 million in fees being received in 2002-03 for Local Government elections, which were held in May 2003.

A structural analysis of operating revenues for the Office in the four years to 2004 is presented in the following chart.



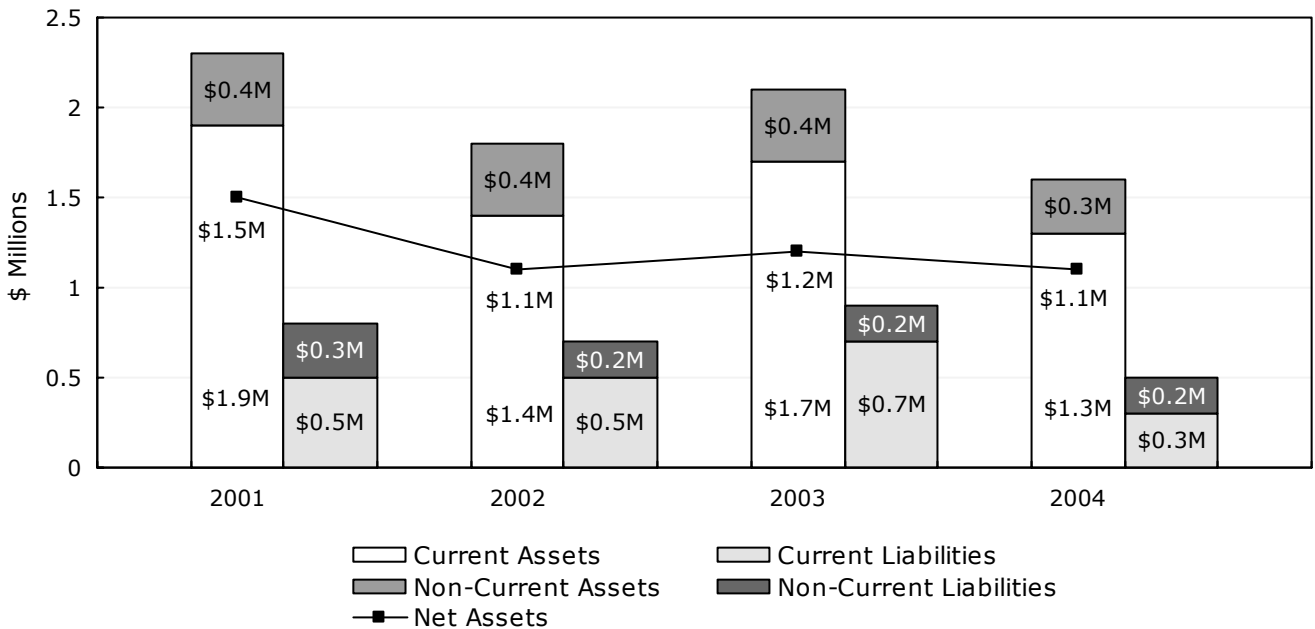
Operating Result

After recording a small surplus of \$134 000 for the year ending 30 June 2003 the Office has recorded a small deficit of \$84 000 for the year ending 30 June 2004. The following chart shows that operating revenues have been less than operating expenses in three of the four years to 2004.



Statement of Financial Position

For the four years to 2004 a structural analysis of assets and liabilities is shown in the following chart.



The financial position and the composition of assets and liabilities of the Office is again reflective of the timing of both State and Local Government elections. Over the last three year period the net assets have remained stable at around \$1.1 - \$1.2 million, the most significant item being Cash, \$873 000 at June 2004. Comment on the cash balances is presented hereunder.

Statement of Cash Flows

The following table summarises the cash as at 30 June for the four years to 2004.

	2004	2003	2002	2001
	\$'million	\$'million	\$'million	\$'million
Cash at 30 June	0.87	0.87	0.98	1.65

The Office has run down its cash balance from a peak in 2001. The main change from 2001 to 2002 reflects the increase in cash used to conduct the 2002 State Election.

Administered Items

Transactions and balances relating to administered resources are not recognised as revenues, expenses, assets or liabilities of the Office but are disclosed in the appropriate schedules. Administered items relate to the following activities.

Electoral Districts Boundaries Commission

Following a general election, the Electoral Districts Boundaries Commission (the Commission) comprising a Judge of the Supreme Court, the Electoral Commissioner and the Surveyor-General, convenes pursuant to the *Constitution Act 1934*. The Commission is responsible for reviewing the electoral boundaries for the purpose of dividing the State into electoral districts that are fair to prospective candidates and groups of candidates. The Commission is required to commence proceedings for the purpose of making an electoral distribution within three months of polling day.

Proceedings of the Commission established following the 2002 State Election were wound up in 2003-04.

Special Acts

The Electoral Commissioner and Deputy Electoral Commissioner are appointed as Statutory Officers pursuant to the provisions of the *Electoral Act 1985*. The Office receives a separate appropriation for the payment of salaries and allowances for Statutory Officers which is an administered item.

Other

Other includes administered revenue which is collected on behalf of other government agencies (Department of Treasury and Finance and the Attorney-General's Department) and forwarded to them when received. Administered revenue comprises of forfeited parliamentary candidate deposits and non-voter expiation fees as provided in the *Electoral Act 1985*.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004	2003
		\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	5	1 353	1 644
Supplies and services	6	1 531	3 431
Depreciation	7	109	96
Other		137	282
Total Expenses from Ordinary Activities		3 130	5 453
REVENUE FROM ORDINARY ACTIVITIES:			
Fees and charges	9	1 022	3 481
Interest		65	53
Total Revenue from Ordinary Activities		1 087	3 534
NET COST OF SERVICES FROM ORDINARY ACTIVITIES		2 043	1 919
REVENUES FROM SA GOVERNMENT:			
Revenues from SA Government		1 959	2 053
NET OPERATING (DEFICIT) SURPLUS		(84)	134
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER		(84)	134

**Statement of Financial Position
as at 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash		873	874
Receivables	10	280	778
Inventories		71	73
Prepayments		18	17
Total Current Assets		1 242	1 742
NON-CURRENT ASSETS:			
Property, plant and equipment	11	311	368
Total Non-Current Assets		311	368
Total Assets		1 553	2 110
CURRENT LIABILITIES:			
Payables	12	212	574
Employee benefits	13	71	105
Total Current Liabilities		283	679
NON-CURRENT LIABILITIES:			
Payables	12	20	32
Employee benefits	13	152	217
Total Non-Current Liabilities		172	249
Total Liabilities		455	928
NET ASSETS		1 098	1 182
EQUITY:			
Retained profits	14	1 098	1 182
TOTAL EQUITY		1 098	1 182
Commitments	16		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH INFLOWS:	Note	\$'000	\$'000
Receipt from SA Government		1 959	2 053
Receipts from customers		1 491	2 814
Interest received		62	54
GST input tax credits		164	222
Total Inflows from Operating Activities		3 676	5 143
CASH OUTFLOWS:			
Payments to employees		(1 495)	(1 594)
Payments to suppliers		(2 049)	(3 405)
GST payments on purchases		(74)	(174)
Total Outflows from Operating Activities		(3 618)	(5 173)
Net Cash Inflows (Outflows) from Operating Activities	17	58	(30)
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Payments for property, plant and equipment		(59)	(74)
Total Outflows from Investing Activities		(59)	(74)
Net Cash Outflows from Investing Activities		(59)	(74)
NET DECREASE IN CASH HELD		(1)	(104)
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		874	978
CASH AT THE END OF THE FINANCIAL YEAR	17	873	874

**Program Schedule of Revenues and Expenses
for the year ended 30 June 2004**

	(Refer Note 4)		Program 1		Program 2		Program Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
REVENUE FROM ORDINARY ACTIVITIES:								
Revenue from SA Government	1 959	2 053	-	-	1 959	2 053		
Fees and charges	284	284	738	3 197	1 022	3 481		
Interest	65	53	-	-	65	53		
Total Revenue from Ordinary Activities	2 308	2 390	738	3 197	3 046	5 587		
EXPENSES FROM ORDINARY ACTIVITIES:								
Employee expenses	915	778	438	866	1 353	1 644		
Supplies and services	1 289	1 375	379	2 338	1 668	3 713		
Depreciation	72	53	37	43	109	96		
Total Expenses from Ordinary Activities	2 276	2 206	854	3 247	3 130	5 453		
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER								
	32	184	(116)	(50)	(84)	134		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the State Electoral Office

The State Electoral Office (the Office) is an administrative unit which has been established to assist the Electoral Commissioner to discharge his statutory duties in accordance with the provisions of the *Electoral Act 1985*.

The objectives of the Office are to engender in the community an understanding of electoral matters including the rights and responsibilities of electors and to provide the opportunity to vote at properly conducted State Parliamentary and non-Parliamentary elections and polls.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

The financial report is a general purpose financial report. The accounts have been prepared in accordance with:

- Treasurer's Instructions (TIs), Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987* and Statements of Accounting Concepts;
- applicable Australian Accounting Standards (AAS) and Urgent Issue Group Consensus Views (UIG);
- other mandatory professional reporting requirements in Australia.

The Office's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention except where stated.

2.2 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

2.3 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

2.4 Taxation

The Office is not subject to income tax. The Office is liable for payroll tax, fringe benefits tax and Goods and Services Tax (GST).

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

2.5 Revenue and Expenses

Revenue and Expenses are recognised in the Office's Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Revenue and Expenses have been classified according to their nature in accordance with APS 13 'Form and Content of General Purpose Financial Reports' and have not been offset unless required or permitted by another accounting standard.

Revenue from fees and charges are recognised upon the completion of services to customers. Fees charged to local government and other third parties are in relation to the conduct of elections and industrial ballots.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

2.6 Revenues from/Payments to SA Government

Appropriations for program funding are recognised as revenues when the Office obtains control over the assets. Control over appropriations is normally obtained upon their receipt and are accounted for in accordance with TI 3 'Appropriation'.

2.7 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. The Office has a clearly identifiable operating cycle of 12 months. Therefore assets and liabilities that will be realised as part of the normal operating cycle will be classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

2.8 Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank and on hand and is used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

2.9 Receivables

Trade receivables and other debtors arise in the normal course of selling goods and services to other agencies and to the public. Trade receivables are payable within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

The provision for doubtful debts is based on a review of balances within trade receivables that are unlikely to be collected. These are generally receivables that are 90 days or more overdue.

2.10 Inventories

Inventories are stated at the lower of cost or their net realisable value.

2.11 Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

The office capitalises all non-current physical assets with a value of \$1 000 or greater in accordance with APS 2 'Asset Recognition'.

2.12 Depreciation of Non-Current Assets

All non-current assets, having a limited useful life, are systematically depreciated over their useful lives in a manner that reflects the consumption of their service potential.

The useful lives of all major assets held by the Office are reassessed on an annual basis.

The value of leasehold improvements is depreciated over the unexpired period of the building lease.

Depreciation for non-current assets is determined as follows:

<i>Class of Asset</i>	<i>Depreciation Method</i>	<i>Useful Life (Years)</i>
Office equipment and furniture and fittings	Straight line	10
Leasehold improvements	Straight line	6
Computer equipment	Straight line	3
Office equipment (post July 2003 acquisitions)	Straight line	5

2.13 Payables

Payables include creditors, accrued expenses and employment on-costs.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Office.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

2.13 Payables (continued)

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with TI 8 'Expenditure for Supply Operations and Other Goods and Services' after the Office receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

The Office makes contributions to three superannuation schemes operated by the SA Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as the South Australian Superannuation Board (SASB) has assumed these. The only liability outstanding at balance date relates to any contributions due but not yet paid to the SASB.

2.14 Employee Benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Liability for salary and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The liability for annual leave reflects the value of total annual leave entitlements of all employees as at 30 June 2004 and is measured at the nominal amount.

The liability for long service leave is recognised and measured at the actuarial assessment by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector. The liability has been calculated at present value of future cash outflows using a benchmark of seven years as advised by the Department of Treasury and Finance.

2.15 Provisions

No liability has been reported on workers compensation as the Office has no workers compensation claims pending or outstanding.

2.16 Operating Leases

The lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased items. Payments are charged to the Statement of Financial Performance on a basis, which is representative of the pattern of benefits derived from the leased assets.

3. Changes in Accounting Policies***Impact of Adopting Australian Equivalents to International Financial Reporting Standards***

Australia will be adopting Australian equivalents to International Financial Reporting Standards (IFRS) for reporting periods commencing on or after 1 January 2005. The Office will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with TI 19 'Financial Reporting', the Office's Electoral Commissioner is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). The Office has analysed the exposure drafts issued by the Australian Accounting Standards Board (AASB) and has identified a number of potential issues that may need to be addressed. The Office is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems; and
- key dates for monitoring and reviewing progress.

The Office is using the Model Financial Report for SA Government entities developed by the Department of Treasury and Finance (DTF) and keeping abreast of changes in Accounting Standards, Treasurer's Instructions and APS by attending exposure draft reference group meetings (facilitated by DTF) and information forums organised by the DTF and professional accounting bodies.

Expected Differences in Accounting Policies***Changes in Accounting Policy***

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Non-Current Asset Acquisition and Recognition

The Australian equivalent to International Accounting Standard 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life is greater than 3 years) will continue to apply.

4. Programs of the Office

The Office provides electoral services and this is achieved through two programs and their broad terms are as follows:

Program 1: Parliamentary Electoral Services

- ensure that eligible electors can register their votes effectively and conveniently and have confidence in the management of the electoral process;
- maintain an accurate register of voters;
- ensure 'disadvantaged' electors are not denied the ability to exercise their franchise;
- develop appropriate publicity and education programs to ensure that the public is informed of its democratic rights and obligations;
- provide comprehensive and efficient administrative, human resources, research and education, financial management and computing services.

Program 2: Non-Parliamentary Electoral Services

- provide statutory, industrial and other organisations with a facility capable of meeting their electoral needs economically and effectively;
- provide information to organisations seeking advice on electoral matters;
- conduct elections for and provide electoral service to local government authorities.

5. Employee Expenses

	2003	2004
	\$'000	\$'000
Wages and salaries	847	1 306
TVSP (refer below)	221	-
Long service leave	30	56
Annual leave	78	81
Employment on-costs	177	201
Total Employee Expenses	1 353	1 644

Targeted Voluntary Separation Packages (TVSPs):

TVSPs paid to employees during the reporting period	221	-
Recovery from the Department of the Premier and Cabinet	(221)	-
Annual leave and long service leave accrued over the period	116	-
Total TVSPs	116	-

	2004	2003
	Number of Employees	Number of Employees
Total number of employees that were paid TVSPs during the reporting period	3	-

Remuneration of Employees

The number of employees whose remuneration received or receivable falls within the following bands:

\$110 000 to \$119 999	-	1
\$120 000 to \$129 999	1	-
\$150 000 to \$159 999	-	1
\$160 000 to \$169 999	1	-
Total Number of Employees	2	2

The table includes all employees whom received remuneration of \$100 000 or more during the year. The total remuneration received by these employees for the year was \$294 000 (\$271 000).

The Office on average employed 23 (23) people throughout the year.

6. Supplies and Services

	2004	2003
	\$'000	\$'000
Supplies and services provided by entities within the SA Government:		
Rental accommodation services	265	263
Communication and information technology	61	37
Hire and rental	12	14
Total Supplies and Services - SA Government Entities	338	314

Supplies and services provided by entities external to the SA Government:

Production and maintenance of electoral rolls	695	703
Postage	136	536
Printing and stationery	135	980
Communications and information technology	60	125
Training and development	58	11
Education and research	50	87
Advertising	30	159
Distribution and storage	29	126
Electoral contracting services	-	390
Total Supplies and Services - Non-SA Government Entities	1 193	3 117
Total Supplies and Services	1 531	3 431

6. Supplies and Services (continued)	Number of Consultancies	2004 \$'000	2003 \$'000
The number and dollar amount of consultancies paid/payable that fell within the following band: Below \$10 000	1	1	8
7. Depreciation		2004 \$'000	2003 \$'000
Office equipment and furniture and fittings		45	40
Computer equipment		25	38
Leasehold improvements		39	18
Total Depreciation		109	96
8. Auditor's Remuneration			
Audit fees paid/payable to the Auditor-General's Department		22	21
Other Services			
No other services were provided by the Auditor-General's Department.			
9. Fees and Charges			
Fees and charges received/receivable from entities within the SA Government:			
Reimbursement of TVSPs paid		221	-
Industrial elections		160	22
User fees and charges		141	249
Total Fees and Charges - SA Government Entities		522	271
Fees and charges received/receivable from entities external to the SA Government:			
Other local government services		322	310
Local government elections		82	2 629
User fees and charges		96	271
Total Fees and Charges - Non-SA Government Entities		500	3 210
Total Fees and Charges		1 022	3 481
10. Receivables			
Current:			
Receivables		253	727
GST receivable		27	51
Total Current Receivables		280	778
Government/Non-Government Receivables:			
Receivables from SA Government entities		178	104
Receivables from Non-SA Government entities		102	674
Total Receivables		280	778
11. Property, Plant and Equipment			
Leasehold Improvements:			
Leasehold Improvements at cost		108	108
Accumulated depreciation		82	43
Total Leasehold Improvements		26	65
Office Equipment and Furniture and Fittings:			
Office equipment and furniture and fittings at cost		472	433
Accumulated depreciation		204	171
Total Office Equipment and Furniture and Fittings		268	262
Computer Equipment:			
Computer equipment at cost		379	402
Accumulated depreciation		362	361
Total Computer Equipment		17	41
Total Property Plant and Equipment		311	368

Reconciliation of Property, Plant and Equipment

The following table shows the movement of property, plant and equipment during 2003-04.

	Office Equipment Furniture Fittings \$'000	Computer Equipment \$'000	Leasehold Improvements \$'000	2004 Total \$'000
Carrying amount at the beginning of the financial year	262	41	65	368
Additions	58	1	-	59
Disposals	(7)	-	-	(7)
Depreciation	(45)	(25)	(39)	(109)
Carrying Amount at the End of the Financial Year	268	17	26	311

The following table shows the movement of property, plant and equipment during 2002-03.

	Office Equipment Furniture Fittings \$'000	Computer Equipment \$'000	Leasehold Improvements \$'000	2003 Total \$'000
Carrying amount at the beginning of the financial year:	299	70	21	390
Additions	3	9	62	74
Disposals	-	-	-	-
Depreciation	(40)	(38)	(18)	(96)
Carrying Amount at the End of the Financial Year	262	41	65	368

12. Payables		2004	2003
Current:		\$'000	\$'000
Creditors		19	169
Accrued expenses		105	305
Prepaid revenue		30	-
GST payable		5	22
Employment on-costs		53	78
Total Current Payables		212	574
Non-Current:			
Employee on-costs		20	32
Total Non-Current Payables		20	32
Total Payables		232	606
Government/Non-Government Payables:			
Payables to SA Government entities:			
Creditors		-	7
Accrued expenses		46	39
Total Payables to Other SA Government Entities		46	46
Payables to Non-SA Government entities:			
Creditors		19	162
Accrued expenses		59	266
Prepaid revenue		30	-
GST payable		5	22
Employment on-costs		53	78
Total Payables to Non-SA Government Entities		166	528
Total Non-Current payables to Non-SA Government Entities		20	32
Total Payables		232	606
13. (a) Employee Benefits			
Current:			
Annual leave		44	67
Long service leave		27	38
Accrued salaries and wages		10	4
Total Current Employee Benefits		81	109
Non-Current:			
Long service leave		152	217
Total Non-Current Employee Benefits		152	217
Total Employee Benefits		233	326

(b) Employee Benefits and Related On-Costs	2004	2003
Accrued Salaries:	\$'000	\$'000
On-costs included in payables - Current	42	62
Provision for employee benefits - Current	10	4
	52	66
Annual Leave:		
On-costs included in payables - Current	7	11
Provision for employee benefits - Current	44	67
	51	78
Long Service Leave:		
On-costs included in payables - Current	4	5
Provision for employee benefits - Current	27	38
	31	43
On-costs included in payables - Non-current	20	32
Provision for employee benefits - Non-current	152	217
	172	249
Aggregate Employee Benefit and Related On-Costs	306	436

14. Equity		
Balance at the beginning of the financial year	1 182	1 048
Operating (deficit) surplus	(84)	134
Balance at the end of the Financial Year	1 098	1 182

15. Financial Instruments**(a) Terms and Conditions**

Interest on cash at bank is calculated quarterly by DTF and is based on the average end of month balance of the Special Deposit Account. The interest rate is the Treasurer's Approved Rate of Interest on Deposit Accounts which is 5.1 percent as at 30 June 2004.

(b) Interest Rate Risk

<i>Financial Instrument</i>	2004			Weighted Average Effective Interest Rate Percent	2003			Weighted Average Effective Interest Rate Percent
	Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000		Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	
Financial Assets:								
Cash	873	-	873	5.1	873	1	874	4.6
Receivables	-	280	280		-	778	778	
	873	280	1 153		873	779	1 652	
Financial Liabilities:								
Payables	-	159	159		-	496	496	
	-	159	159		-	496	496	

(c) Net Fair Values

Financial instruments are valued at the carrying amount as per the Statement of Financial Position which approximates the net fair value. The carrying amount of financial assets approximates net fair value due to their short-term to maturity or being receivable on demand. The carrying amount of financial liabilities is considered to be a reasonable estimate of net fair value.

16. Commitments	2004	2003
Operating Lease Commitments	\$'000	\$'000
Commitments under non-cancellable operating leases at the reporting date are not recognised as liabilities in the financial report, are payable as follows:		
Not later than one year	138	222
Later than one year but not later than five years	-	149
Total Operating Lease Commitments	138	371

The Office's operating lease is for office accommodation and leased through Real Estate Management. The lease is non-cancellable and expires in February 2005 with a 2 year right of renewal. At balance sheet date the Office had not exercised this option and there are no lease commitments shown against greater than 1 year. Rent is payable in advance and the lease agreement require the minimum lease payments to be increased every 2 years based on CPI movement. The total amount of rental expense for minimum lease payments was \$201 000 per annum.

17. Cash Flow Reconciliation

	2004	2003
	\$'000	\$'000
Reconciliation of Cash:		
Cash	873	874
<hr/>		
Reconciliation of cash inflows (outflows) from operating activities to operating profit:		
Change in net assets	(84)	134
Add: Non-cash items:		
Depreciation	109	96
Loss on disposal of fixed assets	7	-
Change in assets/liabilities:		
Increase (Decrease) in receivables	497	(486)
Decrease in inventories	2	31
(Decrease) Increase in payables	(374)	133
(Decrease) Increase in employee benefits	(99)	62
Net Cash Inflows (Outflows) from Operating Activities	58	(30)

**Statement of Administered Revenues and Expenses
for the year ended 30 June 2004**

	2004			2003	
	Electoral Districts Boundaries (Refer Note 18) Commission \$'000	Special Acts \$'000	Other \$'000	Total \$'000	Total \$'000
REVENUE FROM ORDINARY ACTIVITIES:					
Revenues from SA Government	12	275	-	287	579
Fees and charges	-	-	1	1	45
Total Revenue from Ordinary Activities	12	275	1	288	624
EXPENSES FROM ORDINARY ACTIVITIES:					
Employee expenses	12	282	-	294	312
Supplies and services	-	-	-	-	312
Fees and charges	-	-	1	1	44
Total Expenses from Ordinary Activities	12	282	1	295	668
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH STATE GOVERNMENT AS OWNER					
	-	(7)	-	(7)	(44)

**Statement of Administered Assets and Liabilities
for the year ended 30 June 2004**

	2004			2003	
	Electoral Districts Boundaries (Refer Note 18) Commission \$'000	Special Acts \$'000	2004 Total \$'000	2003 Total \$'000	
CURRENT ASSETS:					
Cash	2	-	2	34	
Receivables	-	128	128	128	
Total Administered Assets	2	128	130	162	
CURRENT LIABILITIES:					
Payables	-	12	12	42	
Employee benefits	-	37	37	45	
Total Current Liabilities	-	49	49	87	
NON-CURRENT LIABILITIES:					
Payables	-	14	14	12	
Employee benefits	-	96	96	85	
Total Non-Current Liabilities	-	110	110	97	
Total Administered Liabilities	-	159	159	184	
NET ASSETS	2	(31)	(29)	(22)	

NOTES TO AND FORMING PART OF THE ADMINISTERED STATEMENTS

18. Administered Items/Financial Statements

Administered Items

In accordance with the DTF model financial statements the Office has included a schedule of administered items as notes to the accounts as it is considered that administered transactions and balances are insignificant in relation to the Office's overall Statement of Financial Performance and Financial Position.

The Office administers, but does not control, certain resources on behalf of the SA Government. The Office is accountable for the transactions involving these administered items, but does not have any discretion to deploy resources for achievement of its objectives. For these items, the Office acts only on behalf of the SA Government.

Transactions and balances relating to these administered items are not recognised as revenues, expenses, assets or liabilities of the Office but are disclosed in the administered schedules.

There are three administered items namely:

- *Electoral Districts Boundaries Commission*
The Office administers the receipts and payments of the Electoral District Boundaries Commission.
- *Special Acts*
The Electoral Commissioner and Deputy Electoral Commissioner are appointed as Statutory Officers pursuant to the provisions of the Act. The Office receives a separate appropriation for the payment of salaries and allowances for Statutory Officers which is an administered item.
- *Other*
Other includes administered revenue which is collected on behalf of other government agencies and forwarded to them when received. Administered revenue comprises non-voter expiation fees as provided in the Act.

PORTFOLIO – PREMIER AND CABINET

PREMIER; MINISTER FOR ECONOMIC DEVELOPMENT; MINISTER FOR SOCIAL INCLUSION; MINISTER FOR THE ARTS; MINISTER FOR VOLUNTEERS; MINISTER ASSISTING THE PREMIER IN THE ARTS; MINISTER ASSISTING THE PREMIER IN SOCIAL INCLUSION

INTRODUCTION

The section of this Part of the Report contains the financial statements of, and comments concerning, the operations of those agencies under the direction and control of the following Ministers, namely the:

- Premier
- Minister for Economic Development
- Minister for Social Inclusion
- Minister for the Arts
- Minister for Volunteers
- Minister Assisting the Premier in the Arts
- Minister Assisting the Premier in Social Inclusion

The agencies included herein relating to the portfolio of Premier and Cabinet are:

- Adelaide Festival Centre Trust
- Adelaide Festival Corporation
- Art Gallery Board
- History Trust of South Australia
- Libraries Board of South Australia
- Museum Board
- Premier and Cabinet – Department of the
— Targeted Voluntary Separation Package (TVSP) Scheme
- South Australian Film Corporation
- State Opera of South Australia
- State Theatre Company of South Australia

ADELAIDE FESTIVAL CENTRE TRUST

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Trust is a body corporate established pursuant to the *Adelaide Festival Centre Trust Act 1971* (the Act).

In November 1998 Regulations were enacted under the *Public Corporations Act 1993* requiring that certain provisions of that Act be applied to the Trust. The applied provisions relate mainly to the governance and performance aspects of the Trust's operations.

Functions

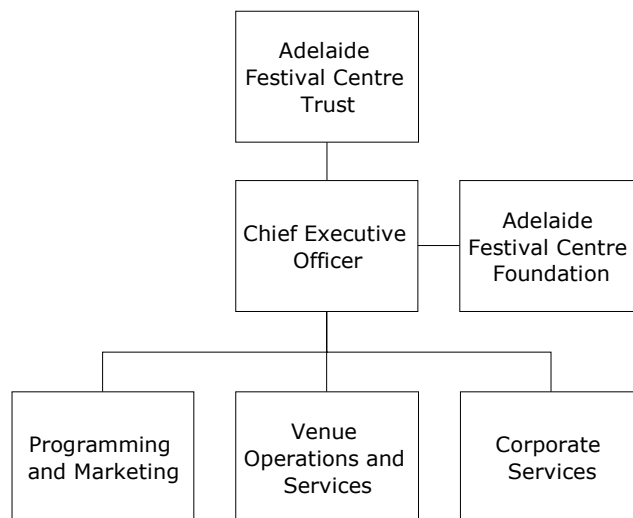
The Trust is charged with the responsibility of encouraging and facilitating artistic, cultural and performing arts activities throughout the State; and controlling, managing and maintaining the Adelaide Festival Centre and Her Majesty's Theatre.

In essence, the Trust is a presenter of arts programs and it aims to provide a balance of art forms for a variety of tastes and age levels. The major components of the Trust's operations include:

- management of various theatre facilities including the Adelaide Festival Centre complex comprising the Festival Theatre, the Space Theatre, the Amphitheatre and the Playhouse in addition to Her Majesty's Theatre;
- programming activities relating to the staging of various theatrical productions in Adelaide either as a producer or presenter;
- operation of the BASS ticketing system pursuant to a license agreement;
- operating the car park located within the Adelaide Festival Centre complex;
- utilising the services of a contractor to operate the catering function on its behalf;
- operating a scenery building and a stage engineering workshop.

Structure

The structure of the Trust is illustrated in the following organisation chart.



The Trust has eight trustees and is subject to the general control and direction of the Minister for the Arts. To assist in its deliberations the Trust has established certain committees. One of these committees is the Finance and Audit Committee which focuses on matters of a financial and audit nature.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 25(2) of the *Adelaide Festival Centre Trust Act 1971* provides for the Auditor-General to audit the accounts of the Adelaide Festival Centre Trust for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Adelaide Festival Centre Trust in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- expenditure
- revenue
- payroll
- ticketing operations
- catering operations
- contract management
- fixed assets
- general ledger
- computing environment.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Adelaide Festival Centre Trust as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Adelaide Festival Centre Trust in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to control environment and review of computing environment and operations as outlined under 'Audit Communications to Management' are sufficient to provide reasonable assurance that the financial transactions of the Adelaide Festival Centre Trust have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer in August 2004 and are currently being considered by the Trust. Major matters raised with the Trust are discussed herein.

Control Environment

The audit of the Trust's control environment identified opportunities to improve existing controls. These issues in the main related to processing improvements that, taken together, reflect a need for enhancement in a number of broad areas as discussed hereunder.

Policies and Procedures

Documented policies and procedures for all major activities are considered essential for sound financial management and are required by the Financial Management Framework.

Audit review of policies and procedures implemented by the Trust revealed that improvements are required to ensure an appropriate level of documentation. Further, Audit identified instances where established policies and procedures were not consistently applied throughout 2003-04.

Audit recommended the Trust finalise the development and implementation of policies and procedures for all key control activities and ensure the assignment of accountabilities and responsibilities to appropriate officers.

Segregation of Duties

The Financial Management Framework refers to segregation of duties as 'the allocation of duties to staff having regard to the need to ensure that people do not have sole control over activities and records such that unintentional and intentional errors can go undetected by other people'.

Audit review of control policies established by the Trust noted that the achievement of segregation is often reliant on an independent officer's review of controls performed. The audit in 2003-04 noted that for a number of important control processes an adequate independent review necessary for segregation of duties was not evident.

Ticketing System

Last year's report noted that the controls surrounding the regulation of user access to the ticketing system revealed a number of areas where control could be improved including that system administrators had a high level of access to the system including access to live databases. In that report Audit emphasised the importance of strict access controls and appropriate segregation of duties in ensuring the integrity of the data maintained within the system.

Follow up review in 2003-04 found that additional controls proposed by the Trust had not been established to monitor the activities of system administrators. Further, in relation to the ticketing system, Audit recommended the strengthening of controls surrounding: the regulation of user access; amendments to event parameters within the system; access to ticket stock; and the review of voided, complimentary and zero priced tickets.

Expenditure Processing

Audit found that expenditure processing by the Trust is such that individual officers were solely responsible for all expenditure entry processes from batching, checking the validity/approval of invoices to posting the expenditure for automatic payment. Notwithstanding the initial approval of a separate financial delegate, it was noted that expenditure transactions processed by an accounts payable officer were not subject to review by any other officer. Audit considers that this presented a risk that invalid expenditure or errors could be processed without detection.

It was recommended that expenditure control processes be modified to ensure no individual officer can process a payment from beginning to end.

Audit noted that in recent years there has been an increased use of electronic funds transfers (EFTs) and direct debit transfers as a method of disbursing payments.

Audit recommended a number of improvements to controls surrounding these types of disbursements including: the reconciliation of bank disbursement files with accounts payable records prior to release of EFT payments, improved review of the accuracy of bank account and EFT payment details; and in relation to direct debit transfers, the need for approval by two officers prior to release.

Resolution of Control Weaknesses

The audit noted that a number of weaknesses raised with and accepted by management in 2002-03 had not been completely addressed. These matters were again raised in an audit management letter in August 2004. It was recommended that the Trust's Finance and Audit Committee establish procedures to enhance monitoring of the resolution of control weaknesses identified.

Review of Computing Environment and Operations

Information systems and related computer processing environments (CPE's) are important in supporting agency operations, providing credible information for agency financial reporting and being integral to an overall effective internal control framework of the agency. In recognition of this, Audit regularly reviews the risk/control attributes of key information systems and related CPE's.

Audit reviewed key aspects of the Adelaide Festival Centre Trust (AFCT) Best Available Seating Service (BASS) information system and CPE. The BASS information system is used by the AFCT to provide ticketing services for the AFCT and other promoter events.

The review included coverage of information access security and integrity for both the CPE and the BASS system and information and applications systems implementation and maintenance arrangements.

Attention was also given to information systems operations, business recovery arrangements and aspects of database implementation and support, and network support.

A number of important areas were identified in need of management attention and these were communicated to AFCT in August 2004.

Some of the more salient management and control matters requiring improvement were:

- documentation of change management processes for the application, database and network;
- staff exit procedures when staff leave the organisation;
- additional password controls on the Unix server;
- physical security weaknesses with the AFCT computer room and controls over personnel with key access to the computer room;
- backup tape storage procedures.

A recommendation was made for AFCT to explore the resolution of a potential issue regarding vendor support of the current operating system software.

AFCT Response

The Trust advised that they recognise the need for continuous improvement and will be considering an appropriate response.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Government grants	8.2	9.0	(9)
Operating activities	23.6	23.4	1
Total Operating Revenue	31.8	32.4	(2)
OPERATING EXPENDITURE			
Employment expenses	14.4	13.2	9
Other expenses	21.0	21.7	(3)
Total Operating Expenses	35.4	34.9	1
Surplus (Deficit)*	(3.6)	(2.5)	44
Net Cash Flows from Operations	(0.1)	2.1	
ASSETS			
Current assets	7.3	9.5	(23)
Non-current assets	77.9	82.8	(6)
Total Assets	85.2	92.3	(8)
LIABILITIES			
Current liabilities	6.7	9.4	(29)
Non-current liabilities	28.1	28.9	(3)
Total Liabilities	34.8	38.3	(9)
EQUITY	50.4	54	(7)

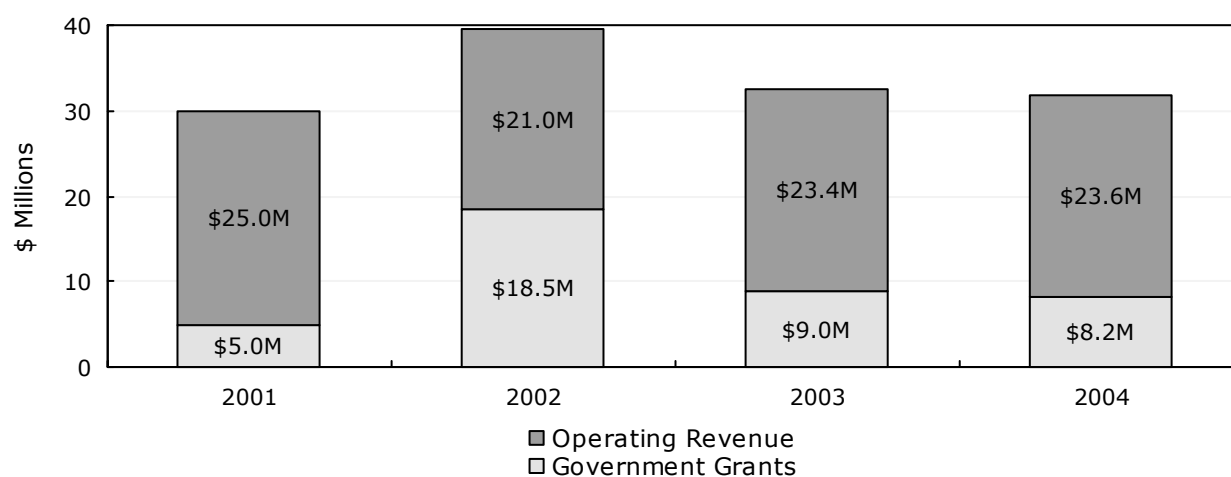
* The surplus/deficit includes some non-operating items.

Statement of Financial Performance

Operating Revenues

Revenues decreased by \$600 000 due primarily to a \$700 000 reduction in State Government operating grants.

A structural analysis of operating revenues for the Trust in the four years to 2004 is presented in the following chart.



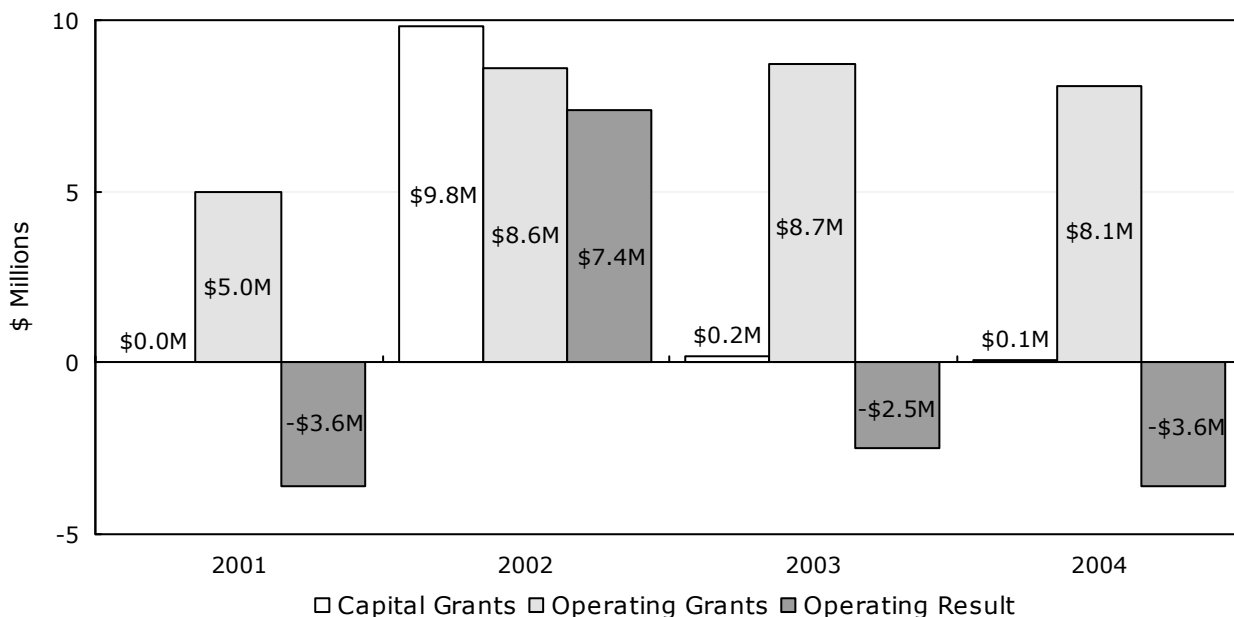
Operating Expenses

Expenses increased by \$500 000 due mainly to an increase in employment expenses of \$1.2 million, material expense by \$447 000 and depreciation increase of \$800 000 and a decrease in artistic production expenses of \$2 million including the effect of the Trust’s exit from management arrangements for the Womadelaide event.

Operating Result

The operating result was a deficit of \$3.6 million, a \$1.1 million increase when compared to the result for 2002-03.

The following chart shows the relationship of the Trust’s operating result with Government operating and capital grants for the four years to 2004. The chart highlights that the Trust’s surplus in 2001-02 coincided with the receipt of a large capital grant.

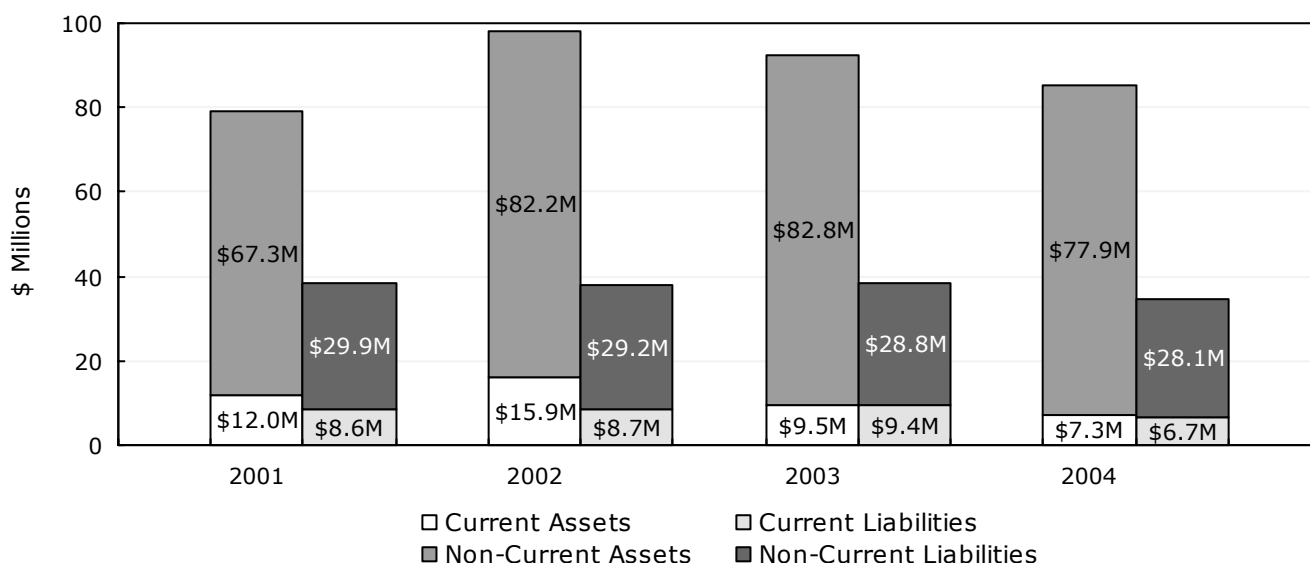


Statement of Financial Position

As at 30 June 2004 current assets, \$7.3 million, slightly exceeded current liabilities, \$6.7 million.

Non-current assets, \$77.9 million, dominate the Trust’s asset balances. Land and buildings amount to \$66.7 million, 86 percent, of non-current assets. The major movement in non-current asset balances during 2003-04 relates to depreciation of \$5 million.

For the four years to 2004, a structural analysis of assets and liabilities is shown in the following chart.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004	2003	2002	2001
	\$'million	\$'million	\$'million	\$'million
Net Cash Flows				
Operations	0.1	2.1	12.3	(0.1)
Investing	(0.8)	(8.5)	(7.5)	(3.0)
Financing	(0.4)	(0.8)	(0.5)	(0.2)
Change in Cash	(1.1)	(7.2)	4.3	(3.3)
Cash at 30 June	5.9	7.0	14.2	9.9

The analysis of cash flows shows that despite a net operating deficit of \$3.6 million the net cash inflow relating to operations was \$77 000. This position arises, in part, because the level of Government funding provided to the AFCT is not sufficient to meet expenses of an accrual nature, for example depreciation of assets (\$5 million in 2003-04), that do not require an outlay of cash.

Large cash balances as at 30 June 2002 relate to unspent funds for the redevelopment of the Adelaide Festival Centre Plaza. These cash balances were utilised in 2002-03 and are reflected in the Statement of Cash Flows for investing activities.

Statement of Financial Performance for the year ended 30 June 2004

	Note	Consolidated		AFCT	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:					
Government grants	3	8 183	8 966	8 133	8 916
Operating revenue		23 062	22 749	22 705	22 520
Interest revenue		558	702	517	679
Total Revenues		31 803	32 417	31 355	32 115
EXPENSES FROM ORDINARY ACTIVITIES:					
Operating expenses	4	33 500	32 926	33 305	32 703
Borrowing costs		1 928	1 973	1 928	1 973
Total Expenses		35 428	34 899	35 233	34 676
SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES	5	(3 625)	(2 482)	(3 878)	(2 561)
NON-OWNER TRANSACTION CHANGES IN EQUITY:					
Increase (Decrease) in asset revaluation reserve on revaluation of non-current assets	11	-	(3 674)	-	(3 674)
Total revenues, expenses and valuation adjustments recognised directly in equity		-	(3 674)	-	(3 674)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		(3 625)	(6 156)	(3 878)	(6 235)

Statement of Financial Position as at 30 June 2004

		Consolidated		AFCT	
		2004	2003	2004	2003
CURRENT ASSETS:	Note	\$'000	\$'000	\$'000	\$'000
Cash	6	5 884	6 985	5 049	6 441
Receivables	7	1 282	2 195	1 282	2 195
Inventories	8	166	180	166	180
Other	9	1	172	1	172
Total Current Assets		7 333	9 532	6 498	8 988
NON-CURRENT ASSETS:					
Land and buildings		66 656	70 083	66 656	70 083
Plant and equipment		4 700	6 026	4 700	6 026
Leasehold improvements		1 008	1 137	1 008	1 137
Works of art		5 558	5 508	5 558	5 508
Total Non-Current Assets	10, 11	77 922	82 754	77 922	82 754
Total Assets		85 255	92 286	84 420	91 742
CURRENT LIABILITIES:					
Payables	12	4 462	7 090	4 321	7 037
Borrowings	13	775	410	775	410
Provisions	14	1 061	1 318	1 061	1 318
Other	15	432	620	432	570
Total Current Liabilities		6 730	9 438	6 589	9 335
NON-CURRENT LIABILITIES:					
Payables	12	114	102	114	102
Borrowings	13	27 163	27 938	27 163	27 938
Provisions	14	869	803	869	803
Total Non-Current Liabilities		28 146	28 843	28 146	28 843
Total Liabilities		34 876	38 281	34 735	38 178
NET ASSETS		50 379	54 005	49 685	53 564
EQUITY:					
Reserves	16	46 804	46 804	46 804	46 804
Accumulated surplus (deficit)	17	3 575	7 201	2 881	6 760
TOTAL EQUITY		50 379	54 005	49 685	53 564
Commitments	18				
Contingent Liabilities and Contingent Assets	19				

Statement of Cash Flows for the year ended 30 June 2004

		Consolidated		AFCT	
		2004	2003	2004	2003
		Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:					
RECEIPTS:	Note	\$'000	\$'000	\$'000	\$'000
Receipts from patrons/customers		23 970	22 103	23 663	21 826
Interest received		561	702	520	679
GST receipts on sales		1 923	1 910	1 923	1 910
GST received from ATO		62	200	62	200
PAYMENTS:					
Interest paid on borrowings		(1 928)	(1 973)	(1 928)	(1 973)
Wages and related payments		(14 508)	(14 780)	(14 508)	(14 780)
Payments to suppliers		(16 206)	(12 862)	(16 099)	(12 610)
GST paid to suppliers		(1 548)	(2 170)	(1 548)	(2 170)
GST paid to ATO		(432)	-	(432)	-
		(8 106)	(6 870)	(8 347)	(6 918)
CASH FLOWS FROM GOVERNMENT:					
Operating grant		6 466	7 147	6 416	7 097
Debt servicing grant		1 592	1 592	1 592	1 592
Other grants		-	8	-	8
Capital replacement grant		125	220	125	220
		8 183	8 967	8 133	8 917
Net Cash provided by (used in) Operating Activities	20	(77)	2 097	(214)	1 999
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment and works of art		(768)	(8 476)	(768)	(8 476)
Net Cash used in Investing Activities		(768)	(8 476)	(768)	(8 476)
CASH FLOW FROM FINANCING ACTIVITIES:					
Repayment of Borrowing		(410)	(810)	(410)	(810)
Net Cash used in Financing Activities		(410)	(810)	(410)	(810)
NET (DECREASE) INCREASE IN CASH HELD		(1 101)	(7 189)	(1 392)	(7 288)
CASH AT 1 JULY		6 985	14 174	6 441	13 729
CASH AT 30 JUNE	6	5 884	6 985	5 049	6 441

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Adelaide Festival Centre Trust Objectives

The objectives of the Adelaide Festival Centre Trust (the Trust) are to:

- (a) encourage and facilitate artistic, cultural and performing arts activities throughout the State;
- (b) be responsible for the care, control, management, maintenance and improvement of the Adelaide Festival Centre and its facilities;
- (c) provide expert advisory, consultative, managerial or support services to persons associated with artistic, cultural or performing arts activities;
- (d) promote the involvement of young people and their families and extend activities into the school sector; and
- (e) provide professional development opportunities for emerging talent.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report which has been prepared on an accrual basis of accounting in accordance with Statements of Accounting Concepts, Australian Accounting Standards, Urgent Issues Group Consensus Views, the Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, and other mandatory reporting requirements. The financial report has been prepared on the basis of historical costs and does not take into account changing money values except where it is specifically stated.

(b) Changes in Accounting Policy

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Trust will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

Managing the Process

In accordance with Treasurer's Instruction 19 'Financial Reporting', the Trust's Chief Executive is responsible for ensuring that the annual financial statements comply with Generally Accepted Accounting Principles (GAAP). The Trust is analysing the exposure drafts issued by the AASB to identify potential issues that may need to be addressed. The Trust is developing a plan to manage the transition to the new standards. The plan will require the identification of:

- major areas of accounting and reporting differences resulting from adoption of the new standards;
- potential changes required to financial systems; and
- key dates for monitoring and reviewing progress.

The Trust will use the Model Financial Report for SA Government entities developed by the Department of Treasury and Finance (DTF) and is keeping abreast of changes in Accounting Standards, Treasurer's Instructions and Accounting Policy Statements (APS) by attending exposure draft reference group meetings (facilitated by DTF) and information forums organised by the DTF and professional accounting bodies.

Expected Differences in Accounting Policies

Changes in Accounting Policy

A major change is the treatment of accounting policy changes under IFRS. These will now apply retrospectively except for specific exemptions in accordance with AASB 1 'First-Time Adoption of Australian Equivalents to IFRS'.

Non-Current Asset Acquisition and Recognition

The Australian equivalent to IAS 16 'Property, Plant and Equipment' is proposing that non-current assets be revalued on an individual basis (as opposed to current class basis). It is anticipated an APS will continue to require revaluation on a class basis and current thresholds (greater than \$1 million and estimated useful life is greater than three years) will continue to apply.

Currently the Trust capitalises borrowing costs (where attributable to qualifying assets). The pending standard AASB 123 'Borrowing Costs' allows these costs to be capitalised or expensed. It is anticipated that an APS will require borrowing costs to be expensed to assist with the convergence between Government Finance Statistics (GFS) and GAAP. Asset values will be maintained at fair value.

Employee Benefits

Employee benefits payable later than 12 months from year-end will be measured at present value rather than at nominal amounts.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Trust as at 30 June 2004, and the results of all controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full.

(d) Revaluation of Non-Current Assets

The Trust has adopted fair value as the method for measuring the value of all non-current assets in the Statement of Financial Position revalued since 30 June 2002. In accordance with Accounting Policy Statements and AASB 1041 'Revaluation of Non-Current Assets' non-current assets are independently revalued at intervals not exceeding three years.

Works of Art were last valued at 30 June 2002 with reference to the current market buying price of a similar asset. Land and buildings, plant and equipment and leasehold improvements were revalued at 30 June 2003 (refer to Note 10) at fair value. Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The Trust has undertaken an assessment of all assets carried at cost and considers that the carrying amount of these assets reflects their fair value.

(e) Comparative Amounts

To further comply with the presentation and disclosure requirements of AASB 1018 'Statement of Financial Performance', AASB 1040 'Statement of Financial Position' and AASB 1034 'Financial Report Presentation and Disclosures'; where necessary comparative figures have been adjusted to conform with changes in presentation in 2003-04.

(f) Depreciation

All depreciable plant and equipment, buildings and leasehold improvements are depreciated to estimated residual value over their estimated useful lives using the straight line method of allocation. Land and Works of Art are not depreciated.

Work in Progress is not depreciated until assets are completed and have been commissioned for operation. Depreciation rates are reviewed annually.

Useful Lives of Assets:	Current Estimate
Asset class:	Years
Buildings (substructure)	60
Buildings (finishes)	10
Buildings (fittings and services)	25
Leasehold improvements	10
Plant and equipment	10-25

(g) Employee Benefits

Provision has been made in the financial report for the Trust's liability for employee benefits arising from services rendered by employees as at the reporting date. These benefits include accrued salaries and wages, annual leave and long service leave. Related on-costs consequential to the employment of the employees have been included in payables in accordance with Accounting Policy Statements APS 9 'Employee Benefits'.

Accrued Salaries and Wages

Accrued salaries and wages represents the amount of salaries and wages for services rendered by employees that are unpaid as at reporting date.

Annual Leave

Employee benefits for annual leave have been calculated by multiplying each employee's benefits by the remuneration rate expected when the leave is taken. The estimated rate of salary inflation is 4 percent. When leave loadings are paid these are included in the calculation.

Sick Leave

Employee sick leave benefits are non-vesting. No sick leave liability has been recorded as it is probable that sick leave taken in future periods will be less than the sick leave benefit accrued in those periods.

Long Service Leave

In calculating long service leave, the Trust has used a benchmark of 7 years, based on an actuarial assessment undertaken by the Department of Treasury and Finance. The long service leave benefit estimated to be paid within the next 12 months of balance date is calculated by multiplying each employee's benefits by the remuneration rate expected when the leave is taken. The estimated rate of salary inflation is 4 percent.

Superannuation

Contributions are made by the Trust to a number of State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability outstanding at balance date relates to contributions due but not yet paid to the superannuation schemes.

(h) Workers Compensation

Contributions are made by the Trust to the WorkCover Corporation to provide insurance coverage in relation to workers compensation. These contributions are treated as an expense when they occur. There is no liability for payments to claimants as they have been assumed by WorkCover Corporation.

(i) Provision for Doubtful Debts

The provision for doubtful debts is based upon a review of outstanding amounts at year end. Bad debts are written off when they are identified.

(j) Inventory

Inventories are maintained for set building and catering activities and are valued at cost.

(k) Recognition of Revenues and Expenses*Operating Grants*

In accordance with the Department of Treasury and Finance Accounting Policy Statement APS 11 'Contributions', all grants are recognised as revenue when received.

Catering Revenues and Expenses

The trust has a contractual arrangement in place for the provision of catering services. Revenues and expenses from catering operations are brought to account based on the contractor's reports on catering activities for the year.

Other Revenues

The Trust's policy is to recognise revenue when a good is supplied or service completed.

(l) Income Tax Status

The activities of the entity are exempt from income tax.

(m) Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax' (GST) revenues, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by the Trust as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and receivables and payables are stated with the amount of GST included;
- the net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of the cash flows arising from investing or financing activities, which are recoverable from, or payable to, the Australian Taxation Office have however been classified as operating cash flows.

(n) Segment Information

The Trust has not established any partnership or body corporate to carry out any of its business operations. Business operations are conducted in the one business and geographical segment.

(o) Rounding

Unless otherwise indicated, all amounts have been rounded to the nearest thousand dollars.

3. Government Grants

Included in Revenues from Ordinary Activities were the following Government Grants:

	Consolidated		AFCT	
	2004	2003	2004	2003
Operating grants received:				
State Government:	\$'000	\$'000	\$'000	\$'000
Operating base	6 466	7 146	6 416	7 096
Debt servicing - Interest	1 592	1 592	1 592	1 592
Total State Government Operating Grants	8 058	8 738	8 008	8 688
Other grants	-	8	-	8
Total Operating Grants Received	8 058	8 746	8 008	8 696
Capital grants received:				
State Government:				
Capital replacement*	125	220	125	220
Total Grants	8 183	8 966	8 133	8 916

The Trust receives funding from the Government of South Australia and is reliant upon this funding for its continued operations.

* Capital replacement grant revenue of \$125 000 (\$220 000) is restricted to use on capital works programs as approved and cannot be used to fund the operations of the Trust.

4. Operating Expenses

	Consolidated		AFCT	
	2004	2003	2004	2003
Employee related expenses	\$'000	\$'000	\$'000	\$'000
Contractors	14 356	13 154	14 330	13 146
Artistic production expenses	1 106	999	1 080	998
Materials	2 029	3 983	2 029	3 983
Utilities	3 670	3 223	3 596	3 222
Financial transactions	1 760	1 797	1 752	1 794
Travel and accommodation	937	872	937	872
	321	356	321	354

4. Operating Expenses (continued)	Consolidated		AFCT	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Premises rental	803	743	803	743
Insurance	242	174	238	174
Doubtful debts*	(24)	94	(24)	94
Equipment	1 096	899	1 096	782
Depreciation	5 010	4 243	5 010	4 243
Other	2 194	2 388	2 137	2 297
	33 500	32 926	33 305	32 703
* Write down of provision from 2003				
5. Net Cost of Services				
Revenues from Ordinary Activities:				
Operating revenue	23 620	23 450	23 222	23 198
Total Revenues from Ordinary Activities	23 620	23 450	23 222	23 198
Expenses from Ordinary Activities:				
Operations and services	28 490	28 683	28 295	28 460
Depreciation	5 010	4 243	5 010	4 243
Borrowing costs	1 928	1 973	1 928	1 973
Total Expenses from Ordinary Activities	35 428	34 899	35 233	34 676
Total Cost of Services	(11 808)	(11 449)	(12 011)	(11 478)
Revenues from Government:				
Operating grant	6 466	7 147	6 416	7 097
Capital replacement grant	125	220	125	220
Debt servicing grant	1 592	1 592	1 592	1 592
Other grants	-	8	-	8
Total Revenues from Government	8 183	8 967	8 133	8 917
Surplus (Deficit) from Ordinary Activities	(3 625)	(2 482)	(3 878)	(2 561)
6. Cash				
Cash at bank and on hand*	5 884	6 985	5 049	6 441
	5 884	6 985	5 049	6 441
* Includes \$834 900 (\$544 200) Cash at Bank held by The Adelaide Festival Centre Foundation Incorporated.				
7. Receivables				
Trade debtors	1 367	2 483	1 367	2 483
Less: Provision for doubtful debts	115	321	115	321
	1 252	2 162	1 252	2 162
Interest receivable	30	33	30	33
	1 282	2 195	1 282	2 195
8. Inventories				
Food and liquor	95	114	95	114
Raw materials	71	66	71	66
	166	180	166	180
9. Other Current Assets				
Prepayments	1	5	1	5
Work in progress	-	167	-	167
	1	172	1	172
10. Property, Plant and Equipment, and Leasehold Improvements and Works of Art				
Land and Buildings:				
Freehold Land:				
At independent valuation 2003	7 670	7 670	7 670	7 670
Buildings:				
At independent valuation 2003	117 610	117 701	117 610	117 701
Less: Accumulated depreciation	(58 624)	(55 307)	(58 624)	(55 307)
	58 986	62 394	58 986	62 394
Work in progress at cost	-	19	-	19
Total Land and Buildings	66 656	70 083	66 656	70 083
Plant and Equipment:				
At independent valuation 2003	17 458	17 220	17 458	17 220
Less: Accumulated depreciation	(12 758)	(11 194)	(12 758)	(11 194)
	4 700	6 026	4 700	6 026
Total Plant and Equipment	4 700	6 026	4 700	6 026

10. Property, Plant and Equipment, and Leasehold Improvements and Works of Art (continued)	Consolidated		AFCT	
	2004	2003	2004	2003
Leasehold Improvements:	\$'000	\$'000	\$'000	\$'000
At independent valuation 2003	1 330	1 287	1 330	1 287
Less: Accumulated depreciation	(322)	(193)	(322)	(193)
	1 008	1 094	1 008	1 094
At cost	-	43	-	43
Less: Accumulated depreciation	-	-	-	-
	-	43	-	43
Total Leasehold Improvements	1 008	1 137	1 008	1 137
Works of Art:				
At independent valuation 2002	5 508	5 428	5 508	5 428
At cost	50	80	50	80
Total Works of Art	5 558	5 508	5 558	5 508
Total Property, Plant and Equipment, Leasehold Improvements and Works of Art	77 922	82 754	77 922	82 754

The Trust's land, buildings and leasehold improvements valuation was undertaken at 30 June 2003 by Mr Richard R Wood AAPI Certified Practising Valuer B App Sc PRM (Valuation) of Colliers Jardine (SA) Pty Ltd. Plant and Equipment was revalued as at 30 June 2003 by Mr S Kincaid Certified Valuer AAPI MSA of Dominion Valuers and Auctioneers (SA). Works of Art were valued by James F Bruce Valuer MSAV of Ian Bruce Pty Ltd as at 30 June 2002.

11. Asset Movement Schedule	Freehold		Work in Progress	Plant and Equipment	Works of Art	Leasehold Improvements	2004 Total
	Land	Buildings					
Gross Carrying Amount:	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2003	7 670	117 701	19	17 220	5 508	1 330	149 448
Additions	-	-	-	238	31	-	269
Assets transferred in (out)	-	-	(19)	-	19	-	-
Write down	-	(91)	-	-	-	-	(91)
Balance at 30 June 2004	7 670	117 610	-	17 458	5 558	1 330	149 626
Accumulated Depreciation:							
Balance 1 July 2003	-	55 307	-	11 194	-	193	66 694
Depreciation Expense	-	3 317	-	1 564	-	129	5 010
Balance at 30 June 2004	-	58 624	-	12 758	-	322	71 704
Net Book Value	7 670	58 986	-	4 700	5 558	1 008	77 922

12. Payables	Consolidated		AFCT	
	2004	2003	2004	2003
Current Liabilities:	\$'000	\$'000	\$'000	\$'000
Unsecured creditors and accruals	4 312	6 967	4 171	6 914
Employee related expenses	150	123	150	123
	4 462	7 090	4 321	7 037
Non-Current Liabilities:				
Employee related expenses	114	102	114	102
Total	4 576	7 192	4 435	7 139

13. Borrowings	Consolidated		AFCT	
	2004	2003	2004	2003
Current Liabilities:				
Borrowings from government	775	410	775	410
	775	410	775	410
Non-Current Liabilities:				
Borrowings from government	27 163	27 938	27 163	27 938
Total	27 938	28 348	27 938	28 348

14. Provisions	Consolidated		AFCT	
	2004	2003	2004	2003
(a) Employee Benefits				
Current Liabilities:				
Provision for annual leave	616	562	616	562
Provision for long service leave*	194	192	194	192
Payroll accruals	251	206	251	206
	1 061	960	1 061	960
Non-Current Liabilities:				
Provision for long service leave*	869	803	869	803
Total Provision for Employee Benefits	1 930	1 763	1 930	1 763

* The current liability for long service leave has been determined using the average of the past nine years' actual leave taken.

(b) Provision for Salary/Wages Increase		Consolidated		AFCT	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
Current Liabilities:					
Provision for retrospective adjustment for Enterprise Bargaining		-	358	-	358
Total Provision for Salary/Wages increase		-	358	-	358
Total Provisions		1 930	2 121	1 930	2 121
15. Other Current Liabilities					
Funds held in trust		185	211	185	211
Revenue in advance		247	409	247	359
		432	620	432	570
16. Reserves					
Asset Revaluation Reserve:					
Land:					
Opening balance		7 670	7 620	7 670	7 620
Movement		-	50	-	50
Closing balance		7 670	7 670	7 670	7 670
Buildings:					
Opening balance		28 130	30 090	28 130	30 090
Movement		-	(1 960)	-	(1 960)
Closing balance		28 130	28 130	28 130	28 130
Plant and Equipment:					
Opening balance		5 973	7 735	5 973	7 735
Movement		-	(1 762)	-	(1 762)
Closing balance		5 973	5 973	5 973	5 973
Works of Art					
Opening balance		5 031	5 031	5 031	5 031
Movement		-	-	-	-
Closing balance		5 031	5 031	5 031	5 031
Total:					
Opening balance		46 804	50 476	46 804	50 476
Movement		-	(3 672)	-	(3 672)
Closing Balance		46 804	46 804	46 804	46 804
17. Movements in Accumulated Surplus (Deficit)					
Opening balance		7 201	9 683	6 760	9 321
Surplus (Deficit) from Ordinary Activities		(3 626)	(2 482)	(3 878)	(2 561)
Closing Balance		3 575	7 201	2 882	6 760
18. Commitments for Expenditure					
(a) Operating Leases					
Commitments under non-cancellable operating leases at reporting date are payable as follows:					
Not later than one year		21	58	21	58
Later than one year but not later than five years		-	22	-	22
Total		21	80	21	80
Equipment leases are for fixed lease periods. There are no contingent rental payments. There are options to extend the leases.					
Motor vehicle leases are for lease periods of two to three years. Rental payments are fixed.					
19. Contingent Liabilities and Contingent Assets					
As at balance date there were no known contingent liabilities or contingent assets.					
20. Reconciliation of Surplus (Deficit) from Ordinary Activities to Net Cash provided by (used in) Operating Activities					
		Consolidated		AFCT	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
Surplus (deficit) from ordinary activities		(3 625)	(2 482)	(3 878)	(2 561)
Adjustment for non-cash items:					
Depreciation		5 010	4 243	5 010	4 243
Provision for doubtful debts		(206)	94	(206)	94
Provision for leave entitlements		(191)	663	(191)	663
Asset write-down		91	-	91	-
Changes in Assets and Liabilities:					
(Increase) Decrease in receivables		1 119	(706)	1 119	(711)
(Increase) Decrease in other current assets		171	(131)	171	(131)
(Increase) Decrease in inventories		14	(82)	14	(82)
Increase (Decrease) in creditors		(2 118)	446	(2 206)	482
(Decrease) Increase in other current liabilities		(188)	52	(138)	2
Net Cash provided by (used in) Operating Activities		77	2 097	(214)	1 999

21. Remuneration to Auditors and Consultants

	Consolidated		AFCT	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Remuneration to auditors:				
Auditing the financial report	68	69	65	65
Other auditing services	21	-	21	-
	89	69	86	65

	Consolidated		AFCT	
	2004 Number of Consultants	2003 Number of Consultants	2004 Number of Consultants	2003 Number of Consultants
Number of Consultants:				
Under \$10 001	2	-	2	-
\$10 001 - \$50 000	1	-	1	-
	3	-	3	-

	Consolidated		AFCT	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Payments to Consultants:				
Under \$10 001	11	-	11	-
\$10 001 - \$50 000	36	-	36	-
	47	-	47	-

22. Remuneration of Employees

The number of employees whose annual remuneration was over \$100 000 fell within the following bands:

	2004 Number of Employees	2003 Number of Employees
\$100 000 - \$109 999	2	2
\$120 000 - \$129 999	1	2
\$130 000 - \$139 999	2	-
\$170 000 - \$179 999	0	1
\$180 000 - \$189 999	-	-
\$190 000 - \$199 999	1	1
\$280 000 - \$289 999	1	-

The aggregate of the remuneration referred to in the table above for all employees is \$1 075 000 (\$829 800).

23. Trustees' Remuneration and Related party Disclosures**Trustees' Remuneration**

The number of Trustees with income in the following bands was:

	2004 Number of Trustees	2003 Number of Trustees
\$0 - \$9 999	10	8
\$10 000 - \$19 999	1	1

The aggregate of the remuneration referred to in the above table for Trustees is \$79 000 (\$80 000).

Related Party Disclosures

The members of the Trust are appointed by the Government in accordance with the provisions of the *Adelaide Festival Centre Trust Act 1971*.

During the year the following persons occupied the position of Trustee of the Adelaide Festival Centre Trust:

Mr Richard Ryan	Mr Mark Morelli (term expired 16.1.04)
Ms Joanne Staugas	Mr Pearce Bowman (term expired 16.1.04)
Mr Peter Goers	Ms Winnie Pelz (term expired 16.1.04)
Mrs Fiona Adler	
Ms Anne Moran	
Mr Ian Kowalick (term commenced 12.1.04)	
Mr Paul Thompson (term commenced 12.1.04)	
Ms Carolyn Cordeaux (term commenced 12.1.04)	

The Trustees of the Trust, or their director related entities, have transactions with the Trust that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonably expected the entity would have adopted if the transactions were undertaken with any other entity at arm's length in similar circumstances.

As a part of the duties of office, from time to time, Trustees receive complimentary tickets to shows and events conducted by or through the Trust. These benefits serve to involve the Trustees in the product and business that is being managed and/or involve the execution of office in liaison with external parties.

24. Targeted Voluntary Separation Package Scheme (TVSPs)

In 2003-04 four TVSPs totalling \$204 000 were paid and an additional \$41 700 was paid on account of accrued annual leave and long service leave. The TVSP amount of \$204 000 was paid by the Trust which subsequently received reimbursement of this amount from the Department of the Premier and Cabinet. In 2002-03 no TVSPs were paid.

25. Financial Instruments**(a) Terms and Conditions**

Financial Instruments	Note	Accounting Policies and Methods	Nature of Underlying Instrument
Financial Assets			
		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	6	Deposits are recognised at their nominal amount. Interest is credited to revenue as it accrues.	
Receivables	7	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less than likely.	Credit terms are net 30 days.
Financial Liabilities			
		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade creditors	12	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received.	Settlement is made net 30 days.
Other liabilities	15	Monies held in trust being deposits held for other entities and revenues earned in advance are recognised as liabilities.	The Trust holds monies on behalf of other entities and revenues earned in advance.
Borrowings	13	Borrowings are recognised at their nominal amounts.	The interest rate is determined by the Treasurer on borrowings from the Department of Treasury and Finance. There are two elements to these borrowings, one with no maturity date (interest paid quarterly) and a second borrowing with a maturity date in 2011 (interest paid monthly).

(b) Interest Rate Risk

	Consolidated 2004			Weighted Average Interest Rate Percent	AFCT 2004			Weighted Average Interest Rate Percent
	Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total \$'000		Floating Interest Rate \$'000	Non- Interest Bearing \$'000	Total \$'000	
Financial Assets:								
Cash	5 827	57	5 884		4 992	57	5 049	
Receivables	-	1 282	1 282		-	1 282	1 282	
	<u>5 827</u>	<u>1 339</u>	<u>7 166</u>	6.53	<u>4 992</u>	<u>1 339</u>	<u>6 331</u>	6.53
Financial Liabilities:								
Other Liabilities	432	-	432		432	-	432	
Trade creditors	-	4 462	4 462		-	4 321	4 321	
Borrowings	27 163	775	27 938		27 163	775	27 938	
	<u>27 595</u>	<u>5 237</u>	<u>32 832</u>	7.15	<u>27 595</u>	<u>5 096</u>	<u>32 691</u>	7.15
Net Financial Assets (Liabilities)	(21 768)	(3 898)	(25 666)		(22 603)	(3 757)	(26 360)	

(b) Interest Rate Risk (continued)

	2003			Weighted Average Interest Rate Percent	2003			Weighted Average Interest Rate Percent
	Floating Interest Rate	Non- Interest Bearing	Total		Floating Interest Rate	Non- Interest Bearing	Total	
Financial Assets:	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000	
Cash	6 938	47	6 985		6 394	47	6 441	
Receivables	-	2 195	2 195		-	2 195	2 195	
	<u>6 938</u>	<u>2 242</u>	<u>9 180</u>	5.88	<u>6 394</u>	<u>2 242</u>	<u>8 636</u>	5.88
Financial Liabilities:								
Other Liabilities	620	-	620		570	-	570	
Trade creditors	-	7 090	7 090		-	7 037	7 037	
Borrowings	27 938	410	28 348		27 938	410	28 348	
	<u>28 558</u>	<u>7 500</u>	<u>36 058</u>	6.04	<u>28 508</u>	<u>7 447</u>	<u>35 955</u>	6.04
Net Financial Assets								
(Liabilities)	(21 620)	(5 258)	(26 878)		(22 114)	(5 205)	(27 319)	

(c) Net Fair Values

	Consolidated				AFCT			
	2004		2003		2004		2003	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
Financial Assets:	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash	5 884	5 884	6 985	6 985	5 049	5 049	6 441	6 441
Receivables	1 282	1 282	2 195	2 195	1 282	1 282	2 195	2 195
Total Financial Assets	7 166	7 166	9 180	9 180	6 331	6 331	8 636	8 636
Financial Liabilities:								
Other Liabilities	432	432	620	620	432	432	570	570
Trade creditors	4 462	4 462	7 090	7 090	4 321	4 321	7 037	7 037
Borrowings	27 163	27 163	27 938	27 938	27 163	27 163	27 938	27 938
Total Financial Liabilities	32 057	32 057	35 648	35 648	31 916	31 916	35 545	35 545

(d) Credit Risk Exposure

The Trust's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Trust has no significant exposure to any concentrations of credit risk.

26. Employee Benefits and Related On-Cost Liabilities

	Consolidated		AFCT	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current Liabilities:				
Provision for annual leave (refer Note 14)	616	562	616	562
Provision for long service leave (refer Note 14)	194	192	194	192
Payroll accruals (accounted for in provisions refer Note 14)	251	206	251	206
On-costs (accounted for in payables refer Note 12)	150	123	150	123
	<u>1 211</u>	<u>1 083</u>	<u>1 211</u>	<u>1 083</u>
Non-Current Liabilities:				
Provision for long service leave (refer Note 14)	869	803	869	803
On-Costs (accounted for in payables refer Note 12)	114	102	114	102
	<u>983</u>	<u>905</u>	<u>983</u>	<u>905</u>
Aggregate Employee Benefits and Related on-Cost Liabilities	2 194	1 988	2 194	1 988

27. Controlled Entity

The consolidated financial statements at 30 June 2004 include the following controlled entity:

Name of Controlled Entity	Place of Incorporation
The Adelaide Festival Centre Foundation Incorporated	Australia

ADELAIDE FESTIVAL CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Adelaide Festival Corporation is a body corporate established pursuant to the *Adelaide Festival Corporation Act 1998*. The Corporation is an instrumentality of the Crown.

Functions

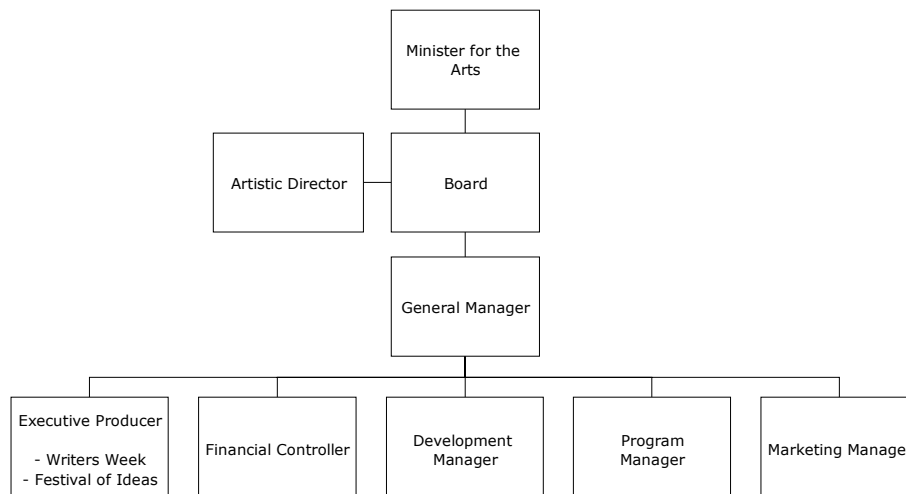
The functions of the Corporation, as set out by section 5 of the Act, are to:

- conduct in Adelaide and other parts of the State the multifaceted arts event that is known as the Adelaide Festival of Arts;
- continue to further develop the Adelaide Festival of Arts as an event of international standing and excellence;
- conduct or promote other events and activities;
- provide advisory, consultative, managerial and support services within areas of the Corporation's expertise;
- undertake other activities that promote the arts or public interest in the arts, or that otherwise involve appropriate use of its resources;
- carry out such other functions assigned to the Corporation by or under this or any other Act, or by the Minister.

The Adelaide Festival of Arts is a biennial event with 2004 being a Festival year.

Structure

The structure of the Adelaide Festival Corporation is illustrated in the following organisational chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

The Auditor-General audits the accounts of the Adelaide Festival Corporation pursuant to subsection 19(3) of the *Adelaide Festival Corporation Act 1998*.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Adelaide Festival Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily towards obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by the Treasurer's Instruction 2 'Financial Management Policies'.

During 2003-04, specific areas of audit attention included:

- revenue, including cash receipting and debtors
- expenditure, including accounts payable and, salaries and wages
- general ledger
- contracts
- budgetary control.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Adelaide Festival Corporation as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Adelaide Festival Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Adelaide Festival Corporation have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the General Manager.

A satisfactory response was received to the matters raised in the management letter.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Statement of Financial Performance

Scope of Functions

In reviewing the financial performance of the Corporation it should be noted that, although the predominant role of the Corporation is to conduct the Adelaide Festival of Arts, its functions also extend to the promotion and conduct of other festivals and events such as the Festival of Ideas. The Statement of Financial Performance includes the expenses and revenues associated with these events as well as the Adelaide Festival of Arts.

Interpretation and Analysis

Given the biennial nature of the Adelaide Festival of Arts, the financial results for the event are recorded mainly over a cycle of two financial years. Other festivals may also be active across a number of financial years. As a result, the interpretation and analysis provided below is based on the biennial financial results of the Corporation.

A comparison of the last two biennial periods is provided in Note 21.

It is important to understand that when comparing the last two Festivals, while the 2002 Festival of Arts was a 10 day event, the 2004 Festival returned to a 14 day event.

Biennial Operating Result

As shown in Note 21, the biennial result for the Corporation for the 2003 and 2004 financial years was a surplus of \$430 000 as compared to a deficit of \$365 000 for the previous biennial period.

Operating Revenues

For the 2004 biennial period, Revenues from Ordinary Activities totalled \$11.7 million, a decrease of \$2.6 million compared to the previous biennial period. This decrease is mainly attributable to a decrease in grant funding received between the two biennial years. For the 2004 biennial period the Corporation received grant funding totalling \$5.9 million, whereas for the 2002 biennial period grant funding totalled \$9.2 million. It is important to note that the 2002 biennial grant funding includes \$1.5 million for the Film Program, a program which was not undertaken during the 2004 biennial period.

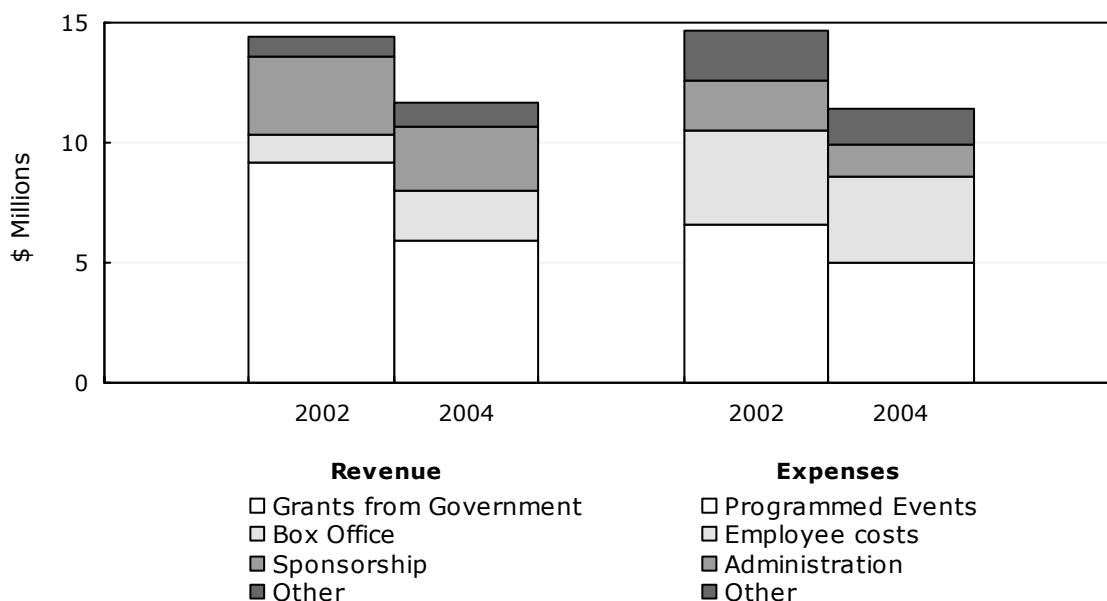
The box office revenue for the 2004 biennial period totalled \$2.1 million, an increase of \$1 million from the 2002 biennial period.

Operating Expenses

Expenses from ordinary activities decreased by \$3.4 million to \$11.3 million. The decrease in expenditure is mainly attributable to:

- a decrease in administration expenditure of \$800 000;
- a decrease in marketing expenditure of \$400 000;
- nil expenditure for the Film Program for the 2004 biennial period compared to \$1.7 million in the 2002 biennial period.

The following chart shows the operating revenues and operating expenses for the 2002 and 2004 biennial periods:



Statement of Financial Position

As at 30 June 2004, the Corporation's net assets totalled \$200 000 as compared to \$1.6 million for the same time last year. The fluctuations in the Corporation's net assets reflect the biennial nature of the Adelaide Festival of Arts.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
REVENUE FROM ORDINARY ACTIVITIES:			
Grants from Government	3	2 861	3 056
Box office		2 070	-
Interest		94	22
Sponsorship - Corporate		1 431	414
Sponsorship - Government		681	185
Other income	4	740	151
Total Revenue from Ordinary Activities		7 877	3 828
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses		2 342	1 216
Administration	5	2 123	623
Programmed events	6	4 792	179
Total Expenses from Ordinary Activities		9 257	2 018
(DEFICIT) SURPLUS FROM ORDINARY ACTIVITIES		*(1 380)	1 810
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		(1 380)	1 810

* The two financial years reported in this Statement of Financial Performance cover the whole of the period of the development and presentation of the Adelaide Bank 2004 Festival of Arts, resulting in an overall surplus for the biennial Festival of \$430 000 (see Note 21).

**Statement of Financial Position
as at 30 June 2004**

	Note	2004 \$'000	2003 \$'000
ASSETS:			
CURRENT ASSETS:			
Cash assets	7	172	1 234
Receivables	8	210	551
Total Current Assets		382	1 785
NON-CURRENT ASSETS:			
Plant and equipment	9	33	68
Total Non-Current Assets		33	68
Total Assets		415	1 853
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	10	98	173
Provision for employee benefits	11	63	46
Total Current Liabilities		161	219
NON-CURRENT LIABILITIES:			
Payables	10	4	6
Provision for employee benefits	11	38	36
Total Non-Current Liabilities		42	42
Total Liabilities		203	261
NET ASSETS		212	1 592
EQUITY:			
Accumulated surplus	12	212	1 592
TOTAL EQUITY		212	1 592

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
	Note	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH INFLOWS:			
Receipts from Government		2 515	3 019
Receipts from patrons, sponsors, donors and others		5 199	655
Receipts from Commonwealth		346	37
Interest received		94	22
GST receipts on sales		259	73
GST input tax credits		511	142
Total Inflows from Operating Activities		8 924	3 948
CASH OUTFLOWS:			
Employee payments		(2 326)	(1 221)
Supplies and services		(6 801)	(1 363)
GST payments on purchases		(560)	(97)
GST remitted to ATO		(294)	(65)
Total Outflows from Operating Activities		(9 981)	(2 746)
Net Cash (Outflows) Inflows from Operating Activities	13	(1 057)	1 202
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of plant and equipment		(5)	(14)
Total Outflows from Investing Activities		(5)	(14)
Net Cash Outflows from Investing Activities		(5)	(14)
NET (DECREASE) INCREASE IN CASH HELD		(1 062)	1 188
CASH AT 1 JULY		1 234	46
CASH AT 30 JUNE	7	172	1 234

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Functions of the Adelaide Festival Corporation

The functions of the Adelaide Festival Corporation are to:

- (a) conduct in Adelaide and other parts of the State the multifaceted arts event that is known as the Adelaide Festival of Arts;
- (b) continue and further develop the Adelaide Festival of Arts as an event of international standing and excellence;
- (c) conduct or promote other events and activities;
- (d) provide advisory, consultative, managerial or support services within areas of the Corporation's expertise;
- (e) undertake other activities that promote the arts or public interest in the arts, or that otherwise involve an appropriate use of its resources; and
- (f) carry out other functions assigned to the Corporation by or under the *Adelaide Festival Corporation Act 1998* or any other Act, or by the Minister.

2. Statement of Significant Accounting Policies

2.1 Basis of Accounting

The general purpose financial report has been prepared in accordance with the Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, Statements of Accounting Concepts, applicable Australian Accounting Standards, applicable Urgent Issues Group Consensus Views and other mandatory reporting requirements. The report has been prepared on the accrual basis of accounting and in accordance with conventional historical cost principles except where stated.

2.2 Foreign Exchange

Transactions in foreign currencies are translated at rates of exchange applicable at the date the foreign currency is acquired. Gains or losses arising from translation are taken directly to revenues or expenses.

2.3 Employee Benefits

Provision has been made in the financial report for the Corporation's liability for employee entitlements arising from services rendered by employees to balance date. Related on-costs consequential to the employment of employees have been included in payables.

Salaries and Wages

Salaries and wages have been recognised as the amount unpaid at the reporting date and have been calculated at nominal amounts based on current wage and salary rates.

Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision has been calculated at nominal amounts based on current salary rates plus a provision for increase of 4 percent.

Sick Leave

No provision has been made in respect of sick leave. As sick leave taken by employees is considered to be taken from the current year's accrual, no liability is recognised.

Long Service Leave

Provision has been made for employee entitlements to long service leave based on a benchmark of seven years service and represents the present value of the estimated future cash flows to be made for those entitlements. This provision has been calculated at nominal amounts based on current salary rates.

2.4 Superannuation

Contributions are made by the Corporation to a number of State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the superannuation schemes.

2.5 Workers Compensation

Contributions are made by the Corporation to the WorkCover Corporation to provide insurance coverage in relation to workers compensation. These contributions are treated as an expense as they occur. There is no liability to claimants as they have been assumed by WorkCover Corporation.

2.6 Income Tax

The income of the Adelaide Festival Corporation is exempt from income tax.

2.7 Plant and Equipment

Office Furniture and Equipment is valued at cost.

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of their service potential. Depreciation of office furniture and equipment is calculated using the straight line method of allocation over a useful life of four years and is recognised from the date of acquisition.

2.8 Revenue Recognition

Operating and Performing Arts Grants

In accordance with Department of Treasury and Finance Accounting Policy Statement 11, 'Contributions', all grants are recognised as revenue when received.

Sponsorship, Sundry Income and Interest

All income of this nature is recognised as revenue as it accrues.

Donations

All income of this nature is recognised as revenue when received.

2.9 Economic Dependency

The normal business activity of the Adelaide Festival Corporation is dependent on the contribution of grants from the State at the appropriate levels. The State Government has advised that funding will be maintained and accordingly this financial report has been prepared on a going concern basis.

2.10 Comparative Figures

Where applicable, comparative amounts have been adjusted to conform with changes in presentation and classification in the current financial year.

2.11 Changes in Accounting Policies

Impact of Adopting Australian Equivalents to International Reporting Standards

Australia will be adopting the Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Corporation will adopt these standards for the first time in the published financial report for the financial year ended 30 June 2006.

Managing the Process

To obtain an understanding of the new standards and the resulting effect on the financial reports, the Financial Controller of the Corporation attends information forums facilitated by Department of Treasury Finance (DTF), professional bodies and private sector accounting firms.

The Corporation will also adopt the DTF Model Financial Report for SA Government entities as from 30 June 2005, which will comply with Generally Accepted Accounting Principles (GAAP), Australian Accounting Standards, Treasury Instructions and Accounting Policy Statements.

Expected Differences in Accounting Policies

The key differences in accounting policies applied to the Corporation's financial reports expected to result from the adoption of the Australian equivalents to the IFRS are outlined below.

- Changes in Accounting Policies*

The pending accounting standards, AASB 1 'First-Time Adoption of Australian Equivalents to International Financial Reporting Pronouncements', will now require the retrospective application of changes in accounting policies. This requires the restatement of comparative information except for specific exemptions as listed in AASB 1. This is a major difference in accounting policy.
- Employee Benefits*

Pending accounting standard AASB 119 'Employee Benefits' is proposing that the Employee Benefits, including long service leave and annual leave, payable later than 12 months from the end of the financial year are to be measured at present value. Currently under the existing accounting standard AASB 1028 'Employee Benefits', employee benefits payable later than 12 months are measured at nominal amounts.

3. Grants from Government	2004	2003
	\$'000	\$'000
Grants from South Australian Government	2 515	3 019
Commonwealth grants	346	37
	2 861	3 056
4. Other Income		
Donations	106	47
Book and merchandise sales	262	-
Friends membership	46	45
Sundry	326	59
	740	151
5. Administration Expenses		
Depreciation	40	53
Operating leases	108	97
Marketing	1 136	135
Development	200	16
Artistic Directorate	110	104
Communications	55	33
Other expenses	474	185
	2 123	623
6. Programmed Events		
Festival of Ideas 2003	184	153
Festival of Arts 2004	4 608	26
	4 792	179
7. Reconciliation of Cash		
For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank.		
Cash on hand	1	1
Cash at bank	125	231
SAFA deposit	46	1 002
	172	1 234
8. Receivables		
Trade debtors	142	402
Less: Provision for doubtful debts	20	5
Prepayments and accruals	88	154
	210	551
9. Plant and Equipment		
(a) Office equipment and furniture at cost	259	254
Less: Accumulated depreciation	226	186
Written Down Value	33	68

		2004	2003
		\$'000	\$'000
(b)	Reconciliation of Carrying Amounts of Plant and Equipment		
	Balance at 1 July	254	242
	Add: Additions	5	14
	Less: Disposals	-	(2)
	Balance at 30 June	259	254
	Accumulated depreciation:		
	Balance at 1 July	186	135
	Less: Disposals	-	(2)
	Add: Depreciation expense	40	53
	Balance at 30 June	226	186
	Net Book Value	33	68
10.	Payables		
	Current:		
	Trade creditors and accruals	88	165
	Employee costs	10	8
		98	173
	Non-Current:		
	Employee costs	4	6
		4	6
11.	Provisions		
	(a) Provision for Employee Benefits		
	Current:		
	Accrued salaries and wages	24	16
	Annual leave	27	19
	Long service leave	12	11
		63	46
	Non-Current:		
	Long service leave	38	36
		38	36
	(b) Employee Benefits and Related On-cost Liabilities		
	Accrued Salaries:		
	On-costs included in payables - Current (Note 10)	4	3
	Provision for employee benefits - Current (Note 11(a))	24	16
		28	19
	Annual Leave:		
	On-costs included in payables - Current (Note 10)	4	3
	Provision for employee benefits - Current (Note 11(a))	27	19
		31	22
	Long Service Leave:		
	On-costs included in payables - Current (Note 10)	2	2
	Provision for employee benefits - Current (Note 11(a))	12	11
		14	13
	On-costs included in payables - Non-Current (Note 10)	4	6
	Provision for employee benefits - Non-Current (Note 11(a))	38	36
		42	42
	Aggregate employee benefits and related on-cost liabilities	115	96
12.	Accumulated Surplus		
	Balance at 1 July	1 592	(218)
	(Deficit) Surplus from ordinary activities	(1 380)	1 810
	Balance at 30 June	212	1 592
13.	Reconciliation of Surplus (Deficit) from Ordinary Activities to Net Cash (Outflows) Inflows from Operating Activities		
	Surplus (Deficit) from Ordinary Activities	(1 380)	1 810
	Items not involving cash:		
	Depreciation	40	53
	Changes in Assets and Liabilities:		
	(Increase) Decrease in receivables	341	8
	Increase (Decrease) in payables	(77)	(667)
	Increase (Decrease) in provision for employee benefits	19	(2)
	Net Cash (Outflows) Inflows Operating Activities	(1 057)	1 202

14. Remuneration to Auditors

The amount due to and receivable by the Auditor-General's Department for auditing the accounts for the year was \$14 500 (\$14 000).

The auditors provided no other services.

15. Consultancies

During the year, the Board engaged consultants to assist in its operation. The costs of these consultancies was \$13 000 (\$4 500).

The number of consultancies whose payments fell within the following bands were:

	2004 Number of Consultancies	2003 Number of Consultancies
\$nil - \$9 999	1	2
\$10 000 - \$19 999	1	-

16. Commitments for Expenditure

Operating Leases:

Commitments under non-cancellable operating leases at the reporting date are payable as follows:

Not later than one year

Later than one year and not later than five years

	2004 \$'000	2003 \$'000
Not later than one year	51	92
Later than one year and not later than five years	29	30
	80	122

These operating lease commitments are not recognised in the financial report as liabilities.

The motor vehicle lease is a non-cancellable lease, payable monthly in arrears.

The equipment lease is a non-cancellable lease, payment monthly in advance.

The property lease is a non-cancellable lease, payable monthly in advance. An option exists to renew the lease at the end of the term of the lease.

17. Remuneration of Employees

The number of employees whose total remuneration fell within the following bands:

	2004 Number of Employees	2003 Number of Employees
\$110 000 - \$119 999	1	1
\$140 000 - \$149 999	1	-

The aggregate remuneration referred to in the above table for employees is \$261 892 (\$118 461).

18. Remuneration of Board Members

	2004 Number of Members	2003 Number of Members
\$nil - \$9 999	8	8
\$10 000 - \$19 999	1	1

The aggregate remuneration referred to in the above table for Board Members is \$62 173 (\$59 230).

As at 30 June 2004 one member of the Board, who is a Government Employee, received no sitting fees from the Corporation.

19. Financial Instruments**(a) Terms, Conditions and Accounting Policies**

Financial Instrument	Note	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial Assets:			
Cash on hand and at bank	7	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	All deposited funds attract interest. Rates are determined by the bank and SAFA at their discretion. The interest rate as at 30 June 2004 was 4.0 percent at Bank SA and 5.5 percent at SAFA. Interest is paid monthly.
Receivables	8	Receivables are recognised at their nominal amounts. Amounts are recognised when services are provided. Collectability of debts is assessed at balance date with any bad debts being written off prior to balance date.	Standard credit terms are 30 days.
Financial Liabilities:			
Payables	10	Creditors are recognised at their nominal amounts. Liabilities are recognised once the goods or services have been received.	Creditors are generally paid within 30 days

(b) Interest Rate Risk

Financial Instrument	Note	2004	2003	2004	2003	2004	2003	2004	2003
		Floating Interest Rate \$'000	Floating Interest Rate \$'000	Non-Interest Bearing \$'000	Non-Interest Bearing \$'000	Total \$'000	Total \$'000	Weighted Average Effective Interest Rate Percent	Weighted Average Effective Interest Rate Percent
Financial Assets:									
Cash at bank	7	125	231	-	-	125	231	4	7
SAFA deposit	7	46	1 002	-	-	46	1 002	5.5	4.8
Cash on hand	7	-	-	1	1	1	1	-	-
Receivables	8	-	-	210	551	210	551	-	-
Total		171	1 233	511	552	382	1 785		
Financial Liabilities:									
Payables	10	-	-	102	179	102	179	-	-
Total		-	-	102	179	102	179		

(c) Net Fair Values of Financial Assets and Liabilities

The net fair values of the financial assets and liabilities in this report approximate their carrying value.

(d) Credit Risk Exposure

The maximum credit risk exposure at reporting date in relation to each class of recognised financial asset and financial liability is the amount as indicated in the Statement of Financial Position.

20. Related Party Disclosure

The Board members are appointed by the Governor in accordance with the *Adelaide Festival Corporation Act 1998*.

During the period, the following persons occupied the position of Board members of the Adelaide Festival Corporation:

Mr R Adler AO (Chair)	Mr R Angove AM	Ms V Szekeres to 31 March 2004
Mr C Dunsford (Chair Finance Committee)	Mr L Warren	Mr Brett Rowse
Ms M Oates	Ms S Sdraulig	Ms Amanda Blair from 22 April 2004

As part of the duties of office, from time to time, Board Members receive complimentary tickets to shows or events conducted by the Adelaide Festival Corporation. These benefits serve to involve the Board Members in the product and business that is being managed and/or involve the execution of office in liaison with external parties.

21. Comparison of Biennial Periods

The following table highlights the operating result of the Corporation with comparisons of the biennial periods 1 July 2000 to 30 June 2002 and 1 July 2002 to 30 June 2004 which cover the periods of operation relating to the conduct of the 2002 and 2004 Adelaide Festival of Arts and other projects.

Revenues from Ordinary Activities:	2004	2002
	\$'000	\$'000
Grants from Government	5 534	6 709
Grants from Government - Film	-	1 500
Other grants	383	972
Box office	2 070	1 111
Sponsorship	2 711	3 268
Interest	116	43
Donations	153	197
Other income	738	537
Total Revenues	11 705	14 337
Expenses from Ordinary Activities:		
Administration	1 259	2 097
Development	216	388
Marketing	1 271	1 669
Festival of Ideas	337	213
Programmed events	4 634	4 752
Film program	-	1 699
Employee costs	3 558	3 884
Total Expenses	11 275	14 702
Corporate Surplus (Deficit) from Biennial Period Operations	430*	(365)

* The two financial years reported in the Statement of Financial Performance cover the whole of the period of the development and presentation of the Adelaide Bank 2004 Festival of Arts, resulting in an overall surplus for the 2004 biennial Festival of \$430 000.

ART GALLERY BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Board was established under subsection 4(1) of the *Art Gallery Act 1939*.

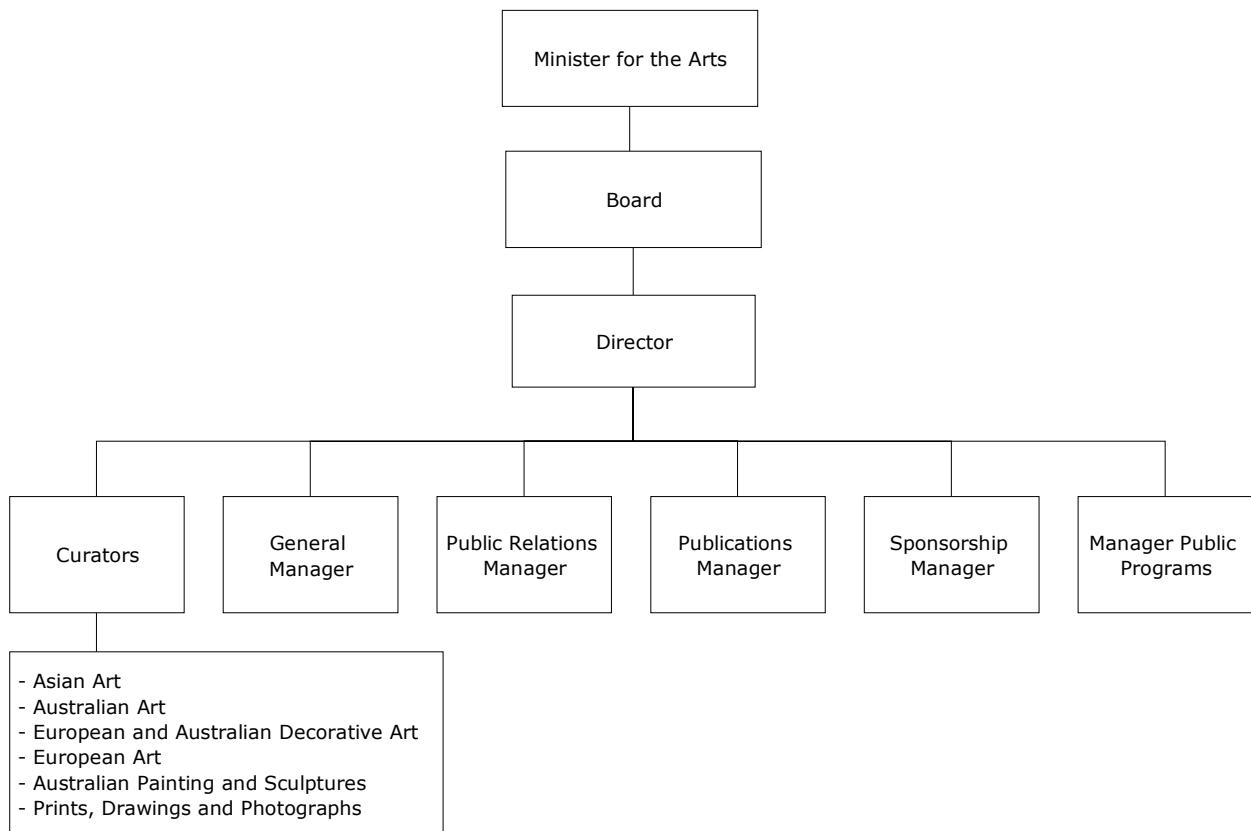
Functions

The functions of the Art Gallery Board are as follows:

- undertake the care and control of the Art Gallery and of all the lands and premises placed under the care and control of the Board;
- undertake the care and control of all works of art, exhibits and other personal property acquired for the purposes of the Art Gallery;
- assist in the promotion and supervision of art galleries, and collections of art, and any body or association established for the promotion of art within the State.

Structure

The structure of the Art Gallery of South Australia is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Art Gallery Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Art Gallery Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2003-04, specific areas of audit attention included:

- expenditure including accounts payable, and salaries and wages
- revenue including cash receipting and banking, and bookshop operations
- property plant and equipment
- heritage collection management
- investments.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Art Gallery of South Australia as at 30 June 2004 and the results of its financial performance and cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Art Gallery of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Art Gallery of South Australia have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Director. The issues raised by Audit related mainly to the opportunity to further strengthen controls over payroll processes and to establish and implement policies and procedures for the bookshop operations.

A satisfactory response was received to the matters raised in the management letter.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

	2004	2003	Percentage
	\$'000	\$'000	Change
OPERATING REVENUE			
State Government grants	6 279	5 936	6
Other revenue	5 752	8 410	(32)
Total Operating Revenue	12 031	14 346	(16)
OPERATING EXPENDITURE			
Employment expenses	2 702	2 317	17
Other expenses	6 923	6 849	1
Total Operating Expenses	9 625	9 166	5
Surplus from Ordinary Activities	2 406	5 180	(54)
Net Cash Flows from Operations	1 245	2 205	(44)
ASSETS			
Current assets	3 449	4 213	(18)
Non-current assets	576 685	572 829	1
Total Assets	580 134	577 042	1
LIABILITIES			
Current liabilities	1 159	857	35
Non-current liabilities	600	529	13
Total Liabilities	1 759	1 386	27
EQUITY	578 375	575 656	-

Statement of Financial Performance**Operating Revenues**

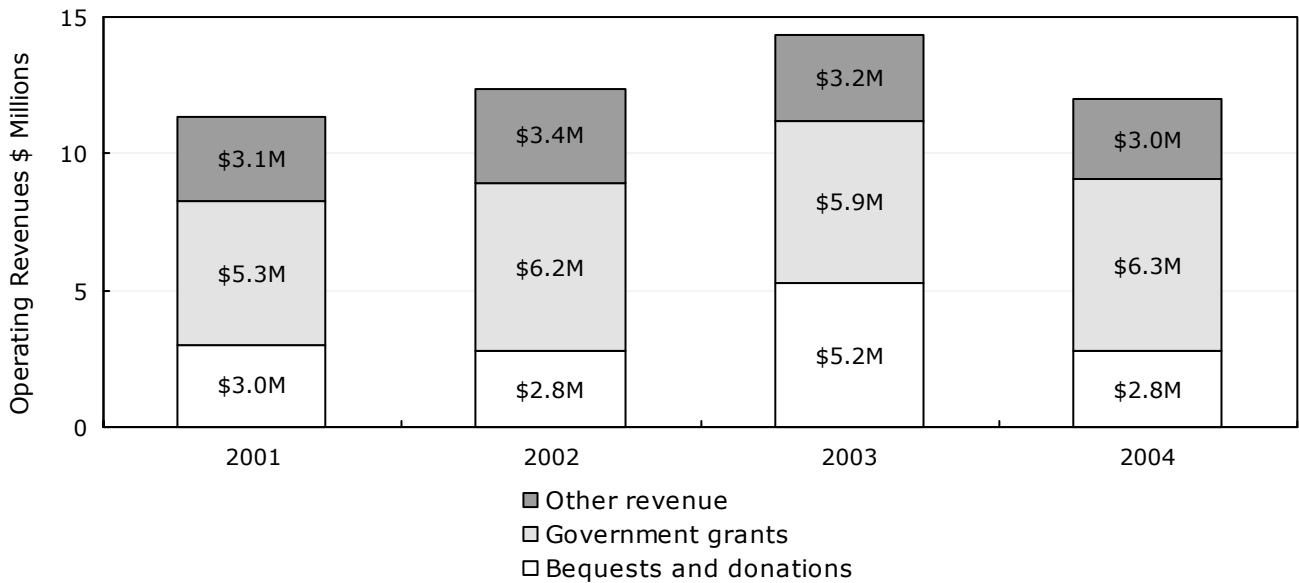
Revenues from Ordinary Activities for the year totalled \$12 million (\$14.3 million). The decrease of \$2.3 million is attributable mainly to:

- a decrease of \$2.4 million in the value of bequests and donations received this year as compared to last year. Bequests and donations received in 2003-04 totalled \$2.8 million as compared to \$5.2 million in 2002-03. The level of this source of revenue is uncertain from year to year.
- a decrease in revenue of \$150 000 (13 percent) from the sale of goods and a decrease of \$125 000 (25 percent) in admissions for temporary exhibitions (refer Note 3). The Art Gallery Board and management have advised that they are of the view that the redevelopment/construction work along North Terrace and in the vicinity of the Art Gallery has had a negative impact on Art Gallery attendances resulting in a decrease in these revenues. In addition, the building redevelopment and temporary closure of the Art Gallery's bookshop has contributed to the decrease in revenue from the sale of goods.

Grants from the State Government represent 52 percent (41 percent) of Revenues from Ordinary Activities which supports the view that the Board is dependent on the ongoing financial support of the State Government as expressed in Note 2(o) to the Financial Statements. Grants from the State Government of \$6.3 million (\$5.9 million) is comprised of a general operating grant of \$6.1 million (\$5.7 million) and a capital grant payment of \$209 000 (\$211 000). The capital grant payment received in 2003-04 is to assist with funding the upgrade of the Art Gallery's security system.

Bequests and donations represent 23 percent (37 percent) of Revenues from Ordinary Activities.

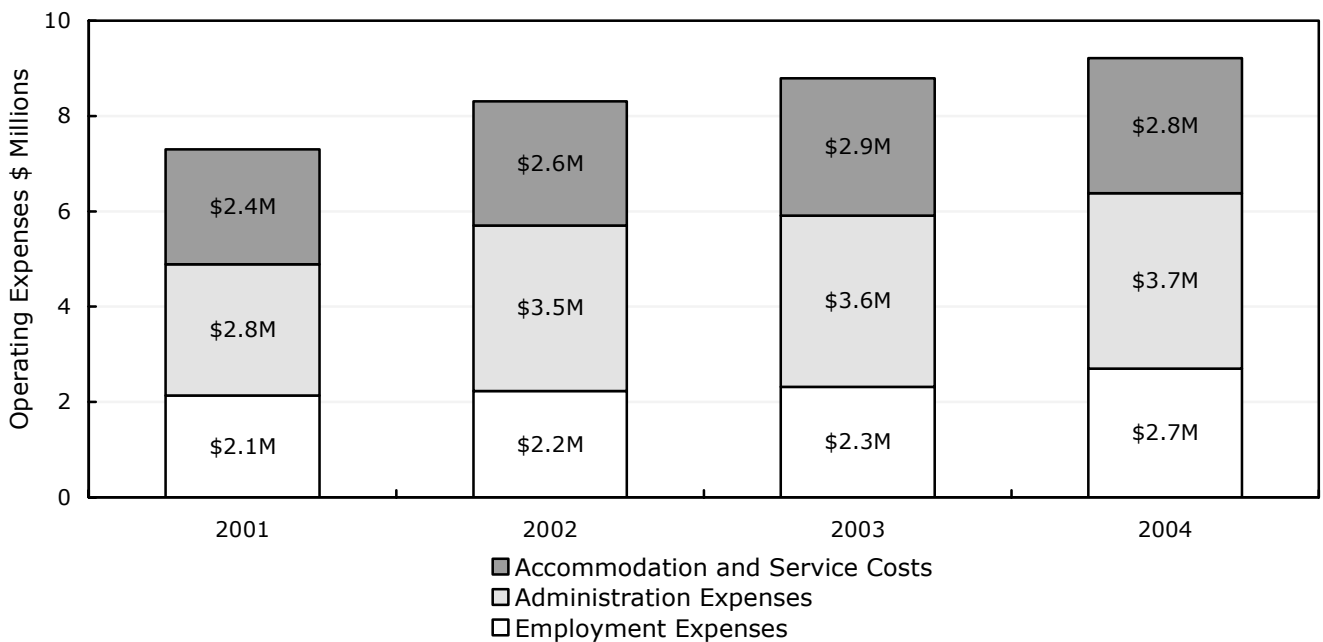
A structural analysis of operating revenues for the Board in the four years to 2004 is presented in the following chart.



Operating Expenses

Expenditure for the year increased by \$459 000 (5 percent) to \$9.6 million.

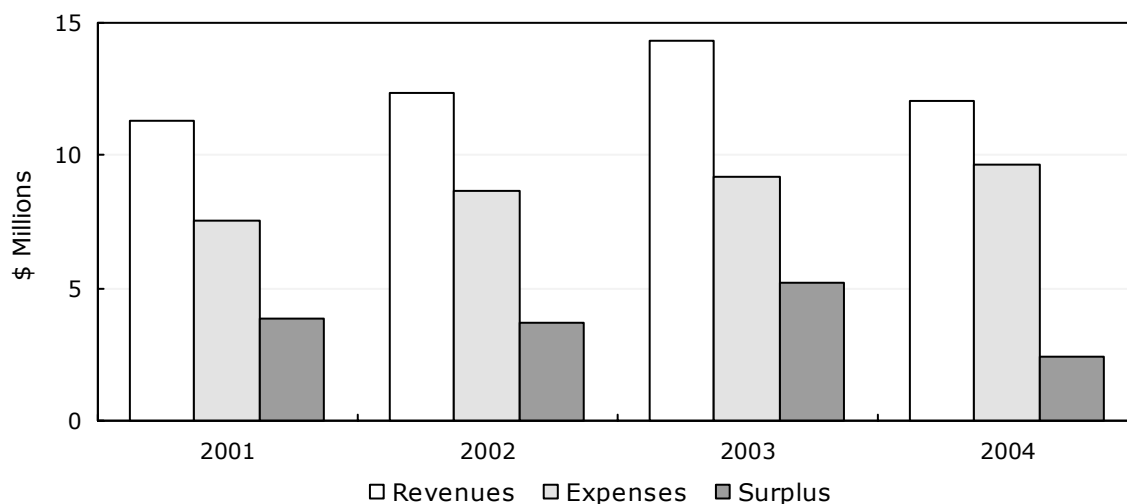
For the four years to 2004, a structural analysis of the main operating expense items for the Board is shown in the following chart.



Operating Result

The operating result for the year was a Surplus from Ordinary Activities of \$2.4 million, compared with a surplus of \$5.2 million in 2002-03. The decrease in the surplus is mainly attributable to the decrease of \$2.4 million in bequests and donations received during the year.

The following chart shows the operating revenues, operating expenses and surpluses for the four years to 2004.

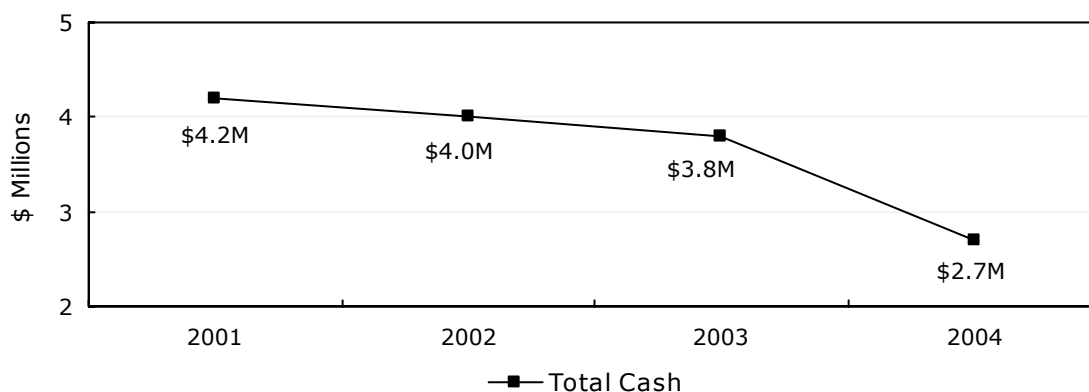


Statement of Financial Position

Current Assets

Cash Assets

The following chart shows the decrease in the Art Gallery’s cash assets over the four years to 2004.



As at 30 June 2004, the Art Gallery’s cash assets totalled \$2.7 million, a decrease of \$1.1 million (29 percent) from the previous year.

As explained under Operating Revenues above, the decrease in revenue received this year as compared to last year is the main cause for the decline in the Art Gallery’s cash assets.

The Art Gallery’s commercial operations incurred the highest loss this year compared to the last five years. While the budget for the Art Gallery’s commercial operations anticipated a surplus of \$174 000 for 2003-04, the result was in fact a loss of \$227 000 (2002-03 loss of \$34 000). The most significant loss was incurred by the Art Gallery’s Exhibition and Touring operations. In 2003-04, Exhibition and Touring, a cultural program which receives no direct government subsidy and is funded through the Art Gallery’s commercial activities and sponsorship, incurred a loss of \$348 000 (\$231 000).

Non-Current Assets

Heritage Collections

The Board has accumulated these assets over a significant period of time primarily through the use of government funding, together with bequests and donations.

The heritage collections were revalued to fair value as at 30 June 2003. (Refer Note 2(g)).

During the year, heritage assets valued at \$3.8 were added to the collections, of which \$1.9 were donated assets.

**Statement of Financial Performance
for the year ended 30 June 2004**

		2004	2003
REVENUES FROM ORDINARY ACTIVITIES:	Note	\$'000	\$'000
Sales of goods		976	1 126
Fees for services and admissions	3	654	717
Interest and investment income		553	457
Bequest and donations		849	2 798
Donations of heritage assets		1 922	2 443
Other revenue	3	1 007	1 080
Grants from State Government - Operations		6 070	5 725
Total Revenues		12 031	14 346
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee costs	4	2 702	2 317
Administration expenses	4	3 675	3 591
Accommodation and service costs	4	2 834	2 882
Conservation of collections		414	376
Total Expenses		9 625	9 166
SURPLUS FROM ORDINARY ACTIVITIES	5	2 406	5 180
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Net credit to asset revaluation reserve on revaluation of non-current assets	16	313	195 772
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		2 719	200 952

**Statement of Financial Position
as at 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash assets	6	2 684	3 785
Receivables	7	142	51
Investments	11	259	-
Inventories		218	206
Other	8	146	171
Total Current Assets		3 449	4 213
NON-CURRENT ASSETS:			
Property, plant and equipment	9	31 082	30 892
Heritage collections	10	541 701	537 972
Investments	11	3 902	3 965
Total Non-Current Assets		576 685	572 829
Total Assets		580 134	577 042
CURRENT LIABILITIES:			
Payables	12	912	662
Employee benefits	13	216	159
Provisions	14	31	36
Total Current Liabilities		1 159	857
NON-CURRENT LIABILITIES:			
Payables	12	53	44
Employee benefits	13	446	368
Provisions	14	101	117
Total Non-Current Liabilities		600	529
Total Liabilities		1 759	1 386
NET ASSETS		578 375	575 656
EQUITY:			
Accumulated surplus	15	378 267	375 861
Reserves	16	200 108	199 795
TOTAL EQUITY		578 375	575 656
Commitments	17		
Contingent Liabilities	18		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
RECEIPTS:			
Sales of goods		890	1 109
Fees for services and admissions		652	724
Interest and investment income		276	405
Bequests and donations		849	2 798
Other sundry receipts		1 464	1 052
PAYMENTS:			
Employee costs		(2 573)	(2 384)
Administration expenses		(3 799)	(4 520)
Accommodation and service costs		(2 235)	(2 415)
Conservation of collections		(349)	(289)
CASH FLOWS FROM GOVERNMENT:			
Grants from State Government - Operations		6 070	5 725
Net Cash provided by Operating Activities	6(b)	1 245	2 205
CASH FLOWS FROM INVESTING ACTIVITIES			
PROCEEDS:			
Sales/maturities of investments		420	34
Proceeds from the sale/disposal of heritage collections		38	-
PAYMENTS:			
Heritage collections		(1 921)	(2 101)
Property, plant and equipment		(527)	(219)
Investments		(356)	(148)
Net Cash used in Investing Activities		(2 346)	(2 434)
NET DECREASE IN CASH HELD		(1 101)	(229)
CASH AT 1 JULY		3 785	4 014
CASH AT 30 JUNE	2(m)	2 684	3 785

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Art Gallery Board Objectives

The Art Gallery Board (the Board) is charged with the management of the Art Gallery of South Australia.

The Art Gallery of South Australia's objectives are to:

- collect heritage and contemporary works of art of aesthetic and art historical or regional significance;
- ensure the preservation and conservation of the Gallery collections;
- display the collections and to program temporary exhibitions;
- research and evaluate the collections, and to make the collections and documentation accessible to others for the purposes of research, as a basis for teaching and communication;
- document the collections within a central cataloguing system;
- provide interpretive information about collection displays and temporary exhibitions and other public programs;
- promote the Gallery's collections and temporary exhibitions;
- ensure that the Gallery's operations, resources and commercial programs are managed efficiently, responsibly and profitably;
- advise the South Australian Government on the allocation of South Australian resources to works of art, art collections, art museums and art associations.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The general purpose financial report has been prepared in accordance with the Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, Statements of Accounting Concepts, applicable Australian Accounting Standards and applicable Urgent Issues Group Consensus Views and other mandatory reporting requirements. The report is prepared on the accrual basis of accounting and in accordance with conventional historical cost principles except where stated.

(b) Change in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting the Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Board will adopt these standards for the first time in the published financial report for the financial year ended 30 June 2006.

Managing the Process

The Board's financial services are provided through a service level agreement with Arts SA, Business Services, a unit of the Department of the Premier and Cabinet. Business Services is coordinating the adoption of the Australian equivalents to the International Financial Reporting Standards in conjunction with the Department of Treasury and Finance (DTF).

To obtain an understanding of the new standards and the resulting effect on the financial reports, representatives from Business Services attend information forums facilitated by DTF, professional bodies and private sector accountancy firms. Business Services representatives attend the Exposure Draft Reference Group meetings, which review Exposure Drafts released by the Australian Accounting Standards Board (AASB), provide comment and feedback to the AASB on the content of the Exposure Drafts and the resulting pending Standards.

The Board will also adopt the DTF Model Financial Report for SA Government entities as from 30 June 2005 which will comply with Generally Accepted Accounting Principles (GAAP), Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements.

Business Services is reviewing and analysing Exposure Drafts and pending Australian Accounting Standards for expected differences in accounting policies as a result of the adoption of the Australian equivalents to the IFRS. A project plan has been prepared which identifies key activities to be undertaken to adopt the AIFRS, and the working papers required by AASB 1 'First-Time Adoption of the Australian International Financial Reporting Pronouncements'.

Expected differences in Accounting Policies

The key differences in accounting policies applied to the Board's financial reports expected to result from the adoption of the Australian equivalents to the IFRS are outlined below.

- *Changes in Accounting Policies*
The pending accounting standard, AASB 1 'First-Time Adoption of Australian Equivalents to International Financial Reporting Pronouncements', will now require the retrospective application of changes in accounting policies. This requires the restatement of comparative information except for specific exemptions as listed in AASB 1. This is a major difference in accounting policy.
- *Non-Current Asset Acquisition and Recognition*
Pending accounting standard AASB 116 'Property, Plant and Equipment' is proposing that non-current assets for Not-For-Profit entities are required to be revalued on an individual basis rather than by class of asset. DTF has indicated that an Accounting Policy Statement may be issued to require revaluation on an asset class basis rather than an individual basis.
- *Employee Benefits*
Pending accounting standard AASB 119 'Employee Benefits' is proposing that Employee Benefits, including long service leave and annual leave, payable later than 12 months from the end of the financial year, are to be measured at present value. Currently under the existing accounting standard AASB 1028 'Employee Benefits', employee benefits payable later than 12 months are measured at nominal amounts.

(c) The Reporting Entity

The Board's principal source of funds consists of grants from the State Government. In addition the Board also receives monies from sales, admissions, donations, bequests and other receipts and uses the monies for the achievement of its objectives.

The financial report encompasses transactions through the following accounts: an interest bearing Special Deposit Account titled 'Arts South Australia Operating Account', an interest bearing Deposit Account titled 'Art Gallery Board Bequests Account' and an interest bearing Cheque Account titled 'Art Gallery Bank SA Account'.

(d) Revenue

Revenue from sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account interest rates applicable to financial assets. Dividend revenue is recognised when the right to receive a dividend has been established. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

(e) Grants from State Government

Grants are recognised as revenue in the period in which the Board obtains control over the grants.

(f) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets acquired. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. Assets donated during the year have been brought to account at market value.

(g) Valuation of Non-Current Assets

The Board, in accordance with the transitional provisions of Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' and Accounting Policy Statement No. 3 'Valuation of Non-Current Assets', has continued to apply the deprival value methodology as the basis of valuing its land and buildings until 30 June 2005.

Land and Buildings

Land and buildings have been valued at replacement cost. Valuations of land and buildings were determined as at 30 June 2002 by the Australian Valuation Office. Land and buildings are independently valued every three years.

Plant and Equipment

Plant and equipment, including computer equipment has been valued at cost of acquisition.

Heritage Collections

The heritage collections are large and diverse. They include many items that are complex to value given considerations of market value and their uniqueness. The Board adopted the following methodology for valuing heritage assets held as at 30 June 2003.

Works of art were valued by the appropriate internal curator and external valuers either by valuing all items or establishing an average value through representative sampling and in the event of variations between the values the following policy was adopted. Where there was disagreement between the internal and the external valuation, the higher valuation was recorded as the correct valuation unless the difference in the valuations was substantial and greater than 50 percent in which case the average of the two valuations was recorded as the correct valuation.

Where there was minor disagreement between the internal and the external valuation, the higher valuation was recorded if provided by the external valuer. When the external valuation was lower than the internal, and when the difference in the two valuations was substantial and greater than 50 percent, the average of the two valuations was recorded as the correct valuation.

The external valuations were carried out by the following recognised industry experts:

Australian Paintings and Sculptures	Mr J Jones
Australian and European Decorative Arts	Mr K Rayment, Mr J Borthwick and Mr J Evans
Asian Art	Mr R Radford and Mr D Richards (Assisted by Mr T McInerney and Mr B Lynch)
European Paintings and Sculptures:	
Before 1850	Mr N Hall
After 1850	Mr T Klingender and Mr P Nahum
Numismatics	Mr G Morton
Australian Prints and Drawings	Ms J Hylton
Australian and International Photography	Mr J Lebovic
International Prints:	
Before 1800	Mr C Mendez
After 1800	Mr F Mulder
International Drawings:	
Before 1800	Mr J-L Baroni
After 1800	Mr F Mulder
Krichauf and Murray Stamp Collection	Mr B Parker

The Research Library collections were valued by sampling 5 percent of the collections and providing a market valuation of the entire stock based on the sample. The values were determined by searching catalogues in second-hand and antiquarian bookshops. Where a value was not available an estimate was provided by the Librarian, Jin Whittington.

The Archival Collections, consisting of ephemera such as material on individual artists and galleries was given a nil valuation as there is no reliable market value for this collection.

(h) Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each non-current asset (valued over \$5 000) over its expected useful life except for land and works of art which are not depreciable. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

(h) Depreciation of Non-Current Assets (continued)

The expected useful lives are as follows:

Item	Years
Buildings and improvements	Useful life depends on individual asset items
Plant and equipment	3-15

Works of art are kept under special conditions to minimise deterioration and they are anticipated to have very long and indeterminate useful lives. No amount for depreciation has been recognised in respect of works of art as their service potential has not, in any material sense, been consumed.

(i) Inventories

Inventories are valued at average cost.

(j) Employee Entitlements**(i) Wages, Salaries and Annual Leave**

Liabilities for wages, salaries and annual leave have been recognised as the amount unpaid at the reporting date. The liabilities have been calculated at nominal amounts based on current wage and salary rates and a salary inflation rate of 4 percent as determined by the Department of Treasury and Finance.

(ii) Long Service Leave

A liability for long service leave has been recognised which represents the amount which the Board has a present obligation to pay resulting from employees' services provided up to the reporting date. The liability has been calculated at nominal amounts based on current wage and salary rates using a benchmark of seven years of service as determined by the Department of Treasury and Finance and salary inflation rate of four percent.

(iii) Superannuation

Contributions are made by the Board to several superannuation schemes operated by the State Government and private sector. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes.

(k) Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The amounts recorded are based on an actuarial assessment and reflect an apportionment of the whole-of-government estimate of workers compensation liability according to the Board's record of claim numbers and payments over the period 1 July 1987 to 30 June 2004.

(l) Investments

Investments have been revalued to reflect market value at 30 June 2004.

(m) Cash Assets

For purposes of the Statement of Cash Flows, cash includes cash on hand and at bank.

(n) Leases

The Board has entered into a number of operating lease agreements for vehicles and photocopiers where the lessors effectively retain all of the risk and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Statement of Financial Performance in the periods in which they are incurred.

(o) State Government Funding

The financial report is prepared under the assumption of ongoing financial support being provided to the Board by the State Government.

(p) Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of the Urgent Issues Group UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)' revenues, expenses and assets are recognised net of the amount of GST.

The amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

The net GST receivable/payable to the Australian Taxation Office is not recognised as a receivable/payable in the Statement of Financial Position as the Board is a member of an approved GST group of which Arts SA, a division of the Department of the Premier and Cabinet, is responsible for the remittance and collection of GST. There are no cash flows relating to GST transactions with the Australian Taxation Office in the Statement of Cash Flows.

(q) Comparative Figures

Where necessary comparative figures have been adjusted to conform with changes in presentation in 2003-04.

3. Revenues from Ordinary Activities	2004	2003
Fees for services and admissions comprised:	\$'000	\$'000
Fees for services	285	223
Admissions for temporary exhibitions	369	494
	654	717
Other revenue comprises the following categories of operating income:		
Sponsorships	213	294
Rent and hire income	211	206
Marketing recouped	60	-
Exhibition hire	136	197
Federal Government grants	88	100
State Government grants	209	211
Salaries recouped	-	4
Profit on sale of investments	34	28
Sundry receipts	56	40
	1 007	1 080

There were no revenues earned as a result of non-operating activities.

4. Expenses from Ordinary Activities		
Employee costs were incurred in relation to the following:		
Wages and salaries	2 160	1 979
Superannuation and payroll tax expenses	357	332
Annual, long service leave and other employee related expenses	185	6
	2 702	2 317

Administration expenses were incurred in relation to the following:		
Research, collections and exhibitions operational expenses	397	317
Insurance and risk management	569	533
Communications and stationery	717	807
Cost of goods sold	392	489
Marketing	432	490
Bequest expenditure (life of tenancy)	-	100
Commission	91	-
Depreciation of plant and equipment	59	18
Operating lease expenditure	41	37
Board expenditure	75	83
Travel and accommodation	126	116
Entertainment	30	51
Contractors and other professional fees	125	142
Minor equipment expenditure	117	46
Business services charge	284	278
Bank charges	11	13
EDS charges	37	20
Memberships and subscriptions	15	18
Projects	30	-
Loss on sale of Heritage Asset	22	-
Loss on sale of investment	86	-
Sundry payments	19	33
	3 675	3 591

Accommodation and service costs were incurred in relation to the following:		
Utility costs	607	651
Maintenance	1 760	1 764
Depreciation of buildings and improvements	467	467
	2 834	2 882

5. Surplus from Ordinary Activities
 Surplus from ordinary activities includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance for the entity:

	2004		2003	
	Heritage Asset \$'000	Investments \$'000	Heritage Asset \$'000	Investments \$'000
Proceeds from sale	38	420	-	28
Book value	60	472	-	-
(Loss) Surplus from Sale	(22)	(52)	-	28

6.	(a) Cash Assets				2004	2003
					\$'000	\$'000
	Cash at bank and on hand				1 449	2 046
	Deposits with Bank SA				1 235	1 739
					2 684	3 785
	(b) Reconciliation of Surplus from Ordinary Activities to Net Cash provided by Operating Activities					
	Surplus from ordinary activities				2 406	5 180
	Non-Cash Items:					
	Depreciation expense				526	485
	Donations of art work				(1 922)	(2 443)
	(Profit) Loss on sale on investments				52	(28)
	Loss on sale of Heritage Collections				22	-
	Change in operating assets and liabilities:					
	(Increase) Decrease in assets				(78)	9
	Increase (Decrease) in liabilities				239	(998)
	Net Cash provided by Operating Activities				1 245	2 205
7.	Receivables					
	Receivables				142	51
8.	Other Current Assets					
	Accrued interest and dividends				97	100
	Conservation prepayment				6	71
	Accrued revenue				43	-
					146	171
9.	(a) Property, Plant and Equipment					
			2004			2003
		Gross Value	Accumulated Depreciation	Written Down Value	Gross Value	Accumulated Depreciation
		\$'000	\$'000	\$'000	\$'000	\$'000
	Land, buildings and improvements					
	- At valuation	43 252	13 075	30 177	43 252	12 608
	Plant and equipment					
	- At cost	427	172	255	371	123
	Work in progress	650	-	650	-	-
	Total	44 329	13 247	31 082	43 623	12 731
						30 892
	(b) Reconciliation of Carrying Amounts of Property Plant and Equipment					
			Land, Buildings and Improvements	Work in Progress	Plant and Equipment	2004 Total
			\$'000	\$'000	\$'000	\$'000
	Carrying amount at 1 July		30 644	-	248	30 892
	Additions		-	650	66	716
	Disposals		-	-	(10)	(10)
	Depreciation expense		(467)	-	(49)	(516)
	Carrying Amount at 30 June		30 177	650	255	31 082
10.	(a) Heritage Collections					
			2004			2003
		At Cost	At Valuation	Total	At Cost	At Valuation
		\$'000	\$'000	\$'000	\$'000	\$'000
	Australian Paintings and Sculptures	1 830	159 210	161 040	-	159 270
	Australian and European Decorative Arts	209	29 205	29 414	-	29 205
	Asian Art	945	12 473	13 418	-	12 473
	European Paintings and Sculptures	117	295 951	296 068	-	295 951
	Prints, Drawings and Photographs	655	35 469	36 124	-	35 469
	Numismatics	-	3 622	3 622	-	3 622
	Philatelic material	-	500	500	-	500
	Library	33	1 482	1 515	-	1 482
	Total	3 789	537 912	541 701	-	537 972

(b) Reconciliation of Carrying Amounts of Heritage Collections	Balance 01.07.03 \$'000	Additions \$'000	Disposals \$'000	Balance 30.06.04 \$'000
Australian Paintings and Sculptures	159 270	1 830	60	161 040
Australian and European Decorative Arts	29 205	209	-	29 414
Asian Art	12 473	945	-	13 418
European Paintings and Sculptures	295 951	117	-	296 066
Prints, Drawings and Photographs	35 469	655	-	36 124
Numismatics	3 622	-	-	3 622
Philatelic material	500	-	-	500
Library	1 482	33	-	1 515
Total	537 972	3 789	60	541 701

	Balance 01.07.02 \$'000	Additions \$'000	Revaluation Increment \$'000	Balance 30.06.03 \$'000
Australian Paintings and Sculptures	106 968	617	51 685	159 270
Australian and European Decorative Arts	17 326	854	11 025	29 205
Asian Art	8 863	835	2 775	12 473
European Paintings and Sculptures	174 274	1 884	119 793	295 951
Prints, Drawings and Photographs	28 624	325	6 520	35 469
Numismatics	1 376	-	2 246	3 622
Philatelic material	288	-	212	500
Library	1 219	29	234	1 482
Total	338 938	4 544	194 490	537 972

11. Investments	2004	2003
Investments:	\$'000	\$'000
Commonwealth securities	259	269
Shares, convertible notes and other investments in companies	3 902	3 696
	4 161	3 965

12. Payables		
Current:		
Creditors and accruals	879	637
Employee costs	33	25
	912	662
Non-Current:		
Imprest account	2	2
Employee costs	51	42
	53	44

13. (a) Provision for Employee Benefits		
Current Liability:		
Accrued salaries and wages	24	-
Provision for long service leave	39	32
Provision for annual leave	153	127
	216	159
Non-Current Liability:		
Provision for long service leave	446	368
	446	368

(b) Summary of Employee Benefits and Related On-cost Liabilities		
Accrued Salaries and Wages:		
Included in payables - Current (Refer Note 12)	4	-
Provision for employee benefits - Current (Refer Note 13(a))	24	-
	28	-
Annual Leave:		
Included in payables - Current (Refer Note 12)	25	21
Provision for employee benefits - Current (Refer Note 13(a))	153	127
	178	148
Long Service Leave:		
Included in payables - Current (Refer Note 12)	4	4
Provision for employee benefits - Current (Refer Note 13(a))	39	32
Included in payables - Non-current (Refer Note 12)	51	42
Provision for employee benefits - Non-current (Refer Note 13(a))	446	368
	540	446
Aggregate Employee Benefits and Related On-cost Liabilities	746	594

14. Provisions				2004	2003
Current Liability:				\$'000	\$'000
Provision for workers compensation				31	36
				31	36
Non-Current Liability:					
Provision for workers compensation				101	117
				101	117
Total Provisions				132	153
15. Accumulated Surplus					
Balance at 1 July				375 861	370 681
Surplus from ordinary activities				2 406	5 180
Balance at 30 June				378 267	375 861
16. Reserves					
Asset Revaluation Reserve	Land, Buildings & Improvements	Heritage Collections	Investments	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July	4 023	194 490	1 282	199 795	
Revaluation increment	-	-	313	313	
Balance at 30 June	4 023	194 490	1 595	200 108	
	Land, Buildings & Improvements	Heritage Collections	Investments	Total	
	\$'000	\$'000	\$'000	\$'000	
Balance at 1 July	4 023	-	-	4 023	
Revaluation increment	-	194 490	1 282	199 772	
Balance at 30 June	4 023	194 490	1 282	199 795	
17. Commitments for Expenditure				2004	2003
Operating Leases:				\$'000	\$'000
Commitments under operating leases at the reporting date are payable as follows:					
Not later than one year				7	18
Later than one year and not later than five years				1	1
				8	19

These operating lease commitments which are not recognised in the financial report as liabilities, comprise motor vehicle and photocopier leases which are non-cancellable leases, with rental payable monthly in arrears. No contingent rental provisions exist within the lease agreements and no options exist to renew the leases at the end of their terms.

18. Contingent Liabilities
There are no known contingent liabilities as at 30 June 2004.

19. Remuneration of Board Members		2004	2003
The number of Board Members whose remuneration received or receivable fell within the following bands were:		Number of Members	Number of Members
\$0 - \$9 999		12	8
\$10 000 - \$19 999		1	2
		2004	2003
		\$	\$
Mr M Abbott (QC)		14 815	13 580
Ms C Bennett (to 19 January 2004)		4 703	9 407
Mr M J M Carter (to 19 January 2004)		4 444	9 212
Mrs S Cocks (to 19 January 2004)		4 703	9 407
Mr R Cohen (to 19 January 2004)		4 444	9 212
Ms V Hickey		9 407	9 342
Mr D McKee(to 20 July 2003)		-	9 407
Ms S Tweddell		9 407	9 407
Mr A Wynn		9 407	10 183
Ms L LeCornu (from 12 February 2004)		3 919	-
Mr P Ward (from 12 February 2004)		3 919	-
Mr A W Gwinnett (from 12 February 2004)		3 919	-
Mr P Speakman (from 21 August 2003)		7 839	-

The total income received or receivable by Board Members for the year was \$81 000 (\$90 000). This amount includes superannuation payments of \$6 000 (\$7 000).

20. Related Party Disclosures

During the financial year the following persons held positions on the Board:

Mr M Abbott QC, Chairman, Ms C Bennett (to 19 January 2004), MJM Carter (to 19 January 2004), Mrs S Cocks (to 19 January 2004), Mr R Cohen (to 19 January 2004), Ms V Hickey, Mr D McKee (to 20 July 2003), Ms S Tweddell, Mr A Wynn, Ms L LeCornu (from 12 February 2004), Mr P Ward (from 12 February 2004), Mr A W Gwinnett (from 12 February 2004), Mr P Speakman (from 21 August 2003).

If Board members or their related entities have had commercial transactions with the Board then these have occurred within a normal customer or supplier relationship on terms and conditions no more favourable than those which it is reasonably expected the entity would have adopted if the transactions were undertaken with any other entity at arm's length in similar circumstances.

21. Remuneration of Auditors

Audit fees in relation to the year ended 30 June

2004	2003
\$'000	\$'000
21	23

The Auditors provided no other services to the Board.

22. Remuneration of Employees

The number of employees whose annual remuneration was over \$100 000 fell within the following bands:

\$170 000 - \$179 999
\$180 000 - \$189 999

2004	2003
Number of	Number of
Employees	Employees
-	1
1	-

The total remuneration received by this employee for the year was \$181 000 (\$179 000).

23. Targeted Voluntary Separation Package Scheme (TVSPs)

No TVSPs were paid during 2003-04 and 2002-03.

24. Payment to Consultants

Payments to consultants fell with the following Band:

\$0 - \$10 000

2004	2003
Number of	Number of
Consultants	Consultants
1	-

25. Financial Instruments

(a) Terms and Conditions

Financial Instrument	Note	Accounting Policies and Methods	Nature of Underlying Instrument
Financial Assets			
Cash assets	2(m)	Cash at bank is recorded at its nominal amount. Interest revenue is recorded on an accrual basis although some funds held within the total cash balance are non-interest bearing.	Interest is calculated based on the average daily balances of the interest bearing funds. The interest bearing funds of the Board are the Special Deposit Account titled 'Arts South Australia Operating Account', the Deposit Account titled 'Art Gallery Board Bequests Account' and the Bank SA account. The interest rate is the Treasurer's Approved Rate of Interest on Deposit Accounts which is currently 5.10 percent (4.60 percent) as at 30 June 2004. The interest rate for funds held at Bank SA is currently 4.95 percent.
Receivables	7	Receivables are recorded at amounts due to the Board. They are recorded when services have been completed.	Receivables are due within 30 days.
Investments	11	Investments are brought to account at market value. Interest is credited to revenue as it accrues. Dividend revenue is recognised when the right to receive a dividend has been established.	Portfolio of shares, debentures and convertible notes. Interest income is received quarterly.
Financial Liabilities			
Payables	12	Payables are recorded at the agreed amounts at which the liabilities are to be settled. They are recorded when invoices are received.	Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

(b) Interest Rate Risk

Financial Instrument	2004			
	Weighted Average Interest Rate	Interest Bearing Floating Interest Rate	Non-Interest Bearing	Total
	Percent	\$'000	\$'000	\$'000
Financial Assets:				
Cash assets	5.03	2 674	10	2684
Receivables		-	142	142
Investments	6.36	1 844	*2 317	4 161
		4 518	2 469	6 987
Financial Liabilities:				
Payables	-	-	881	881
		-	881	881

Financial Instrument	2003			
	Weighted Average Interest Rate	Interest Bearing Floating Interest Rate	Non-Interest Bearing	Total
	Percent	\$'000	\$'000	\$'000
Financial Assets:				
Cash assets	4.53	3 775	10	3 785
Receivables	-	-	51	51
Investments	6.31	1 607	*2 358	3 965
		5 382	2 419	7 801
Financial Liabilities:				
Payables	-	-	639	639
		-	639	639

* Represents shares which are subject to payment of dividends.

(c) Net Fair Values of Financial Assets and Liabilities

Financial Instrument:	Note	2004		2003	
		Total Carrying Amount	Net Fair Value	Total Carrying Amount	Net Fair Value
		\$'000	\$'000	\$'000	\$'000
Cash assets	6(a)	2 684	2 684	3 785	3 785
Receivables	7	142	142	51	51
Investments	11	4 161	4 161	3 965	3 965
		6 987	6 987	7 801	7 801
Payables	12	881	881	639	639
		881	881	639	639

The net fair value is determined as the carrying value of all assets and liabilities except for investments where market value has been used.

(d) Credit Risk Exposure

The Board's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Board has no significant exposures to any concentrations of credit risk.

HISTORY TRUST OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The History Trust of South Australia (the Trust) was established pursuant to the *History Trust of South Australia Act 1981*.

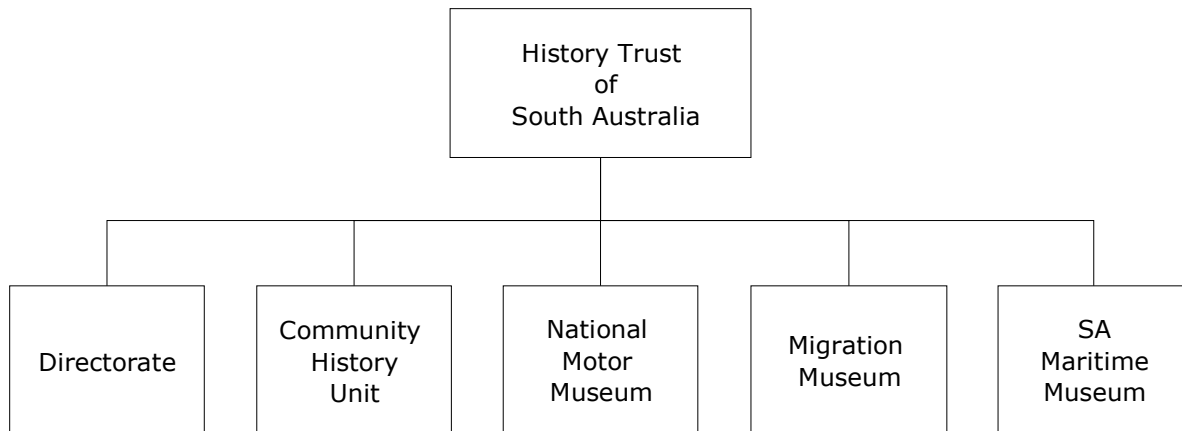
Functions

The functions of the History Trust of South Australia are as follows:

- Accumulate, conserve and exhibit objects of historical or cultural interest.
- Undertake the management of museums and other premises vested or placed under its care, control and management.
- Advise the Minister on the conservation of objects that are of historical significance to the State.
- Disseminate, or encourage the dissemination of, information relevant to the history of the State.

Structure

The structure of the History Trust of South Australia is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 19(2) of the *History Trust of South Australia Act 1981* provides for the Auditor-General to audit the accounts of the Trust for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the History Trust of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- revenue, including cash receipting and banking, and retail operations
- expenditure, including accounts payable, and salaries and wages
- property, plant and equipment including the adequacy of asset registers
- collection management.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the History Trust of South Australia as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the History Trust of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities except for the matter raised in relation to physical verification of collection items as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the History Trust of South Australia have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. The response to the management letter was considered to be satisfactory. Major matters raised with the Trust and the related responses are considered herein.

Management of Heritage Collections

Over the past few years Audit has identified the need for improvement in asset management processes by more regular confirmation of the existence of collection items and maintenance of up-to-date details on the collection database registers. The Trust has made good progress in addressing the issues raised by Audit, in particular, implementing a program of physical verification of collection items.

Physical Verification of Collection Items

Audit's review of this program revealed a need for documented procedures regarding the sighting of collection items to ensure that there is a reconciliation of the items verified with the collection database.

Collection Database

With respect to the maintenance of up-to-date details on the collection database, Audit noted that there is a backlog of items to be entered on the database for the Migration Museum. The Trust have indicated that resource constraints hinder the ability of the Trust to reduce the backlog.

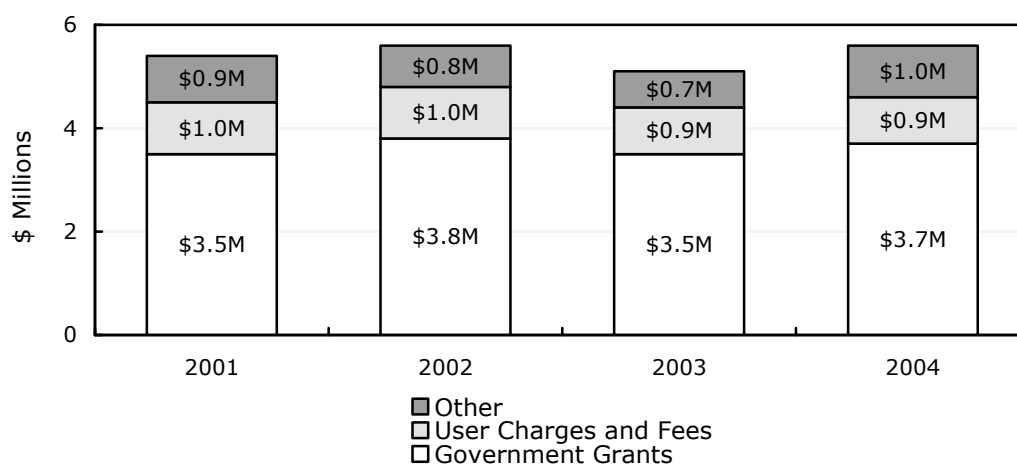
INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Consolidated Financial Statements**

	2004	2003	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Government grants	3.7	3.5	6
Other	1.9	1.7	12
Total Operating Revenue	5.6	5.2	8
OPERATING EXPENDITURE			
Employee costs	2.5	2.4	4
Services and supplies	2.4	2.4	-
Other expenses	0.8	0.8	-
Total Operating Expenses	5.7	5.6	2
Deficit	(0.1)	(0.4)	(75)
Net Cash Flows from Operations	0.2	0.1	100
ASSETS			
Current assets	1.3	1.2	8
Non-current assets	26.5	25.1	6
Total Assets	27.8	26.3	6
LIABILITIES			
Current liabilities	0.4	0.3	33
Non-current liabilities	0.4	0.3	33
Total Liabilities	0.8	0.6	33
EQUITY	27.0	25.7	5

Statement of Financial Performance**Operating Revenues**

The Government Grant for the current year was \$3.7 million, an increase of 6 percent. Other revenues increased by 12 percent to \$1.9 million mainly as a result of increased sponsorship revenue, up \$104 000 to \$359 000 and an increase in the fair value of assets received for no consideration, up \$185 000 to \$300 000. Overall operating revenues increased by \$451 000 or 8 percent.

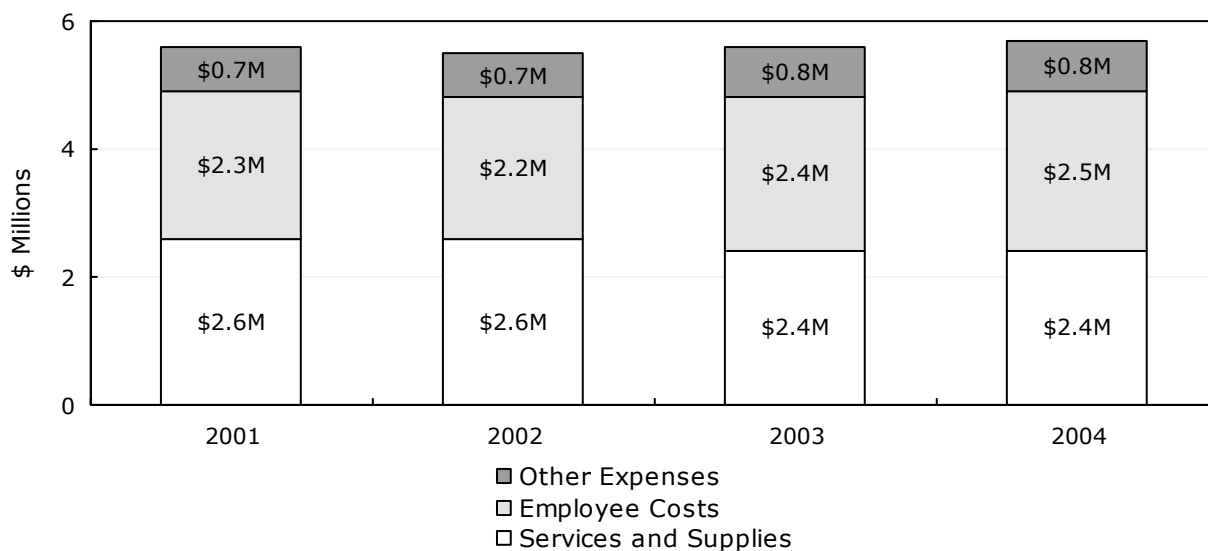
A structural analysis of operating revenues for the Trust for the four years to 2004 is presented in the following chart. Over the period shown the Trust's reliance on government funding to support its operations is evident. Revenue from user charges and fees has remained relatively constant although there was an increase of \$50 000 in 2004 due mainly to an increase in fees for service of \$37 000. Movements in other revenue reflects changes in sponsorships and the value of donated assets from year to year.



Operating Expenses

Total operating expenses rose by \$212 000 to \$5.7 million. Employee costs rose by 4 percent to \$2.5 million due mainly to increases in salary and wage rates and provisions for leave entitlements. Expenditure on services and supplies and other expenses remained steady.

A structural analysis for the four years to 2004, of the main operating expense items for the Trust is shown in the following chart.

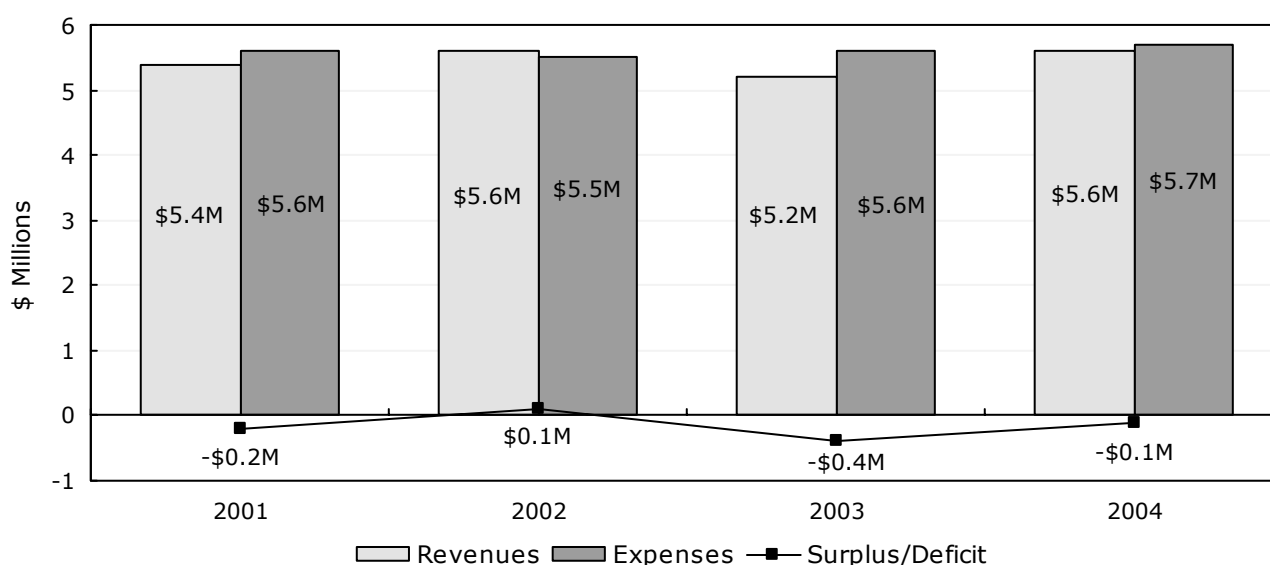


Operating Result

After a small surplus in 2002 the Trust has recorded small deficits in both 2003 and 2004. The following chart shows the operating revenues, operating expenses and surpluses/deficits for the current and preceding three years.

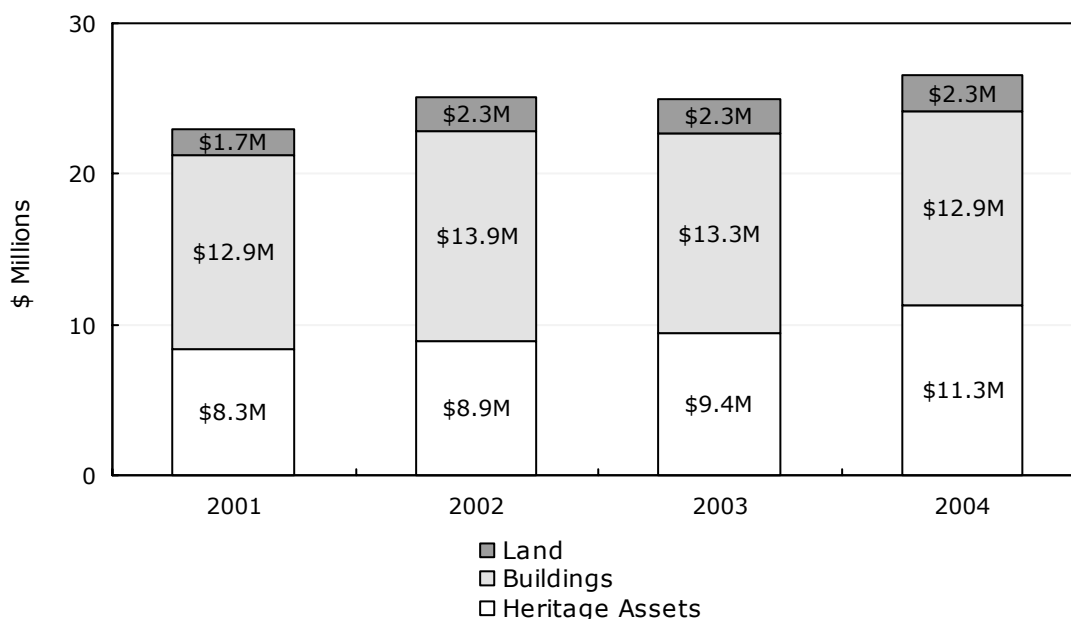
The chart shows that in most years the Trust does not earn enough revenue to cover its operating expenses, although the deficits recorded since 2001 are not large. The primary expense that is not covered is depreciation, a non-cash item. This is reflected in the fact that the Trust currently generates sufficient cash to cover cash payments. Further comment is made in relation to the Statement of Cash Flows.

Both revenues and expenses have remained reasonably steady over the four years. The Trust does not have a capacity to generate significant additional income and this explains the level of Government Grant assistance, 66 percent of total revenue in 2004.



Statement of Financial Position

For the four years to 2004, a structural analysis of the main non-current assets is shown in the following chart.



The Statement of Financial Position is dominated by the value of non-current assets which comprise property, plant and equipment and heritage collections. The written down value of property, plant and equipment was \$15.2 million, a decrease of \$452 000 over the previous year which is due primarily to depreciation. The value of the Trust's heritage collections increased by \$1.9 million to \$11.3 million due mainly to the revaluation of the collections this financial year.

As shown in the chart, the primary assets of the Trust are heritage assets and the buildings that house them such as the National Motor Museum, South Australian Maritime Museum and Migration Museum. The total equity of the Trust is essentially represented by these assets.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004	2003	2002	2001
	\$'000	\$'000	\$'000	\$'000
Net Cash Flows				
Operations	183	114	433	171
Investing	(128)	-	-	(48)
Change in Cash	55	114	433	123
Cash at 30 June	1 047	992	878	445

The analysis of this table shows that although the cash flows from operations have fluctuated over the four years, there has been an increase in overall cash holding of the Trust. This compares to the operating results of the Trust which have been deficits for three of the past four years. The difference is essentially depreciation expense which is a non-cash item. The Trust has sufficient cash to cover its current liabilities.

Cash flows used in investing activities reflects the fact that the Trust has purchased property, plant and equipment and heritage collection items this year. In other years heritage collection items have not been purchased although they are acquired by way of donations. The Trust has a capital commitment of \$137 000 within the next 12 months.

FURTHER COMMENTARY ON OPERATIONS**Admissions Receipts and Attendances**

Results for the individual museums are shown hereunder:

	Admissions Receipts			Attendances		
	2004	2003	2002	2004	2003	2002
	\$'000	\$'000	\$'000	'000	'000	'000
Community History Unit	-	-	-	-	23	21
National Motor Museum	258	284	346	61	63	66
South Australian Maritime Museum	227	202	237	69	62	72
Migration Museum	36	33	29	170	143	142

The increase in Migration Museum attendances in 2004 of 27 000 (18.9 percent) was due to exhibitions held as part of a number of festivals including the Adelaide Festival of Arts.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	Consolidated		HTSA	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
REVENUES FROM ORDINARY ACTIVITIES:					
User charges and fees	3	939	889	891	835
Interest		59	57	53	46
Other revenue	4	924	675	924	674
Grant from State Government:					
Operations		3 695	3 545	3 695	3 545
Total Revenues		5 617	5 166	5 563	5 100
EXPENSES FROM ORDINARY ACTIVITIES:					
Employee costs	5	2 539	2 390	2 539	2 390
Services and supplies	6	2 477	2 401	2 466	2 390
Depreciation	7	562	577	562	577
Grant payments	8	181	179	181	179
Total Expenses		5 759	5 547	5 748	5 536
DEFICIT FROM ORDINARY ACTIVITIES		(142)	(381)	(185)	(436)
Non-Owner Transaction Changes in Equity					
Net credit to an asset revaluation reserve on revaluation of non-current assets	15	1 536	351	1 536	351
Total revenues, expenses and valuation adjustments recognised directly in equity		1 536	351	1 536	351
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		1 394	(30)	1 351	(85)

**Statement of Financial Position
as at 30 June 2004**

	Note	Consolidated		HTSA	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
CURRENT ASSETS:					
Cash assets	9	750	736	729	717
Investments		297	256	-	-
Receivables		121	30	121	30
Inventories		84	92	84	92
Other assets	10	58	60	58	60
Total Current Assets		1 310	1 174	992	899
NON-CURRENT ASSETS:					
Property, plant and equipment	11	15 219	15 671	15 219	15 671
Heritage collections	11	11 257	9 410	11 257	9 410
Total Non-Current Assets		26 476	25 081	26 476	25 081
Total Assets		27 786	26 255	27 468	25 980
CURRENT LIABILITIES:					
Payables	12	189	113	189	113
Provision for employee benefits	13	189	167	189	167
Total Current Liabilities		378	280	378	280
NON-CURRENT LIABILITIES:					
Payables	12	35	31	35	31
Provision for employee benefits	13	350	315	350	315
Total Non-Current Liabilities		385	346	385	346
Total Liabilities		763	626	763	626
NET ASSETS		27 023	25 629	26 705	25 354
EQUITY:					
Accumulated surplus	14	20 602	20 744	20 284	20 469
Asset revaluation reserve	15	6 421	4 885	6 421	4 885
TOTAL EQUITY		27 023	25 629	26 705	25 354
Commitments	16				
Contingent liabilities	17				

**Statement of Cash Flows
for the year ended 30 June 2004**

		Consolidated		HTSA	
		2004 Inflows (Outflows) \$'000	2003 Inflows (Outflows) \$'000	2004 Inflows (Outflows) \$'000	2003 Inflows (Outflows) \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note				
CASH INFLOWS:					
User charges and fees		848	873	800	819
Interest		59	57	53	46
Other revenue		624	560	624	559
CASH OUTFLOWS:					
Employee costs		(2 447)	(2 301)	(2 447)	(2 301)
Services and supplies		(2 415)	(2 441)	(2 404)	(2 430)
Grants payments		(181)	(179)	(181)	(179)
CASH FLOWS FROM GOVERNMENT:					
Grant from State Government:					
Operations		3 695	3 545	3 695	3 545
Net Cash Inflows from Operating Activities	18	183	114	140	59
CASH FLOWS FROM INVESTING ACTIVITIES:					
CASH OUTFLOWS:					
Property, plant and equipment		(117)	-	(117)	-
Heritage collections		(11)	-	(11)	-
Net Cash Outflows from Investing Activities		(128)	-	(128)	-
NET INCREASE IN CASH HELD		55	114	12	59
CASH AT 1 JULY		992	878	717	658
CASH AT 30 JUNE	2(k)	1 047	992	729	717

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. The History Trust of South Australia (the Trust) Objectives

The Trust's objectives are to:

- raise the level of community and schools-based participation in the study and enjoyment of South Australian history and the preservation of its evidence;
- mount popular exhibitions, events and other public programs on South Australian history and actively involve the community in their research and preparation;
- preserve the state's collection of movable items;
- provide advice and assistance to museums, historical societies and authors.

2. Statement of Accounting Policies

(a) Basis of Accounting

The general purpose financial report has been prepared in accordance with the Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, Statements of Accounting Concepts, applicable Australian Accounting Standards and applicable Urgent Issues Group Consensus Views. The report has been prepared on an accrual basis of accounting and in accordance with conventional historical cost principles except where stated.

(b) The Reporting Entity

The Trust's principal source of funds consists of grants from the State Government. In addition, the Trust also receives monies from sales, admissions, donations and other receipts and uses the monies for the achievement of its objectives.

The financial report encompasses transactions through an interest bearing deposit account titled 'History Trust of South Australia' and any other funds through which the Trust controls resources to carry out its functions.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of entities controlled by the Trust as at 30 June 2004, and the results of all controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full. Refer to note 24.

(d) Revenue

Revenue from sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account interest rates applicable to financial assets. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

(e) Grants from State Government

Grants are recognised as revenue in the period which the Trust obtains control over the grants.

(f) Acquisition of Assets

The cost method of accounting is used for the recording of assets acquired by the Trust. Heritage Collections donated during the year have been brought to account at market value.

(g) Valuations of Non-Current Assets

The Trust has adopted the fair value method as the basis of valuing its non-current assets.

Land and Buildings

Land and buildings have been valued at written down current cost. Valuations of land and buildings were determined as at 30 June 2002 by Tim Nankivell, Australian Valuation Office. Land and buildings are independently valued every three years.

Plant and Equipment

Plant and equipment has been valued at historical cost.

Heritage Collections

The heritage collections are large and diverse. They include many items that are complex to value given considerations of market value and their unique representation of South Australia's social history.

The heritage collections have been revalued as follows:

- National Motor Museum collections as at 30 June 2004
- Migration Museum collections as at 30 June 2003 and 2004
- South Australian Maritime Museum collections as at 30 June 2003

The Trust adopted the following methodology for valuing heritage assets. Items under \$10 000 were valued by the appropriate internal curator and items over \$10 000 were valued by external valuers listed below.

The external valuations were carried out by the following recognised industry experts:

National Motor Museum
Antony Davies

South Australian Maritime Museum
Quin's Yacht Brokerage Pty Ltd
Allan Rice Marine Surveys

Sandy Winding
Allan R Rice

Migration Museum
Regimentals Antiques
Antiquarian Books
Tusmore Antiques

Lee Blair-Jenke
Michael Treloar
Anthony Hurl

(h) Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each non-current asset over its expected useful life except for land and heritage collections which are not depreciable. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

Building and improvements	Years
Plant and equipment	20-100
	3-25

Heritage Collections have unlimited useful lives. Their future economic benefits have not been consumed during the financial year. Therefore no depreciation is recognised in respect of these assets.

(i) Employee Benefits

(i) Wages, Salaries and Annual Leave

Liabilities for wages, salaries and annual leave are recognised and are measured as the amount unpaid at the reporting date at the rate expected to be paid when the liability is settled in respect of employees' services up to that date.

(ii) Long Service Leave

A liability for long service leave has been recognised as the amount the Trust has a present obligation to pay, resulting from employees' services provided up to the reporting date. The liability has been calculated at present value of future cash outflows using a benchmark of 7 years service as advised by the Department of Treasury and Finance.

(iii) On-costs

On-costs relating to employee benefits have been recognised in the Statement of Financial Position under the item payables.

(iv) Superannuation

Contributions are made by the Trust to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to amounts due but not yet paid to the superannuation schemes.

(v) Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The amounts recorded are based on an actuarial assessment and reflect an apportionment of the whole-of-government estimate of workers compensation liability, according to the Trust's experience of claim numbers and payments over the period 1 July 1987 to 30 June 2004. A separate valuation of the liabilities of the Trust has not been undertaken and if such a valuation was performed it might result in a different assessed liability.

(j) Leases

The Trust has entered into a number of operating lease agreements for accommodation where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Statement of Financial Performance in the periods in which they are incurred.

(k) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call.

(l) Inventories

Inventories are measured at actual cost.

(m) State Government Funding

The general purpose financial report is presented under the assumption of ongoing financial support being provided to the Trust by the State Government.

(n) Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of the UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)' revenues, expenses and assets are recognised net of the amount of GST.

The amount of GST incurred by the Trust as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

The net GST receivable/payable to the Australian Taxation Office is not recognised as a receivable/payable in the Statement of Financial Position as the Trust is a member of an approved GST group of which Arts SA (a division of the Department of the Premier and Cabinet) is responsible for the remittance and collection of GST. There are no cash flows relating to GST transactions with the Australian Taxation Office in the Statement of Cash Flows.

(o) Changes in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting the Australian equivalents to International Financial Reporting Standards (IFRS) for reporting periods commencing on or after 1 January 2005. The Trust will adopt these standards for the first time in the published financial report for the financial year ended 30 June 2006.

Managing the Process

The Trust's financial services are provided through a service level agreement with Arts SA, Business Services, a unit of the Department of the Premier and Cabinet. Business Services is coordinating the adoption of the Australian equivalents to the International Financial Reporting Standards in conjunction with the Department of Treasury and Finance (DTF).

To obtain an understanding of the new standards and the resulting effect on the financial reports, representatives from Business Services attend information forums facilitated by DTF, professional bodies and private sector accountancy firms. Business Services representatives attend the Exposure Draft Reference Group meetings, which review Exposure Drafts released by the Australian Accounting Standards Board (AASB), provide comment and feedback to the AASB on the content of the Exposure Drafts and the resulting pending Standards.

The Trust will also adopt the DTF Model Financial Report for SA Government entities as from 30 June 2005, which will comply with Generally Accepted Accounting Principles (GAAP), Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements.

Business Services is reviewing and analysing Exposure Drafts and pending Australian Accounting Standards for expected differences in accounting policies as a result of the adoption of the Australian equivalents to the IFRS. A project plan has been prepared which identifies key activities to be undertaken to adopt the IFRS, and the working papers required by AASB 1 'First-Time Adoption of the Australian International Financial Reporting Pronouncements'.

Expected Differences in Accounting Policies

The key difference in accounting policies applied to the Trust's financial reports expected to result from the adoption of the Australian equivalents to the IFRS is outlined below.

Changes in Accounting Policies

The pending accounting standard, AASB 1 'First-Time Adoption of Australian Equivalents to International Financial Reporting Pronouncements', will now require the retrospective application of changes in accounting policies. This requires the restatement of comparative information except for specific exemptions as listed in AASB 1. This is a major difference in accounting policy.

3. User Charges and Fees	Consolidated		HTSA	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Admissions and tours	522	519	522	519
Facilities and rent	83	73	83	73
Sales of goods	237	237	189	183
Fees for service	97	60	97	60
	939	889	891	835
4. Other Revenue				
Sponsorship	359	255	359	254
Grants	152	129	152	129
Fair value of assets received free of charge	300	115	300	115
Other revenue	113	176	113	176
	924	675	924	674
5. Employee Costs				
Wages and salaries	2 139	1 996	2 139	1 996
Superannuation and payroll tax expenses	323	300	323	300
Annual leave, long service leave and other employee expenses	77	94	77	94
	2 539	2 390	2 539	2 390
6. Services and Supplies				
Building maintenance	278	239	273	235
Accommodation	310	304	310	304
Operating leases	113	216	113	216
Exhibitions and collections	391	305	391	305
Sponsorships	11	18	11	18
Cost of goods sold	123	110	123	110
Travel expenses	67	94	67	94
Professional fees	369	318	369	318
Communication and stationery	179	170	174	167
Marketing and publicity	253	256	253	253
Staff training and other staff costs	49	69	49	69
Insurance	88	93	88	93
Other sundry payments	246	209	245	208
	2 477	2 401	2 466	2 390

7.	Depreciation	Consolidated		HTSA	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
	Buildings and improvements	551	551	551	551
	Plant and equipment	11	26	11	26
		562	577	562	577
8.	Grant Payments				
	Community History	30	28	30	28
	Museum Accreditation and Grants Program	151	151	151	151
		181	179	181	179
9.	Cash Assets				
	Cash on hand	15	15	15	15
	Cash at bank	735	721	714	702
		750	736	729	717
10.	Other Assets				
	Interest	3	3	3	3
	Prepayments	55	57	55	57
		58	60	58	60
11.	Non-Current Assets				
	(a) Property, Plant and Equipment and Heritage Collections				
	Land:	2 284	2 284	2 284	2 284
	Buildings and improvements	29 369	29 369	29 369	29 369
	Less: Accumulated depreciation	16 570	16 019	16 570	16 019
		12 799	13 350	12 799	13 350
	Work in progress	117	-	117	-
	Total Property	15 200	15 634	15 200	15 634
	Plant and equipment	289	321	289	321
	Less: Accumulated depreciation	270	284	270	284
	Total Plant and Equipment	19	37	19	37
	Heritage Collections	11 257	9 410	11 257	9 410
	Total Property, Plant and Equipment and Heritage Collections	26 476	25 081	26 476	25 081
	(b) Asset Movement Schedule				
	Land:				
	Carrying amount at 1 July	2 284	2 284	2 284	2 284
	Carrying Amount at 30 June	2 284	2 284	2 284	2 284
	Building and Improvements:				
	Carrying amount at 1 July	13 350	13 901	13 350	13 901
	Depreciation	(551)	(551)	(551)	(551)
	Carrying Amount at 30 June	12 799	13 350	12 799	13 350
	Work in Progress:				
	Carrying amount at 1 July	-	-	-	-
	Additions	117	-	117	-
	Carrying Amount at 30 June	117	-	117	-
	Plant and Equipment:				
	Carrying amount at 1 July	37	63	37	63
	Depreciation	(11)	(26)	(11)	(26)
	Disposals	(7)	-	(7)	-
	Carrying Amount at 30 June	19	37	19	37
	Heritage Collections:				
	Carrying amount at 1 July	9 410	8 944	9 410	8 944
	Donations	300	115	300	115
	Additions	11	-	11	-
	Net revaluation increments	1 536	351	1 536	351
	Carrying amount at 30 June	11 257	9 410	11 257	9 410

12. Payables	Consolidated		HTSA	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current:				
Creditors and accruals	189	113	189	113
Non-current:				
Creditors and accruals	35	31	35	31
13. Employee Benefits				
Current:				
Provision for annual leave	158	139	158	139
Provision for long service leave	27	24	27	24
Provision for workers compensation	4	4	4	4
	189	167	189	167
Accrued salaries and wages (included in payables)	27	-	27	-
On-costs (included in payables)	29	25	29	25
Total Current Liabilities for Employee Benefits	245	192	245	192
Non-Current:				
Provision for long service leave	308	267	308	267
Provision for workers compensation	42	48	42	48
	350	315	350	315
On-costs (included in payables)	35	31	35	31
Total Non-Current Liabilities for Employee Benefits	385	346	385	346
14. Accumulated Surplus				
Balance at 1 July	20 744	21 125	20 469	20 905
Deficit from ordinary activities	(142)	(381)	(185)	(436)
Balance at 30 June	20 602	20 744	20 284	20 469
15. Asset Revaluation Reserve				
Balance at 1 July	4 885	4 534	4 885	4 534
Net increase in asset revaluation reserve:				
Heritage Collections	1 536	351	1 536	351
Balance at 30 June	6 421	4 885	6 421	4 885
16. Commitments for Expenditure				
(a) Operating Leases				
Commitments under non-cancellable operating leases at the reporting date are payable as follows:				
Not later than one year	102	100	102	100
Later than one year and not later than five years	434	425	434	425
Later than five years	274	387	274	387
	810	912	810	912

These operating lease commitments are not recognised in the financial report as liabilities.

The property leases are non-cancellable leases, with rental payable monthly in arrears. Contingent rental provisions within the lease agreements require the minimum lease payments to be increased annually based on CPI movement. Options exist to renew the leases at the end of the term of the leases.

(b) Capital Commitments	Consolidated		HTSA	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Capital expenditure contracted for at the reporting date is payable as follows:				
Not later than one year	137	-	137	-

These capital commitments are not recognised in the financial report as liabilities.

- 17. Contingent Liabilities**
There are no contingent liabilities as at 30 June 2004.

18. Reconciliation of Deficit from Ordinary Activities to Net Cash provided by Operating Activities	Consolidated		HTSA	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Deficit from ordinary activities	(142)	(381)	(185)	(436)
Non-Cash items:				
Depreciation expense	562	577	562	577
Donation of collections	(300)	(115)	(300)	(115)
Loss on disposal of assets	7	-	7	-
Change in operating assets and liabilities:				
Increase in assets	(81)	(69)	(81)	(69)
Increase in liabilities	137	102	137	102
Net Cash provided by Operating Activities	183	114	140	59

19. Remuneration of Board Members	2004 Number of Members	2003 Number of Members
The number of Board Members who received annual income fell within the band:		
\$0 - \$9 999	8	9

The total income received by these Board Members for the year was \$9 000 (\$6 000).

20. Remuneration of Employees	2004 Number of Employees	2003 Number of Employees
The number of employees whose annual remuneration was over \$100 000 fell within the following band:		
\$120 000 - \$129 999	1	1

The total remuneration received by this employee for the year was \$125 000 (\$121 000).

21. Remuneration of Auditors
Fees accrued for the year for the provision of auditing services are \$28 000 (\$27 000).

The auditors provided no other services.

22. Related Parties Disclosures
During the financial year the following persons held positions on the Trust Board:

Ms F Adler (from December 2003)	Professor I E Davey (until June 2004)
Dr M Allen	Ms S Filby
Mr P Broderick (chair)	Mr J A Fotheringham
Mr R Chapman	Ms M Nasser-Eddine

The Members of the Trust, or their related entities, have transactions with the Trust that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonably expected the entity would have adopted if dealing with the Member or related entity at arm's length in similar circumstances.

23. **Financial Instruments** **(a) Terms and Conditions**

Financial Instrument	Note	Accounting Policies and Methods	Nature of Underlying Instrument
Financial Assets:			
Cash assets	9	Cash at bank is recorded at its nominal amount. Interest revenue is recorded on an accrual basis with some funds held within the total cash balance being non-interest bearing.	Interest is calculated based on the average daily balances of the interest bearing funds. The interest bearing funds of the Trust are within the Section 21 Account titled 'History Trust of South Australia'. The interest rate is the Treasurer's Approved Rate of Interest on Deposit Accounts which is 5.10 percent (as at 30 June 2004).
Investments		Investments are brought to account at cost. Interest is credited to revenue as it accrues.	Short term deposit at call. Interest income is received biannually.
Receivables		Receivables are recorded at amounts due to the Trust. They are recorded when services have been completed.	Receivables are due within 30 days.
Financial Liabilities:			
Payables	12	Creditors are recorded at the agreed amounts at which the liabilities are to be settled. They are recorded when invoices are received.	Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

(b) Interest Rate Risk

Financial Instrument	Interest Rate	Consolidated 2004		
		Interest Bearing-Floating Interest	Non-Interest Bearing	Total
	Percent	\$'000	\$'000	\$'000
Financial Assets:				
Cash assets	5.10	735	15	750
Investments	4.80	297	-	297
Receivables		-	121	121
		1 032	136	1 168
Financial Liabilities:				
Payables		-	133	133
		-	133	133

Financial Instrument	Interest Rate	Consolidated 2003		
		Interest Bearing-Floating Interest	Non-Interest Bearing	Total
	Percent	\$'000	\$'000	\$'000
Financial Assets:				
Cash assets	4.60	721	15	736
Investments	4.75	256	-	256
Receivables		-	30	30
		977	45	1 022
Financial Liabilities:				
Payables		-	88	88
		-	88	88

(c) Net Fair Values of Financial Assets and Liabilities

Financial Instrument	Note	Consolidated 2004		Consolidated 2003	
		Total Carrying Amount	Net Fair Value*	Total Carrying Amount	Net Fair Value*
		\$'000	\$'000	\$'000	\$'000
Financial Assets:					
Cash assets	9	750	750	736	736
Investments		297	297	256	256
Receivables		121	121	30	30
		1 168	1 168	1 022	1 022
Financial Liabilities:					
Payables	12	133	133	88	88
		133	133	88	88

* The net fair value is determined as the carrying value of all assets and liabilities.

(d) Credit Risk Exposure

The Trust's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The Trust has no significant exposures to any concentrations of credit risk.

24. Controlled Entity

The consolidated financial statements at 30 June 2004 include the following controlled entity:

Name of Controlled Entity	Place of Incorporation
Migration Museum Foundation Incorporated	Australia

LIBRARIES BOARD OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Libraries Board of South Australia is appointed pursuant to the *Libraries Act 1982* and is responsible for the administration of the State Library and the public libraries system.

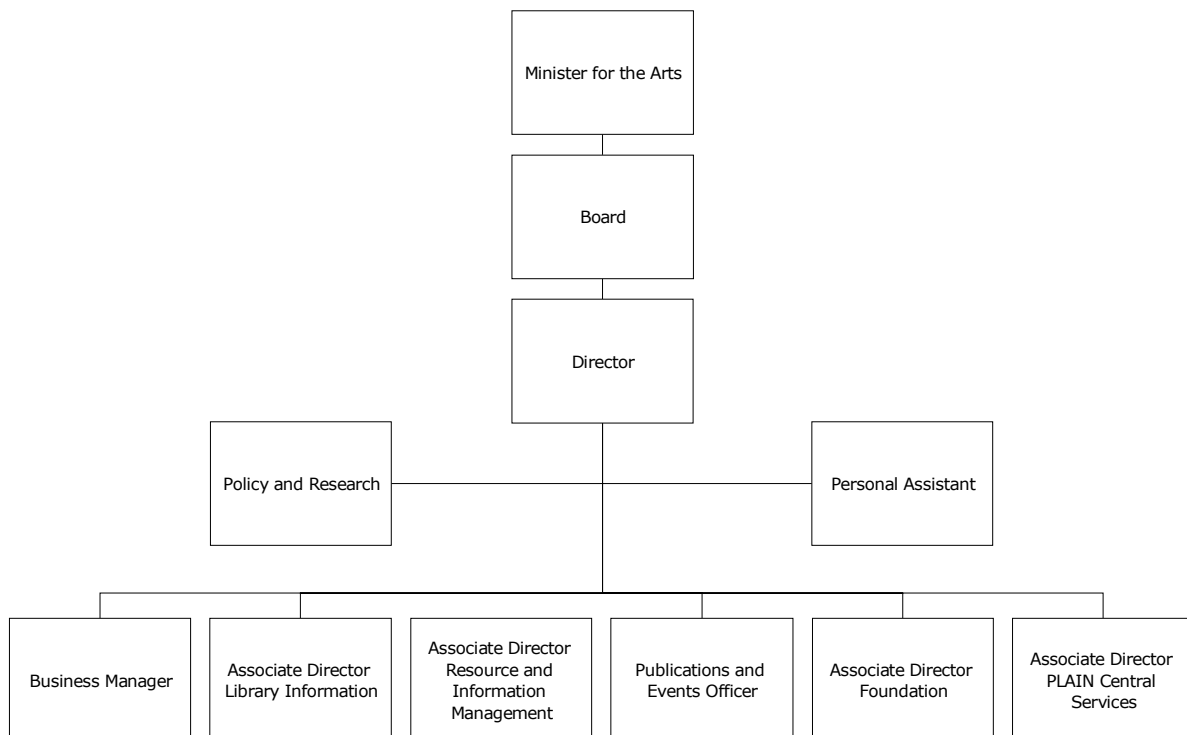
Functions

The functions of the Libraries Board are as follows:

- Formulate policies and guidelines for the provision of public library services.
- Establish, maintain and expand collections of library materials.
- Administer the State Library.
- Promote, encourage and assist in the establishment, operation and expansion of public libraries and public library services by councils and others.

Structure

The structure of the Libraries Board is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Libraries Act 1982* provides for the Auditor-General to audit the accounts of the Libraries Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Libraries Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- expenditure, including accounts payable, and salaries and wages
- property, plant and equipment registers
- revenue including cash receipting and banking
- investments
- subsidy payments to public libraries
- research and heritage collections management.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Libraries Board as at 30 June 2004 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Libraries Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Libraries Board have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Director. The issues raised by Audit related mainly to the opportunity to strengthen controls over payroll processes and the management of assets, including the research and heritage collections.

Responses to the management letter were generally considered to be satisfactory.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

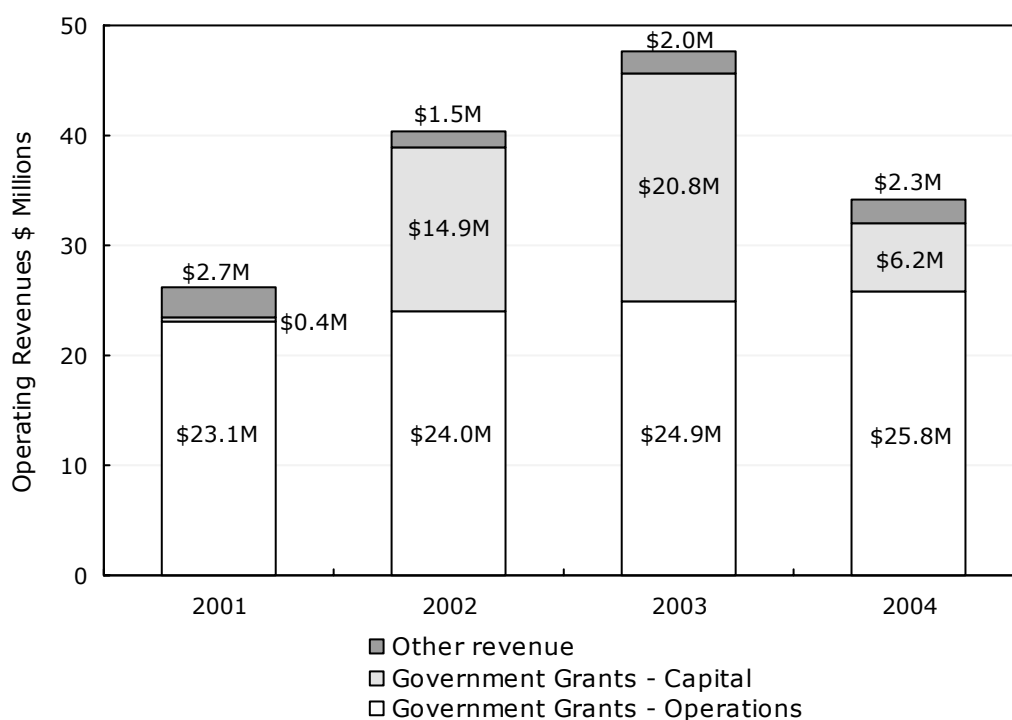
	2004	2003	Percentage
	\$'000	\$'000	Change
<i>OPERATING REVENUE</i>			
Government grants	31 983	45 639	(30)
Other income	2 305	2 011	15
Total Operating Revenue	34 288	47 650	(28)
<i>OPERATING EXPENDITURE</i>			
Employee costs	9 489	8 714	9
Subsidies to Public Libraries	10 280	9 867	4
Other expenses	11 757	11 128	6
Total Operating Expenses	31 526	29 709	6
Surplus from Ordinary Activities	2 762	17 941	(85)
Net Cash Flows from Operations	4 630	19 531	(76)
<i>ASSETS</i>			
Current assets	8 617	10 255	(16)
Non-current assets	95 433	90 791	5
Total Assets	104 050	101 046	3
<i>LIABILITIES</i>			
Current liabilities	1 675	1 616	4
Non-current liabilities	2 005	1 822	10
Total Liabilities	3 680	3 438	7
<i>EQUITY</i>	100 370	97 608	3

Statement of Financial Performance***Operating Revenues***

Revenues from Ordinary Activities for the year totalled \$34.3 million (\$47.7 million). This includes grants from the State Government for operating and capital purposes which totalled \$32 million (\$45.6 million) and represented 93 percent (96 percent) of the Total Revenues. This supports the view that the Board is dependent on the ongoing financial support of the State Government as expressed in Note 2(o) to the Financial Statements.

During the year, the Libraries Board received capital grants totalling \$ 6.2 million (\$20.8 million in 2002-03). These grants were used to fund the redevelopment of the State Library North Terrace precinct.

A structural analysis of operating revenues for the Board in the four years to 2004 is presented in the following chart.

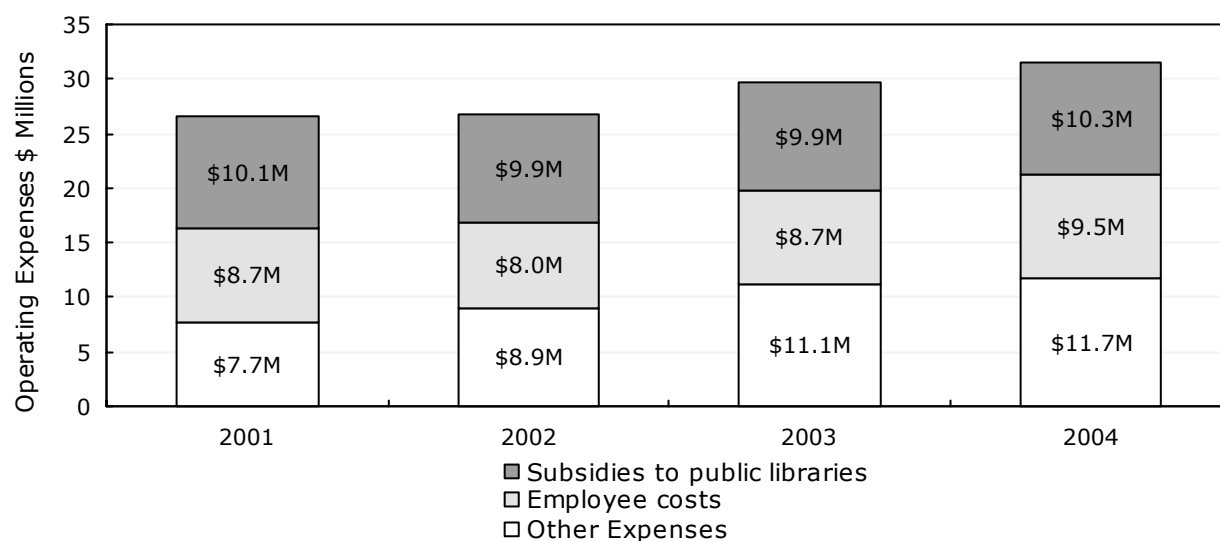


Operating Expenses

Expenditure for the year increased by \$1.8 million to \$31.5 million. This increase is attributable mainly to:

- an increase in employee costs of \$775 000;
- an increase in depreciation expense of \$505 000. This increase relates mainly to the capitalisation of the building redevelopment and associated plant and equipment;
- an increase in subsidies to public libraries of \$413 000.

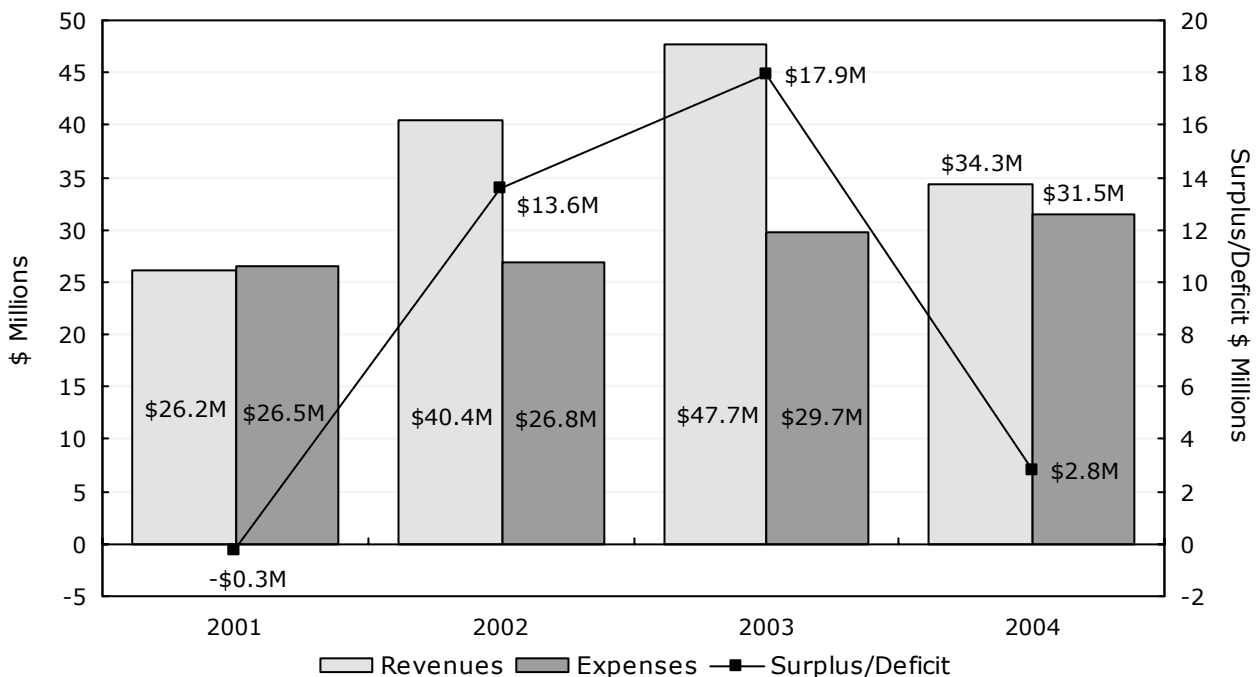
A structural analysis of the operating expense items for the Board is shown in the following chart.



Operating Result

The operating result for the year was a Surplus from Ordinary Activities of \$2.7 million as compared with a surplus of \$17.9 million the previous year. The decrease of \$15.2 million in the surplus achieved in 2003-04 as compared to 2002-03 is attributable mainly to the decrease in capital grants provided by the State Government to fund the redevelopment of the Library. Capital grants received in 2003-04 totalled \$6.2 million, a decrease of \$14.6 million from the previous year.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2004.



Statement of Financial Position

Property, Plant, Equipment and Public Library Research Collections

The written down value of property, plant, equipment and public library research collections increased by \$3.4 million to \$53.7 million. This is attributable mainly to the redevelopment of the State Library (North Terrace precinct).

Research and Heritage Collections

The research and heritage collections were revalued to fair value as at 30 June 2003 (refer Note 2(g)).

The value of research and heritage collections increased by \$1.3 million to \$41.8 million. A significant addition to the Library’s research and heritage collections in 2003-04 was the ‘Deed to the South Australian Company’ which was purchased by the Library for \$336 000.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Fees for service activities		324	240
Sale of goods		44	139
Interest and investment income	4	468	732
Other revenues	4	1 469	900
Grants from State Government:			
Operations		25 817	24 880
Capital		6 166	20 759
Total Revenues		34 288	47 650
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee costs	5	9 489	8 714
Accommodation and service costs		1 464	1 396
Depreciation	5	1 562	1 057
Subsidies to public libraries		10 280	9 867
Other expenses	5	8 731	8 675
Total Expenses		31 526	29 709
SURPLUS FROM ORDINARY ACTIVITIES	6	2 762	17 941
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Net debit to accumulated surplus from change in valuation method for heritage collections	2(g), 13	-	(26 512)
Net debit to asset revaluation reserve on revaluation of non-current assets	14	-	(144)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		2 762	(8 715)

**Statement of Financial Position
as at 30 June 2004**

	Note	2004 \$'000	2003 \$'000
CURRENT ASSETS:			
Cash assets		2 661	2 945
Receivables		131	64
Investments	7	5 654	7 045
Inventories		32	25
Other	8	139	176
Total Current Assets		8 617	10 255
NON-CURRENT ASSETS:			
Property, plant, equipment and public library collections	9	53 681	50 319
Research and heritage collections	10	41 752	40 472
Total Non-Current Assets		95 433	90 791
Total Assets		104 050	101 046
CURRENT LIABILITIES:			
Payables	11	931	1 047
Provision for employee entitlements	12	744	569
Total Current Liabilities		1 675	1 616
NON-CURRENT LIABILITIES:			
Payables	11	194	172
Provision for employee entitlements	12	1 811	1 650
Total Non-Current Liabilities		2 005	1 822
Total Liabilities		3 680	3 438
NET ASSETS		100 370	97 608
EQUITY:			
Accumulated surplus	13	94 698	91 936
Reserves	14	5 672	5 672
TOTAL EQUITY		100 370	97 608
Commitments	15		
Contingent Liabilities	16		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
RECEIPTS:			
Fees for service activities		249	240
Sale of goods		51	139
Interest and investment income		487	701
Other revenues		1 409	860
CASH FLOWS FROM GOVERNMENT:			
Grant from State Government:			
Operations		25 817	24 880
Capital		6 166	20 759
PAYMENTS:			
Employee costs		(9 106)	(8 547)
Accommodation and service costs		(1 464)	(1 353)
Subsidies to public libraries		(10 280)	(9 946)
Other expenses		(8 699)	(8 202)
Net Cash provided by Operating Activities	17	4 630	19 531
CASH FLOWS FROM INVESTING ACTIVITIES:			
PAYMENTS FOR:			
Heritage collections		(1 235)	(876)
Property, plant and equipment		(5 008)	(18 679)
Investments		(296)	(288)
PROCEEDS FROM:			
Sales/maturities of investments		1 625	280
Net Cash used in Investing Activities		(4 914)	(19 563)
NET DECREASE IN CASH HELD		(284)	(32)
CASH AT 1 JULY		2 945	2 977
CASH AT 30 JUNE	2(n)	2 661	2 945

Activities Schedule of Revenues and Expenses for the year ended 30 June 2004

	2004			2003		
	Activities (Refer Note 3) 1 \$'000	Activities 2 \$'000	Total \$'000	Activities 1 \$'000	Activities 2 \$'000	Total \$'000
Libraries Board Revenues and Expenses:						
Revenues from ordinary activities:						
Fees for service activities	318	6	324	233	7	240
Sale of goods	44	-	44	139	-	139
Interest and investment income	338	130	468	610	122	732
Other revenues	1 350	119	1 469	777	123	900
Grants from State Government:						
Operations	10 916	14 901	25 817	10 326	14 554	24 880
Capital	6 166	-	6 166	20 759	-	20 759
Total	19 132	15 156	34 288	32 844	14 806	47 650
Expenses from ordinary activities:						
Employee costs	7 942	1 547	9 489	7 144	1 570	8 714
Accommodation and service costs	1 361	103	1 464	1 299	97	1 396
Depreciation	1 172	390	1 562	737	320	1 057
Subsidies to public libraries:						
Books and associated materials	-	4 703	4 703	-	4 095	4 095
Operating expenses	-	4 309	4 309	-	4 450	4 450
Local purchases	-	744	744	-	815	815
Community information services	-	524	524	-	507	507
Other expenses	5 645	3 086	8 731	5 689	2 986	8 675
Total	16 120	15 406	31 526	14 869	14 840	29 709
SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES	3 012	(250)	2 762	17 975	(34)	17 941

Activities Schedule of Assets and Liabilities as at 30 June 2004

	2004			2003		
	Activities (Refer Note 3) 1	Activities 2	Total	Activities 1	Activities 2	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Libraries Board Assets and Liabilities:						
Assets:						
Current	7 568	1 049	8 617	9 197	1 058	10 255
Non-Current	92 799	2 634	95 433	87 923	2 868	90 791
Total	100 367	3 683	104 050	97 120	3 926	101 046
Liabilities:						
Current	1 035	640	1 675	1 116	500	1 616
Non-Current	1 675	330	2 005	1 509	313	1 822
Total	2 710	970	3 680	2 625	813	3 438
NET ASSETS	97 657	2 713	100 370	94 495	3 113	97 608

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Libraries Board of South Australia (the Libraries Board) Objectives

The principal objectives of the Libraries Board are to:

- formulate policies and guidelines for the provision of public library services;
- establish, maintain and expand collections of library materials;
- administer the State Library;
- promote, encourage and assist in the establishment, operation and expansion of public libraries and public library services by councils and others.

2. Summary Of Significant Accounting Policies

(a) Basis of Accounting

The general purpose financial report has been prepared in accordance with the Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*, Statements of Accounting Concepts, applicable Australian Accounting Standards, applicable Urgent Issues Group Consensus Views and other mandatory reporting requirements. The report is prepared on the accrual basis of accounting and in accordance with conventional historical cost principles except where stated.

(b) Change in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting the Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Board will adopt these standards for the first time in the published financial report for the financial year ended 30 June 2006.

Managing the Process

The Board's financial services are provided through a service level agreement with Arts SA, Business Services, a unit of the Department of the Premier and Cabinet. Business Services is coordinating the adoption of the Australian equivalents to the International Financial Reporting Standards in conjunction with the Department of Treasury and Finance (DTF).

To obtain an understanding of the new standards and the resulting effect on the financial reports, representatives from Business Services attend information forums facilitated by DTF, professional bodies and private sector accountancy firms. Business Services representatives attend the Exposure Draft Reference Group meetings, which review Exposure Drafts released by the Australian Accounting Standards Board (AASB), provide comment and feedback to the AASB on the content of the Exposure Drafts and the resulting pending Standards.

The Board will also adopt the DTF Model Financial Report for SA Government entities as from 30 June 2005 which will comply with Generally Accepted Accounting Principles (GAAP), Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements.

Business Services is reviewing and analysing Exposure Drafts and pending Australian Accounting Standards for expected differences in accounting policies as a result of the adoption of the Australian equivalents to the IFRS. A project plan has been prepared which identifies key activities to be undertaken to adopt the AIFRS, and the working papers required by AASB 1 'First-Time Adoption of the Australian International Financial Reporting Pronouncements'.

Expected Differences in Accounting Policies

The key differences in accounting policies applied to the Board's financial reports expected to result from the adoption of the Australian equivalents to the IFRS are outlined below.

Changes in Accounting Policies

The pending accounting standard, AASB 1 'First-Time Adoption of Australian Equivalents to International Financial Reporting Pronouncements', will now require the retrospective application of changes in accounting policies. This requires the restatement of comparative information except for specific exemptions as listed in AASB 1. This is a major difference in accounting policy.

Non-Current Asset Acquisition and Recognition

Pending accounting standard AASB 116 'Property, Plant and Equipment' is proposing that Non-Current assets for Not-For-Profit entities are required to be revalued on an individual basis rather than by class of asset. DTF has indicated that an Accounting Policy Statement may be issued to require revaluation on an asset class basis rather than an individual basis.

Employee Benefits

Pending accounting standard AASB 119 'Employee Benefits' is proposing that Employee Benefits, including long service leave and annual leave, payable later than 12 months from the end of the financial year, are to be measured at present value. Currently under the existing accounting standard AASB 1028 'Employee Benefits', employee benefits payable later than 12 months are measured at nominal amounts.

(c) The Reporting Entity

The Libraries Board's principal source of funds consists of grants from the State Government. In addition, the Libraries Board also receives monies from sales, admissions, donations, bequests and other receipts and uses the monies for the achievement of its objectives.

The financial report encompasses transactions through an interest bearing Special Deposit Account titled 'Arts South Australia Operating Account' and through an interest bearing Deposit Account titled 'Libraries Board of South Australia'.

(d) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. Interest and investment revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(e) Grants

State Government grants are recognised as revenues in the period in which the Libraries Board obtains control over the grant funds.

(f) Acquisition of Assets

The cost method of accounting is used for the initial recording of all assets acquired after 1 July 1996. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

(g) Valuation of Non-Current Assets

The Libraries Board, in accordance with the transitional provisions of Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' and Accounting Policy Statement No. 3 'Valuation of Non-Current Assets', has continued to apply the deprival value methodology as the basis of valuing its land and buildings until 30 June 2005.

Land and Buildings

Land and buildings have been valued at replacement cost. Valuations of land and buildings were determined as at 30 June 2002 by the Australian Valuation Office. Land and buildings are independently valued every three years.

Plant and Equipment

Plant and equipment, including computer equipment has been valued at cost of acquisition.

The Public Libraries Automated Information Network (PLAIN) Central Services collections, consisting of Video and Print Disability collections and Languages other than English collections, were revalued according to fair value methodology as at 30 June 2003 by D Hope, Principal Consultant, Skilmar Systems Pty Ltd.

The revaluation was made on the basis of the average cost of items added to the collection during the 2002-03 financial year including the cost of acquisition and then depreciated based on the age of the item. Items that have been culled from the collection are valued at zero on the basis that they will be transferred to a public library or similar institution for no consideration.

Items in the Public Library collections are disposed of for no consideration at the end of their useful life to public libraries and similar institutions. On this basis, no residual value is placed on those assets.

The Film collection was valued at zero value on the basis that this collection is not being added to, is rarely used and may not be disposed of under the terms of its original acquisition.

Research and Heritage Collections

The Libraries Board collections were revalued as at 30 June 2003 using the valuation methodology outlined below in accordance with fair value principles adopted under Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets'.

The Libraries Board's research and heritage collections comprise the respective research and heritage holdings of the State Library of South Australia and the Public Libraries (PLAIN Central Services) and the following methodology has been adopted for valuing those collections.

The State Library of South Australia appointed Graeme Addicott, Regional Manager of the Australian Valuation Office (AVO) to undertake the valuation of the Library's collections as at 30 June 2003. The AVO was responsible for the review of valuations undertaken by State Library staff specialists and to perform valuations where external expertise was required.

Internal valuations were carried out by staff specialists in their related fields. The valuations were based on knowledge of the particular collections, an understanding of the valuation techniques and the markets that exist for the collection items. The AVO undertook testing and confirmation of internal valuations.

The Fair Value applied is represented by the quoted market price in an active and liquid market, where available, or is estimated by reference to the best available market evidence of the price such as current market prices for assets that are similar in use, type and condition or the price of the most recent transaction for the same or a similar asset. Where no market exists or market prices materially differ, the fair value is determined with reference to the asset's market buying price indicated by the replacement cost of the asset's remaining future economic benefits.

Research collections were valued using the linear method of valuation by State Library staff. This method is based on an average cost per volume applied to the size of the collection. This methodology was reviewed and confirmed by the AVO.

Selected heritage collections were valued by an external valuer on a market value basis, with significant and unique objects being valued individually.

Sampling techniques were used to value other less significant elements of the heritage collection with valuations done by both the State Library staff and the AVO.

Additional external valuations were carried out by the following recognised industry experts:

Rare Books	J Burdon
Framed Works	D Hyles

Research and Heritage collections which have been valued are the Rare Books and some Named Collections, Maps, Microfilm Serials, Monographs, Electronic Resources, Family History Collections, Periodicals, Newspapers purchased and Mortlock Use Collections.

A nil valuation was adopted for a number of unique or irreplaceable heritage collections where there is no applicable replacement or reliable market value, or where the materials have been acquired largely through the legal deposit provisions of the *Libraries Act 1982*. The Mortlock South Australiana Collections are recognised at nil value as they have been considered to be unique and not capable of reliable measurement.

Collections which were not valued were the Mortlock Archival Collections, Mortlock Published Collections, Mortlock Special Collections and some unpublished Named and Special Collections.

Due to a change in valuation methodology required under the Australian Accounting Standards, a net debit of \$26.5 million was processed to the Accumulated Surplus in 2002-03. The application of fair value, as opposed to deprival value, has resulted in the exclusion of processing costs for selection, acquisition and cataloguing, from the valuation, and an adjustment for the diminishing market value over time.

(h) Inventory

Inventories are brought to account at cost.

(i) Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each non-current asset having a useful life over its expected useful life, except for research and heritage collections which are not depreciable assets. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:	Years
Buildings and improvements	Useful life depends on individual asset items
Plant and equipment	5-15
Computer equipment	3-5
Video and print disability collections	8
Languages other than English collections	8
Compactus and lifts	30

(i) Depreciation of Non-Current Assets (continued)

The research and heritage collections are kept under special conditions to minimise deterioration and they are anticipated to have very long and indeterminate useful lives. The Public Library collection has been depreciated as indicated above.

(j) Employee Entitlements

(i) Wages, Salaries and Annual Leave

Liabilities for wages, salaries and annual leave have been recognised as the amount unpaid at the reporting date. The liabilities have been calculated at nominal amounts based on current wage and salary rates and a salary inflation rate of 4 percent as determined by the Department of Treasury and Finance.

(ii) Long Service Leave

A liability for long service leave has been recognised which represents the amount which the Libraries Board has a present obligation to pay resulting from employees' services provided up to the reporting date. The liability has been calculated at nominal amounts based on current wage and salary rates using a benchmark of seven years of service as determined by the Department of Treasury and Finance and a salary inflation rate of 4 percent.

(iii) Superannuation

The Libraries Board makes contributions to several superannuation schemes operated by the State Government and private sector. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes.

(k) Workers Compensation

A liability has been reported to reflect unsettled workers compensation claims. The amounts recorded are based on an actuarial assessment and reflect an apportionment of the whole-of-government estimate of workers compensation liability according to the Libraries Board's experience of claim numbers and payments over the period 1 July 1987 to 30 June 2004.

(l) Investments

Investments are brought to account at cost.

(m) Leases

The Libraries Board has entered into a number of operating lease agreements for accommodation, vehicles and office equipment where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Statement of Financial Performance in the periods in which they are incurred.

(n) Cash Assets

For purposes of the Statement of Cash Flows, cash includes cash on hand and at bank.

(o) State Government Funding

The financial report is prepared under the assumption of ongoing financial support being provided to the Libraries Board by the State Government.

(p) Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of the UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)' revenues, expenses and assets are recognised net of the amount of GST.

The amount of GST incurred by the Libraries Board as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

The net GST receivable/payable to the Australian Taxation Office is not recognised as a receivable/payable in the Statement of Financial Position as the Libraries Board is a member of an approved GST group of which Arts SA, a division of the Department of the Premier and Cabinet, is responsible for the remittance and collection of GST. There are no cash flows relating to GST transactions with the Australian Taxation Office in the Statement of Cash Flows.

(q) Comparative Information

Where necessary comparative figures have been adjusted to conform with changes in presentation in 2003-04.

3. Activities of the Libraries Board

The identity and purpose of each major activity undertaken by the Libraries Board during the year ended 30 June 2004 is summarised below (refer to the Activities Schedule - Expenses and Revenues and Assets and Liabilities):

Activity 1: Provision of State Library Services

To provide, through the State Library of South Australia, a comprehensive library and information service for the economic, educational, cultural and social benefit of South Australia and its citizens.

Activity 2: Support of Public Library Services

To provide through PLAIN (Public Library Automated Information Network) Central Services and the distribution of State subsidies, an equitable and responsible provision of resources, support and services to public libraries and community information agencies.

4. Revenues from Ordinary Activities	2004	2003
Interest and investment income comprised:	\$'000	\$'000
Investment income	296	290
Treasury interest	172	442
	468	732
Other revenues comprised the following categories of operating income:		
Bequests and donations	608	377
Admissions	1	1
Sponsorship	200	11
Rent and hire income	155	42
Council contributions	117	122
External grants	134	124
Other	254	223
	1 469	900
5. Expenses from Ordinary Activities		
Employee costs were incurred in relation to the following:		
Wages and salaries	7 551	7 116
Superannuation and payroll tax expenses	1 308	1 211
Annual and long service leave expenses	489	460
Other employee related expenses	141	(73)
	9 489	8 714
Depreciation was charged in respect of:		
Buildings and improvements	873	616
Compactus and lifts	93	-
Plant and equipment	188	117
Computer equipment	25	26
Public Library research collections	383	298
	1 562	1 057
Other expenses comprised the following categories of expenditure:		
Cost of sales	20	34
Operating lease expenditure	343	149
Administration expenditure	1 372	1 356
Travel and accommodation	44	62
Insurance and risk management	199	168
Minor equipment	188	674
Contractor payments	565	781
Maintenance	841	590
Projects	1 742	341
Conservation payment	161	94
IT Communications	1 692	1 244
Marketing	191	184
Business services charges	443	443
EDS charges	857	1 850
General grant payment	-	550
P2 enhancements	73	155
	8 731	8 675
6. Surplus from Ordinary Activities		
Surplus from ordinary activities includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:		
Written down value of non-current assets	84	10
Loss from Disposal of Non-Current Assets	84	10
Proceeds from sale of investments	1 625	280
Written down value of investments	1 688	276
(Loss) Gain from Sale of Investments	(63)	4

7. Investments	2004	2003
	\$'000	\$'000
Unit trusts	5 654	7 045
Total	5 654	7 045

Market value as at 30 June 2004 was \$5.8 million (\$6.5 million).

8. Other Current Assets	2004	2003
Prepayments	122	136
Accrued revenue	17	40
	139	176

9. (a) Property, Plant, Equipment and Public Library Collections	2004			2003		
	Gross Value	Accumulated Depreciation	Written Down Value	Gross Value	Accumulated Depreciation	Written Down Value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land, buildings and improvements:						
At valuation	40 974	11 486	29 488	40 974	10 869	30 105
At cost	12 837	256	12 581	-	-	-
Work in progress - At cost	6 159	-	6 159	18 180	-	18 180
Compactus and lifts	2 776	93	2 683	-	-	-
Plant and equipment - At cost	2 012	750	1 262	1 307	883	424
Computer equipment - At cost	201	171	30	201	146	55
Public Library collections:						
At valuation	6 733	5 544	1 189	7 576	6 021	1 555
Public Library collections:						
At cost	309	20	289	-	-	-
Total	72 001	18 320	53 681	68 238	17 919	50 319

(b) Reconciliation of Carrying Amounts of Property, Plant Equipment and Public Library Collections	Land, Buildings and Improvements	Work in Progress	Compactus and Lifts	Plant and Equipment
	\$'000	\$'000	\$'000	\$'000
Gross value as at 1 July 2003	40 974	18 180	-	1 307
Additions	-	4 426	-	273
Disposals	-	-	-	(402)
Transfers to (from) work in progress	12 837	(16 447)	2 776	834
Gross value as at 30 June 2004	53 811	6 159	2 776	2 012
Accumulated Depreciation as at 1 July 2003	10 869	-	-	883
Depreciation	873	-	93	188
Disposals	-	-	-	(321)
Accumulated Depreciation as at 30 June 2004	11 742	-	93	750
Net Book Value as at 30 June 2004	42 069	6 159	2 683	1 262
Net Book Value as at 1 July 2003	30 105	18 180	-	424

	Computer Equipment	Public Library Collections	Total
	\$'000	\$'000	\$'000
Gross value as at 1 July 2003	201	7 576	68 238
Additions	-	309	5 008
Disposals	-	(843)	(1 245)
Transfers to (from) work in progress	-	-	-
Gross value as at 30 June 2004	201	7 042	72 001
Accumulated Depreciation as at 1 July 2003	146	6 021	17 919
Depreciation	25	383	1 562
Disposals	-	(840)	(1 161)
Accumulated Depreciation as at 30 June 2004	171	5 564	18 320
Net Book Value as at 30 June 2004	30	1 478	53 681
Net Book Value as at 30 June 2003	55	1 555	50 319

10. (a) Research and Heritage Collections	2004			2003		
	At Cost \$'000	At Valuation \$'000	Total \$'000	At Cost \$'000	At Valuation \$'000	Total \$'000
Rare books and named collections	401	14 702	15 103	-	14 702	14 702
Maps	8	1 166	1 174	-	1 166	1 166
Mortlock audio-visual	9	50	59	-	50	50
Microfilm serials	35	1 387	1 422	-	1 387	1 387
Monographs	315	16 510	16 825	-	16 510	16 510
Electronic resources	157	39	196	-	39	39
Family history collection	9	105	114	-	105	105
Periodicals	234	4 628	4 862	-	4 628	4 628
Newspapers purchased	100	846	946	-	846	846
Mortlock use collections	12	81	93	-	81	81
CLRC book collection	-	958	958	-	958	958
Total	1 280	40 472	41 752	-	40 472	40 472

(b) Reconciliation of Carrying Amounts of Research and Heritage Collections	2004		
	Balance 1 July \$'000	Additions \$'000	Balance 30 June \$'000
Rare books and named collections	14 702	401	15 103
Maps	1 166	8	1 174
Mortlock audio-visual	50	9	59
Microfilm serials	1 387	35	1 422
Monographs	16 510	315	16 825
Electronic resources	39	157	196
Family history collection	105	9	114
Periodicals	4 628	234	4 862
Newspapers purchased	846	100	946
Mortlock use collections	81	12	93
CLRC book collection	958	-	958
Total	40 472	1 280	41 752

	2003			
	Balance 1 July \$'000	Additions \$'000	Valuation Movement \$'000	Balance 30 June \$'000
Rare books and named collections	8 593	37	6 072	14 702
Maps	2 668	16	(1 518)	1 166
Mortlock audio-visual	-	7	43	50
Microfilm serials	7 245	33	(5 891)	1 387
Monographs	25 504	291	(9 285)	16 510
Electronic resources	482	152	(595)	39
Family history collection	218	4	(117)	105
Periodicals	15 734	232	(11 338)	4 628
Newspapers purchased	5 240	98	(4 492)	846
Mortlock use collections	424	6	(349)	81
CLRC book collection	-	-	958	958
Total	66 108	876	(26 512)	40 472

11. Payables	2004	2003
Current:	\$'000	\$'000
Creditors and accruals	825	970
Employee costs	106	77
	931	1 047
Non-Current:		
Employee costs	194	172

12. (a) Provision for Employee Entitlements	2004	2003
Current:		
Provision for annual leave	459	384
Provision for long service leave	147	131
Provision for workers compensation	52	54
Accrued salaries and wages	86	-
	744	569
Non-Current:		
Provision for long service leave	1 688	1 501
Provision for workers compensation	123	149
	1 811	1 650

(b)	Summary of Employee Benefits and Related On-cost Liabilities	2004	2003
		\$'000	\$'000
	Accrued Salaries and Wages:		
	Included in payables - Current (refer Note 11)	14	-
	Provision for employee benefits - Current (refer Note 12(a))	86	-
		100	-
	Annual Leave:		
	Included in payables - Current (refer Note 11)	75	62
	Provision for employee benefits - Current (refer Note 12(a))	459	384
		534	446
	Long Service Leave:		
	Included in payables - Current (refer Note 11)	17	15
	Provision for employee benefits - Current (refer Note 12(a))	147	131
	Included in payables - Non-current (refer Note 11)	194	172
	Provision for employee benefits - Non-current (refer Note 12(a))	1 688	1 501
		2 046	1 819
	Workers Compensation:		
	Provision for employee benefits - Current (refer Note 12(a))	52	54
	Provision for employee benefits - Non-current (refer Note 12(a))	123	149
		175	203
	Aggregate Employee Benefits and Related On-cost Liabilities	2 855	2 468

13.	Accumulated Surplus		
	Balance at 1 July	91 936	100 507
	Surplus from ordinary activities	2 762	17 941
	Valuation decrement	-	(26 512)
	Balance at 30 June	94 698	91 936

14.	Reserves			
	Asset Revaluation Reserve	Land, Buildings and Improvements	Public Library Collections	2004 Total
		\$'000	\$'000	\$'000
	Balance at 1 July	5 526	146	5 672
	Valuation decrement	-	-	-
	Balance at 30 June	5 526	146	5 672
		Land, Buildings & Improvements	Public Library Collections	2003 Total
		\$'000	\$'000	\$'000
	Balance at 1 July	5 526	290	5 816
	Valuation decrement	-	(144)	(144)
	Balance at 30 June	5 526	146	5 672

15.	Commitments for Expenditure		
	(a) Operating Leases	2004	2003
		\$'000	\$'000
	Commitments under non-cancellable operating leases at the reporting date are payable as follows:		
	Not later than one year	113	232
	Later than one year and not later than five years	152	280
	Later than five years	-	12
		265	524

These operating lease commitments, which are not recognised in the financial report as liabilities, comprise:

- non-cancellable property leases, with rental payable monthly in arrears. Contingent rental provisions within the lease agreements require the minimum lease payments to be increased by 5.5 percent per annum or the Consumer Price Index. Options exist to renew the leases at the end of their terms for a further five years.
- non-cancellable motor vehicle and photocopier leases, with rental payable monthly in arrears. No contingent rental provisions exist within the lease agreements and no options exist to renew the leases at the end of their terms.

(b) Agreements Equally and Proportionately Unperformed

Agreements equally and proportionately unperformed include contracts for the redevelopment of the State Library. These commitments are not recognised as liabilities in the financial report.

Agreements equally and proportionately unperformed at the reporting date are estimated as follows:		2004	2003
Not later than one year		\$'000	\$'000
		700	6 809
		700	6 809

16. Contingent Liabilities

There are no known contingent liabilities as at 30 June 2004.

17. Reconciliation of Net Cash provided by Operating Activities to Surplus from Ordinary Activities

	2004	2003
	\$'000	\$'000
Surplus from ordinary activities	2 762	17 941
Non-cash items:		
Depreciation expense	1 562	1 057
Loss (Profit) on redemption of investments	63	(4)
Loss on disposal of plant and equipment	84	10
Donation of heritage assets	(45)	-
Change in operating assets and liabilities:		
Decrease (Increase) in assets	(38)	(118)
(Decrease) Increase in liabilities	242	645
Net Cash provided by Operating Activities	4 630	19 531

18. Payments to Consultants

Payments to consultants fell within the following bands:

	2004	2003
	Number of Consultants	Number of Consultants
\$0 - \$10 000	2	2
\$10 001 - \$50 000	-	1

The total payments to the consultants engaged were \$10 000 (\$29 000).

19. Remuneration of Employees

The number of employees whose annual remuneration was over \$100 000 fell within the following bands:

	2004	2003
	Number of Employees	Number of Employees
\$100 000 - \$109 999	3	-
\$150 000 - \$159 999	-	1

The total remuneration received by these employees for the year was \$316 000 (\$151 000).

20. Remuneration of Board Members

The number of Board Members who receive annual income from the Libraries Board fell within the following bands:

	2004	2003
	Number of Board Members	Number of Board Members
\$0 - \$9 999	5	4
\$10 000 - \$19 999	6	7

The total income received by these Board Members for the year was \$99 000 (\$104 000).

21. Remuneration of Auditors

Audit fees in relation to the year ended 30 June 2004 are:

	2004	2003
	\$'000	\$'000
State Library of South Australia	20	21
Support of Public Library Services	10	10
	30	31

The auditors provided no other services to the Board.

22. Related Parties Disclosures

During the financial year the following persons held positions on the Libraries Board of South Australia:

Dr P Goldsworthy, Chair, Mr P Myhill, Deputy Chair, Mr G E Coles, Mrs R H Craddock, Mrs J K Nitschke, Ms J Connolly, Ms B Davidson-Park (to 31 January 2004), Mr John Mc Donnell, Mr G Mackie (to 25 November 2003), Mr Hieu Van Le (from 5 February 2004) and Mr T Zappia (from 15 April 2004).

Board members or their related entities have transactions with the Board that occur within a normal customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonably expected the entity would have adopted if the transactions were undertaken with any other entity at arm's length in similar circumstances.

23. Targeted Voluntary Separation Package Scheme (TVSPs)

During 2003-04 three TVSPs were paid out to the value of \$98 000. \$28 000 of this related to annual leave and long service leave paid in relation to the TVSPs.

There are no outstanding payments. The board has been fully reimbursed by the Commissioner for Public Employment.

There were no TVSPs paid in 2002-03.

24. Financial Instruments

(a) Terms and Conditions

Financial Instrument	Note	Accounting Policies and Methods	Nature of Underlying Instrument
Financial Assets			
Cash assets	2(n)	Cash at bank is recorded at its nominal amount. Interest revenue is recorded on an accrual basis although some funds held within the total cash balance are non-interest bearing.	Interest is calculated based on the average daily balances of the interest bearing funds. The interest bearing funds of the Libraries Board are the Special Deposit Account entitled 'Arts South Australia Operating Account' and the Deposit Account entitled 'Libraries Board of South Australia'. The interest rate is the Treasurer's Approved Rate of Interest on Deposit Accounts, which is currently 5.1 percent (as at 30 June 2004).
Receivables		Receivables are recorded at amounts due to the Libraries Board. They are recorded when services have been completed.	Receivables are due within 30 days.
Investments	7,2(l)	Investments are brought to account at cost. Interest and investment income is credited to revenue as it accrues.	Portfolio of unit trusts, term deposits and deposits at call. Interest and investment income is received quarterly.
Financial Liabilities			
Payables	11	Payables are recorded at the agreed amounts at which the liabilities are to be settled. They are recorded when the relevant invoices are received.	Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

(b) Interest Rate Risk

<i>Financial Instrument</i>	2004				2003			
	Interest Rate Percent	Interest Floating \$'000	Interest Non-Bearing \$'000	Total \$'000	Interest Rate Percent	Interest Floating \$'000	Interest Non-Bearing \$'000	Total \$'000
Financial Assets:	5.10	2 653	8	2 661	4.60	2 937	8	2 945
Cash assets		-	131	131	-	-	64	64
Receivables								
Investments:	13.93	5 654	-	5 654	(2.27)	7 045	-	7 045
Unit trusts								
		8 307	139	8 446		9 982	72	10 054
Financial Liabilities:								
Payables		-	825	825		-	970	970

(c) Net Fair Values of Financial Assets and Liabilities

<i>Financial Instrument</i>	<i>Note</i>	2004		2003	
		Total Carrying Amount \$'000	Net Fair Value \$'000	Total Carrying Amount \$'000	Net Fair Value \$'000
Cash assets	2(n)	2 661	2 661	2 945	2 945
Receivables		131	131	64	64
Investments	7,2(l)	5 654	5 816	7 045	6 512
		8 446	8 608	10 054	9 521
Payables	11	825	825	970	970

The net fair value is determined as the carrying value of all assets and liabilities except for investments where market value has been used.

(d) Credit Risk Exposure

The Libraries Board's maximum exposure to credit risk at the reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The Libraries Board has no significant exposures to any concentrations of credit risk.

MUSEUM BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Museum Board is a Statutory Authority established pursuant to the *South Australian Museum Act 1976*.

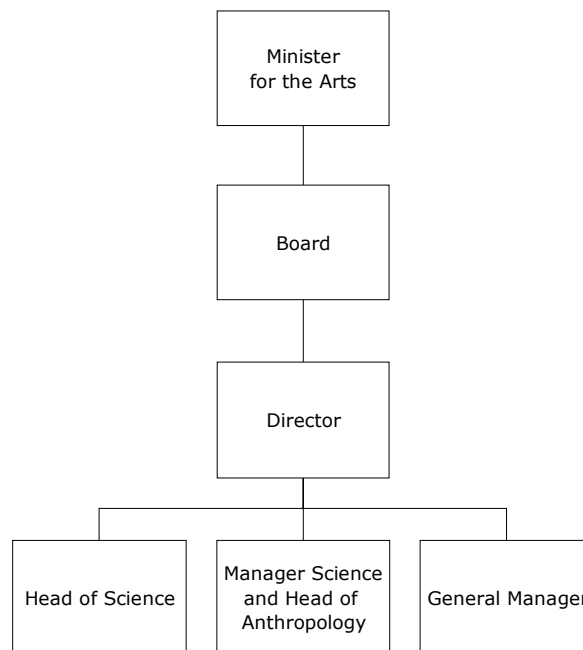
The Museum Board is responsible for the management of the South Australian Museum.

The role of the South Australian Museum is to:

- increase knowledge and understanding of the State's natural and cultural heritage;
- serve the community by acquiring, preserving, interpreting and presenting to the public, material evidence concerning people and nature;
- provide opportunities for study, education and enjoyment.

Structure

The structure of the Museum Board is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Museum Board for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Museum Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- revenue, including receipting and banking
- expenditure, including accounts payable and salaries and wages
- property, plant and equipment
- heritage collections
- inventory, including Museum Shop operations.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Museum Board as at 30 June 2004 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Museum Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Museum Board have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Museum Director. The response to the management letter was generally considered to be satisfactory.

Matters Raised with the Board

Financial Activities

The issues raised by Audit related mainly to the opportunity to strengthen controls over the collection of cash, payroll processes and to establish and implement policies and procedures and controls for the Museum shop operations.

Heritage Collections

The Board adopted, for the valuation undertaken on 30 June 2003, the 'cost of recovery' method for valuing its Natural History Collection (Refer Note 2.6). This collection is valued at \$65.5 million.

As part of the 2003-04 audit review, Audit noted that cost of recovery data is not being captured and recorded by the Museum. Audit raised the need for the Board to consider developing an effective process of capturing data/financial information used for valuing its Natural History Collection using the 'cost of recovery' method. The collection of this data would act to support the 'cost of recovery' values adopted by the Museum each time a revaluation is undertaken.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'000	2003 \$'000	Percentage Change
OPERATING REVENUE			
State Government grants	8 067	9 427	(14)
Other revenue	3 017	3 547	(15)
Total Operating Revenue	11 084	12 974	(15)
OPERATING EXPENDITURE			
Employment expenses	4 488	4 147	8
Other expenses	6 543	6 387	2
Total Operating Expenses	11 031	10 534	5
Surplus (Deficit) from Ordinary Activities	53	2 440	
Net Cash Flows from Operations	591	3 085	(81)
ASSETS			
Current assets	3 093	2 881	7
Non-current assets	145 840	145 654	-
Total Assets	148 933	148 535	-
LIABILITIES			
Current liabilities	700	455	54
Non-current liabilities	848	748	13
Total Liabilities	1 548	1 203	29
EQUITY	147 385	147 332	-

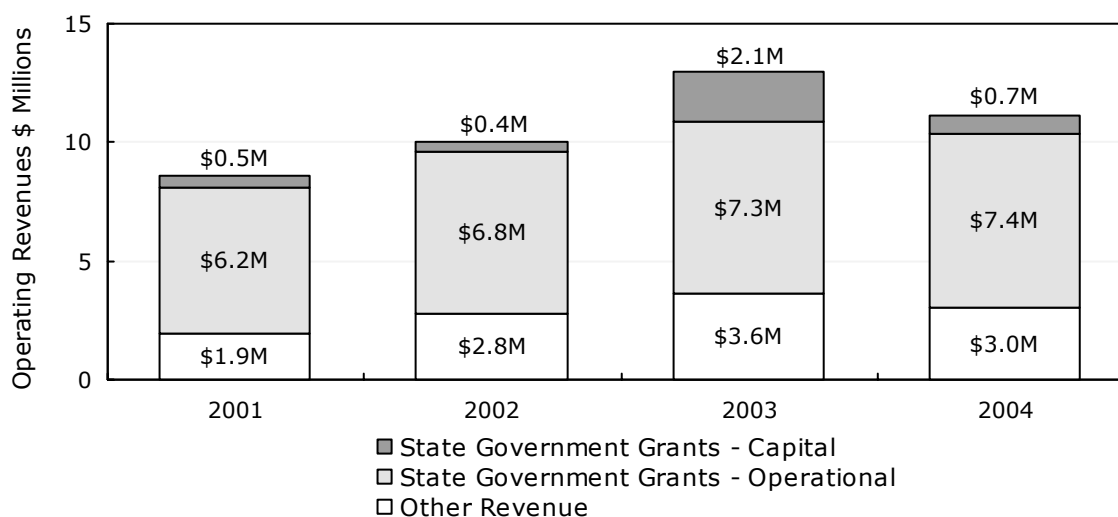
Statement of Financial Performance

Operating Revenues

Revenues from Ordinary Activities for the year totalled \$11.1 million (\$13 million). This includes grants from the State Government for operating and capital purposes of \$8.1 million (\$9.4 million) and represents 73 percent (73 percent) of the Total Revenue. As expressed in Note 2.15 to the Financial Statements the Board is dependent on the ongoing financial support of the State Government.

The decrease in Revenues from Ordinary Activities of \$1.9 million is attributable mainly to a decrease in total State Government grant funding of \$1.4 million, of which \$1.2 million relates to capital grant funding.

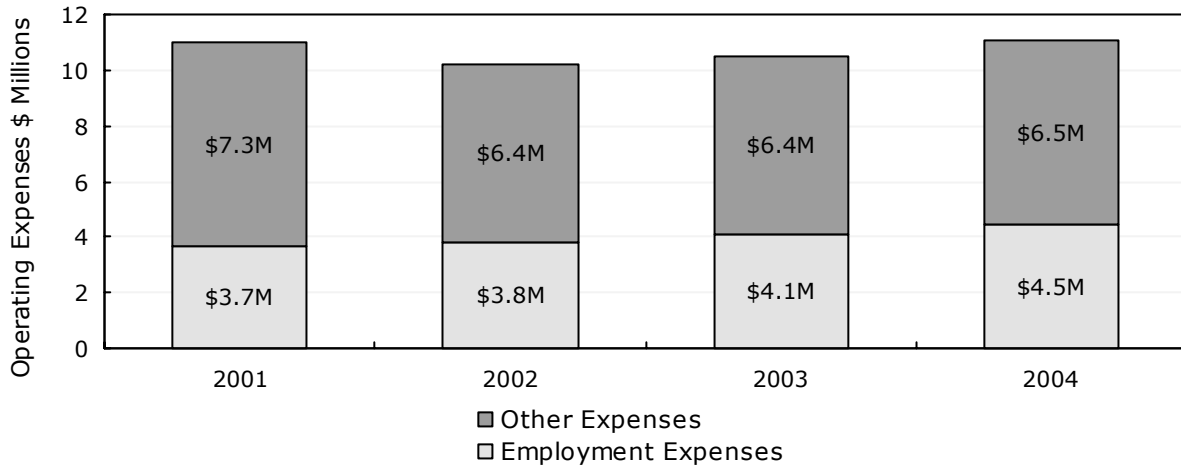
A structural analysis of operating revenues for the Board in the four years to 2004 is presented in the following chart.



Operating Expenses

Expenditure for the year increased by \$497 000 (5 percent) to \$11 million. The increase is attributable mainly to an increase in employee expenses.

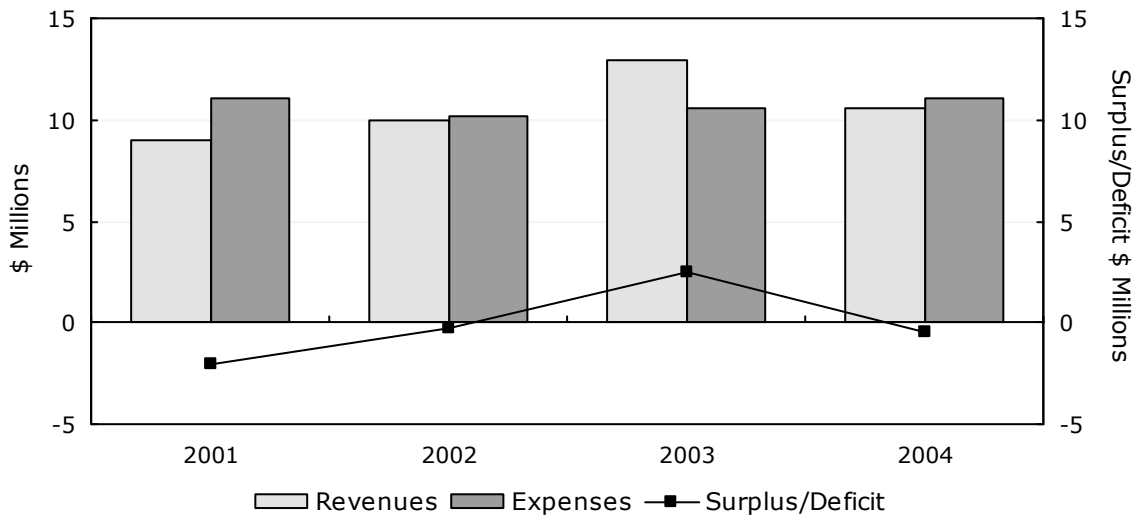
For the four years to 2004, a structural analysis of the main operating expense items for the Board is shown in the following chart.



Operating Result

The operating result for the year was an Operating Profit from Ordinary Activities of \$53 000, compared with a surplus of \$2.4 million in 2002-03. The decrease is attributable mainly to a decrease in revenue from ordinary activities as previously explained under Operating Revenues.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2004.



Statement of Financial Position

The total assets of the Museum Board at 30 June 2004 are \$149 million, of which \$111 million relates to the Museum’s heritage collections.

Non-Current Assets

Heritage Collections

The Board has accumulated these assets over a significant period of time primarily through the use of government funding, together with bequests and donations. Additions to the heritage collections for the year totalled \$646 000, of which \$645 000 were donated assets.

The heritage collections were revalued as at 30 June 2003. (Refer Note 2.6).

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Revenue from SA Government - Recurrent operating grant		7 356	7 328
Revenue from SA Government - Capital grant		424	1 654
Grants from Commonwealth Government		230	541
Sale of goods		433	568
User charges		385	214
Donations		786	611
Sponsorship		454	169
Interest		125	88
Other	3	891	1 801
Total Revenues		11 084	12 974
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	4	4 488	4 147
Supplies and services	5	3 362	3 389
Accommodation and facilities	6	2 194	2 009
Depreciation	7	987	989
Total Expenses		11 031	10 534
OPERATING PROFIT FROM ORDINARY ACTIVITIES		53	2 440
NON-OWNER TRANSACTION CHANGES IN EQUITY:			
Increase in the asset revaluation reserve		-	12 436
Increase in retained earnings to recognise assets brought to account for the first time	14	-	69 215
Total Valuation Adjustments Recognised Directly in Equity		-	81 651
CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		53	84 091

**Statement of Financial Position
as at 30 June 2004**

	Note	2004	2003
		\$'000	\$'000
CURRENT ASSETS:			
Cash	18	2 543	2 341
Receivables		210	180
Inventories		141	151
Other		199	209
Total Current Assets		3 093	2 881
NON-CURRENT ASSETS:			
Property, plant and equipment	9	34 985	35 445
Heritage collections	10	110 855	110 209
Total Non-Current Assets		145 840	145 654
Total Assets		148 933	148 535
CURRENT LIABILITIES:			
Payables	11	309	138
Employee benefits	12	360	293
Provision for workers compensation	13	31	24
Total Current Liabilities		700	455
NON-CURRENT LIABILITIES:			
Payables	11	80	70
Employee benefits	12	696	610
Provision for workers compensation	13	72	68
Total Non-Current Liabilities		848	748
Total Liabilities		1 548	1 203
NET ASSETS		147 385	147 332
EQUITY:			
Retained profits	14	133 428	133 375
Asset revaluation reserve	14	13 957	13 957
TOTAL EQUITY		147 385	147 332
Commitments for Expenditure	16		
Contingent Liabilities	17		

**Statement of Cash Flows
for the year ended 30 June 2004**

	Note	2004	2003
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH INFLOWS:			
Receipts from SA Government - Recurrent operating grant		7 356	7 328
Receipts from SA Government - Capital grant		424	1 654
Grants from the Commonwealth Government		230	541
Sale of goods		431	579
User charges		385	214
Donations		141	103
Sponsorships		424	169
Interest		122	85
Other		895	1 746
Total Inflows from Operating Activities		10 408	12 419
CASH OUTFLOWS:			
Payments to employees		(4 311)	(3 837)
Payments to suppliers		(3 341)	(3 384)
Accommodation and facilities		(2 165)	(2 113)
Total Outflows from Operating Activities		(9 817)	(9 334)
Net Cash Inflows from Operating Activities	18	591	3 085
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Payments for property, plant and equipment		(388)	(1 724)
Payments for Heritage collections		(1)	(116)
Total Outflows from Investing Activities		(389)	(1 840)
Net Cash Outflows from Operating Activities		(389)	(1 840)
NET INCREASE IN CASH HELD		202	1 245
CASH AT 1 JULY		2 341	1 096
CASH AT 30 JUNE	18	2 543	2 341

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Museum Board (The Board)

The functions of the Museum Board as prescribed under the *South Australian Museum Act 1976* are as follows:

- Undertake the care and management of the Museum;
- Manage all lands and premises vested in, or placed under the control of, the Board;
- Manage all funds vested in, or under the control of, the Board and to apply those funds in accordance with the terms and conditions of any instrument of trust or other instrument affecting the disposition of those moneys;
- Carry out, or promote, research into matters of scientific and historical interest;
- Accumulate and care for objects and specimens of scientific or historical interest;
- Accumulate and classify data in regard to any such matters;
- Disseminate information of scientific or historical interest; and
- Perform any other functions of scientific, educational or historical significance that may be assigned to the Board by regulation.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

The financial report is a general purpose financial report. The statements have been prepared in accordance with:

- Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act 1987*
- Applicable Australian Accounting Standards, and
- Other mandatory professional reporting requirements in Australia.

The Board's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

2.2 The Reporting Entity

The Board's principal source of funds consists of grants from the State Government. In addition, the Museum Board also receives monies from sales, admissions, donations, bequests, sponsorships and other receipts, and uses the monies for the achievement of its objectives.

2.3 Changes in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting the Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Board will adopt these standards for the first time in the published financial report for the financial year ended 30 June 2006.

Managing the Process

The Board's financial services are provided through a service level agreement with Arts SA, Business Services, a unit of the Department of the Premier and Cabinet. Business Services is coordinating the adoption of the Australian equivalents to the International Financial Reporting Standards in conjunction with the Department of Treasury and Finance (DTF).

To obtain an understanding of the new standards and the resulting effect on the financial reports, representatives from Business Services attend information forums facilitated by DTF, professional bodies and private sector accountancy firms. Business Services representatives attend the Exposure Draft Reference Group meetings, which review Exposure Drafts released by the Australian Accounting Standards Board (AASB), provide comment and feedback to the AASB on the content of the Exposure Drafts and the resulting pending Standards.

The Board will also adopt the DTF Model Financial Report for SA Government entities as from 30 June 2005 which will comply with Generally Accepted Accounting Principles (GAAP), Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements.

Business Services is reviewing and analysing Exposure Drafts and pending Australian Accounting Standards for expected differences in accounting policies as a result of the adoption of the Australian equivalents to the IFRS. A project plan has been prepared which identifies key activities to be undertaken to adopt the AIFRS, and the working papers required by AASB 1 'First-Time Adoption of the Australian International Financial Reporting Pronouncements'.

Expected Differences in Accounting Policies

The key differences in accounting policies applied to the Board's financial reports expected to result from the adoption of the Australian equivalents to the IFRS are outlined below.

- *Changes in Accounting Policies*
The pending accounting standard, AASB 1 'First-Time Adoption of Australian Equivalents to International Financial Reporting Pronouncements', will now require the retrospective application of changes in accounting policies. This requires the restatement of comparative information except for specific exemptions as listed in AASB 1. This is a major difference in accounting policy.
- *Non-Current Asset Acquisition and Recognition*
Pending accounting standard AASB 116 'Property, Plant and Equipment' is proposing that non-current assets for Not-For-Profit entities are required to be revalued on an individual basis rather than by class of asset. DTF has indicated that an Accounting Policy Statement may be issued to require revaluation on an asset class basis, rather than an individual basis.
- *Employee Benefits*
Pending Accounting Standard AASB 119 'Employee Benefits' is proposing that Employee Benefits, including long service leave and annual leave, payable later than 12 months from the end of the financial year, are to be measured at present value. Currently under the existing accounting standard AASB 1028 'Employee Benefits', employee benefits payable later than 12 months are measured at nominal amounts.

2.4 Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. Government grants are recognised as revenues in the period in which the Board obtains control over the grants.

2.5 Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets required after 1 July 1996. Cost is determined as the fair value of the assets given the consideration plus costs incidental to the acquisition. Assets donated during the year have been brought to account at market value.

2.6 Valuation of Non-Current Assets

The Board, in accordance with the transitional provisions of Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' and Accounting Policy Statement 3 'Valuation of Non-Current Assets', has continued to apply the deprival value methodology as the basis of valuing its non-current assets, with the exception of Heritage Assets, until 30 June 2005.

Land and Buildings

Land and buildings have been valued at replacement cost. Valuations of land and buildings were determined as at 30 June 2002 by the Australian Valuation Office. Land and buildings are independently valued every three years.

Plant and Equipment

Plant and equipment, including computer equipment, has been valued at cost of acquisition.

Heritage Collections

The Museum Board collections were revalued as at 30 June 2003 using the valuation methodology outlined below in accordance with fair value principles adopted under Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets'.

These valuations were undertaken by both external valuers and internal specialists.

The Collections were broadly valued on the following basis:

Collection	Method of Valuation
Heritage Collections	Net Market Valuation
Natural History Collections	Cost of Recovery

Heritage Collections status applies to those collections where an established market exists. The Net Market Valuation applied has been assessed either by valuation undertakings by staff and valuers or by applying valuations determined under the Taxation Incentives for the Arts Scheme.

Cost of recovery valuation has been applied to those collections that were previously valued at zero under deprival value methodology. These collections items have been valued to fair value on the basis of the cost of fieldwork, preparation and documentation to replace the material in its present condition.

Internal valuations were carried out by staff specialists in their related fields. These valuations were based on a knowledge of the particular collections, an understanding of valuation techniques and the markets that exist for the collection items.

Independent external valuers were engaged to review the methodology adopted for valuation and to verify the valuations applied by internal specialists via sampling techniques, and to carry out independent valuation where required.

Heritage Collections deemed to have market value are Australian Ethnology, Foreign Ethnology, Malacology, Butterflies, Industrial History Collection, Mineralogy, Museum Library and Rare Books.

Natural History collections valued at cost of recovery are the Australian Biological Tissue Bank, the Australian Helminthological Collection, Entomology, Arachnology, Marine Invertebrates, Ichthyology, Herpetology, Ornithology and Mammalogy.

The external valuations were carried out by the following recognised industry experts:

Collection	Industry Expert
Australian Ethnology	Macaulay Partners
Museum Library and Rare Books	M Treloar and P Horn
Malacology (Marine Invertebrates)	W Rumble
Butterflies (Terrestrial Invertebrates)	L Mound
Mammalogy	R Schodde

Collections deemed to be culturally sensitive including human remains or secret and sacred to Aboriginal communities have not been included within the current valuation and are deemed to be at zero valuation. These collections are Human Biology, Secret Sacred, Archives, Palaeontology and Archaeology.

2.7 Depreciation of Non-Current Assets

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each non-current asset over its expected useful life except for land and heritage collections, which are not depreciable. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

Buildings and improvements	Useful life depends on individual asset items
Plant and equipment	5 -15 years
Computer equipment	3 -5 years

Heritage collections are kept under special conditions so that there is no physical deterioration and they are anticipated to have very long and indeterminate useful lives. No amount for depreciation has been recognised, as their service potential has not, in any material sense, been consumed during the reporting period.

2.8 Inventories

Inventories are valued at the lower of cost and net realisable value.

2.9 Employee Benefits

(i) Liabilities for Wages, Salaries and Annual Leave

Liabilities for wages, salaries and annual leave have been recognised as the amount unpaid at the reporting date. The liabilities have been calculated at nominal amounts based on current wage and salary rates and a salary inflation rate of 4 percent as determined by the Department of Treasury and Finance.

(ii) Long Service Leave

A liability for long service leave has been recognised which represents the amount which the Board has a present obligation to pay resulting from employees' services provided up to the reporting date. The liability has been calculated at nominal amounts based on current wage and salary rates using a benchmark of seven years of service and a salary inflation rate of 4 percent as determined by the Department of Treasury and Finance.

(iii) Superannuation

Contributions are made by the Board to several superannuation schemes operated by the State Government and private sector. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the superannuation schemes.

2.10 Workers Compensation Provision

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment performed by the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services.

2.11 Leases

The Museum Board has entered into a number of operating lease agreements for accommodation and vehicles where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Statement of Financial Performance in the periods in which they are incurred.

2.12 Cash Assets

For the purposes of the Statement of Cash Flows, cash includes cash at bank and cash on hand. Cash is measured at nominal value.

2.13 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required in 2003-04.

2.14 Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of the Urgent Issues Group UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST.

The amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or part of an item of expense.

The net GST receivable/payable to the Australian Taxation Office is not recognised as a receivable/payable in the Statement of Financial Position as the Board is a member of an approved GST group of which Arts SA, a division of the Department of the Premier and Cabinet, is responsible for the remittance and collection of GST. There are no cash flows relating to GST transactions with the Australian Taxation Office in the Statement of Cash Flows.

2.15 State Government Funding

The financial reports are presented under the assumption of ongoing financial support being provided to the Board by the State Government.

2.16 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

2.17 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. The Board has a clearly identifiable operating cycle of 12 months. Therefore assets and liabilities that will be realised as part of the normal operating cycle will be classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

2.18 Payables

Payables include creditors, accrued expenses and employment on-costs.

Creditors and accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period. All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services' after the Board receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

2.19 Insurance

The Board has arranged, through the SA Insurance Corporation, to insure all major risks of the authority. The excess payable under this arrangement varies depending on each class of insurance held.

3. Other Revenues from Ordinary Activities

	2004	2003
	\$'000	\$'000
Rent	51	47
State Government grant	287	445
Other grants	130	160
Recoup recoverables	166	183
Bequests	-	800
Other	257	166
Total Other Revenues from Ordinary Activities	891	1 801

4. Employee Expenses

Wages and salaries	3 636	3 233
Superannuation and payroll tax expenses	614	548
Annual and long service leave expenses	185	326
Other employee related expenses	53	40
Total Employee Expenses	4 488	4 147

Remuneration of Employees

The number of employees whose remuneration received or receivable falls within the following bands:

	2004	2003
	Number of Employees	Number of Employees
\$100 000 - \$109 999	1	1
\$140 000 - \$149 999	-	1
\$170 000 - \$179 999	1	-
Total Number of Employees	2	2

The table includes all employees whom received remuneration of \$100 000 or more during the year. The total remuneration received by these employees for the year was \$281 900 (\$248 000).

Targeted Voluntary Separation Packages (TVSPs)

There were no TVSPs paid in either 2003-04 or 2002-03.

Average number of employees during the reporting period

On average, the number of full time equivalents employed throughout the reporting period was 68 (69).

Remuneration of Board Members

The number of Board Members who received income from the Board fell within the following bands:

	2004	2003
	Number of Board Members	Number of Board Members
\$0 - \$9 999	8	8
\$10 000 - \$19 999	-	-
Total Number of Board Members	8	8

The total income received by these Board Members for the year was \$37 600 (\$37 000).

Related Party Disclosures

During the financial year the following persons held a position on the Museum Board;

Mr John Ellice Flint, Chair (from 18 July 2002), Dr A Lloyd (until 1 January 2004), Mr A Simpson, Assoc Prof M Sedgley, Mr P Ah Chee, Ms S Cookson, Ms P Capaldo and Mr R Edwards.

Board members or their related entities have transactions with the Board that occur within a normal customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonably expected the entity would have adopted if the transactions were undertaken with any other entity at arm's length in similar circumstances.

5. Supplies and Services	2004	2003
	\$'000	\$'000
Insurance and risk management	369	397
Cost of goods sold	236	356
Marketing	259	155
Administration	532	592
IT services and communications	277	286
Maintenance	88	30
Collections	267	151
Exhibitions	182	278
Research	247	325
Travel and accommodation	85	108
Contractors	309	269
Motor vehicle expenses	70	84
Minor equipment	130	83
Other	311	275
Total Supplies and Services	3 362	3 389

Payments to Consultants

The dollar amount of Consultancies paid/payable that fell within the following band:

\$0 - \$10 000

Above \$50 000

Total Number of Consultancies

2004	2003
Number of	Number of
Consultants	Consultants
1	1
-	-
1	1

The total amount paid/payable to Consultants in 2003-04 was \$300 (\$2 000).

6. Accommodation and Facilities	2004	2003
	\$'000	\$'000
Accommodation	660	608
Facilities	972	779
Security	562	622
Total Accommodation and Facilities	2 194	2 009

7. Depreciation	2004	2003
Buildings and improvements	906	905
Plant and equipment	73	71
Computer equipment	8	13
Total Depreciation	987	989

8. Auditor's Remuneration	2004	2003
Audit fees paid/payable to the Auditor-General's Department	21	22
Total Audit Fees	21	22

Other Services

No other services were provided by the Auditor-General's Department to the Board.

9. Property, Plant and Equipment	2004			2003		
	Gross	Accumulated	Written	Gross	Accumulated	Written
	Value	Depreciation	Down	Value	Depreciation	Down
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land, Buildings and Improvements:						
At valuation	56 537	23 777	32 760	56 537	22 933	33 604
At cost	1 539	62	1 477	1 515	-	1 515
Work in progress	503	-	503	-	-	-
Plant and equipment - At cost	1 298	1 057	241	1 298	984	314
Computer equipment - At cost	83	79	4	120	108	12
	59 960	24 975	34 985	59 470	24 025	35 445

**Reconciliation of Carrying Amounts of Property,
Plant and Equipment**

	2004			
	Land, Buildings and Improvements \$'000	Plant and Equipment \$'000	Computer Equipment \$'000	Total \$'000
Carrying amount at 1 July	35 119	314	12	35 445
Additions	24	-	-	24
Disposals	-	-	(37)	(37)
Depreciation expense	(906)	(73)	29	(950)
Work in progress	503	-	-	503
Carrying amount at 30 June	34 740	241	4	34 985

10. Heritage Collections

	2004			2003		
	At Valuation \$'000	At Cost \$'000	Total \$'000	At Valuation \$'000	At Cost \$'000	Total \$'000
Social/Industrial History	222	-	222	222	-	222
Australian Aboriginal Ethnographic	18 720	1	18 721	18 720	-	18 720
Foreign Ethnology	6 254	-	6 254	6 254	-	6 254
Minerals	11 037	645	11 682	11 037	-	11 037
Malacology	3 642	-	3 642	3 642	-	3 642
Butterflies	33	-	33	33	-	33
Australian Biological Tissue Bank	5 192	-	5 192	5 192	-	5 192
Australian Helminthological Collection	8 376	-	8 376	8 376	-	8 376
Entomology	26 134	-	26 134	26 134	-	26 134
Arachnology	4 013	-	4 013	4 013	-	4 013
Marine Invertebrates	5 660	-	5 660	5 660	-	5 660
Ichthyology	1 136	-	1 136	1 136	-	1 136
Herpetology	2 972	-	2 972	2 972	-	2 972
Ornithology	7 834	-	7 834	7 834	-	7 834
Mammalogy	4 223	-	4 223	4 223	-	4 223
Library	4 761	-	4 761	4 761	-	4 761
Total Heritage Collections	110 209	646	110 855	110 209	-	110 209

**Reconciliation of Carrying
Amounts of Heritage
Collections**

	Balance 01.07.03 \$'000	Additions \$'000	Balance 30.06.04 \$'000	Balance 01.07.02 \$'000	Additions \$'000	Valuation Increment \$'000	Balance 30.06.03 \$'000
	Social/Industrial History	222	-	222	221	-	1
Australian Aboriginal Ethnographic	18 720	1	18 721	7 179	100	11 441	18 720
Foreign Ethnology	6 254	-	6 254	5 986	147	121	6 254
Minerals	11 037	645	11 682	10 211	361	465	11 037
Malacology	3 642	-	3 642	-	3 642	-	3 642
Butterflies	33	-	33	-	33	-	33
Australian Biological Tissue Bank	5 192	-	5 192	-	5 192	-	5 192
Australian Helminthological Collection	8 376	-	8 376	-	8 376	-	8 376
Entomology	26 134	-	26 134	-	26 134	-	26 134
Arachnology	4 013	-	4 013	-	4 013	-	4 013
Marine Invertebrates	5 660	-	5 660	-	5 660	-	5 660
Ichthyology	1 136	-	1 136	-	1 136	-	1 136
Herpetology	2 972	-	2 972	-	2 972	-	2 972
Ornithology	7 834	-	7 834	-	7 834	-	7 834
Mammalogy	4 223	-	4 223	-	4 223	-	4 223
Library	4 761	-	4 761	4 337	16	408	16
Carrying Amount at 30 June	110 209	646	110 855	27 934	69 839	12 436	110 209

11. Payables

	2004 \$'000	2003 \$'000
Current:		
Creditors and accruals	253	93
Employee costs	56	45
Total Current Payables	309	138
Non-Current:		
Employee costs	80	70
Total Non-Current Payables	80	70
Total Payables	389	208

12. (a) Employee Benefits	2004	2003
Current:	\$'000	\$'000
Annual leave	259	240
Long service leave	60	53
Accrued salaries and wages	41	-
Total Current Employee Benefits	360	293
Non-Current:		
Long service leave	696	610
Total Non-Current Employee Benefits	696	610
Total Employee Benefits	1 056	903
(b) Employee Benefits and Related On-Costs		
Accrued Salaries and Wages:		
Included in payables - Current (Refer Note 11)	7	-
Provision for employee benefits - Current (Refer Note 12(a))	41	-
Total Accrued Salaries and Wages	48	-
Annual Leave:		
Included in payables - Current (Refer Note 11)	42	39
Provision for employee benefits - Current (Refer Note 12(a))	259	240
Total Annual Leave	301	279
Long Service Leave:		
Included in payables - Current (Refer Note 11)	7	6
Provision for employee benefits - Current (Refer Note 12(a))	60	53
Included in payables - Non-current (Refer Note 11)	80	70
Provision for employee benefits - Non-current (Refer Note 12(a))	696	610
Total Long Service Leave	843	739
Total Employee Benefits and Related On-Costs	1 192	1 018
13. Provisions		
Current:		
Provisions for workers compensation	31	24
Total Current Provisions	31	24
Non-Current:		
Provisions for workers compensation	72	68
Total Non-Current Provisions	72	68
Total Provisions	103	92
Reconciliation of the Provision for Workers Compensation		
Provision at the beginning of the financial year	92	24
Increase in provision during the year	11	68
Provision for Workers Compensation at the End of the Financial Year	103	92
14. Equity		
Retained profits	133 428	133 375
Asset revaluation reserve	13 957	13 957
Total Equity	147 385	147 332
Retained Profits		
Balance at the beginning of the financial year	133 375	61 720
Operating profit from ordinary activities	53	2 440
Assets brought to account for the first time	-	69 215
Balance at the End of the Financial Year	133 428	133 375
Asset Revaluation Reserve		
Balance at the beginning of the financial year	13 957	1 521
Increment in Heritage Collections due to revaluation	-	12 436
Balance at the End of the Financial Year	13 957	13 957

15. Financial Instruments**(a) Terms, Conditions and Accounting Policies**

Financial Instrument	Note	Account Policies and Methods	Nature of Underlying Instrument
Financial Assets			
Cash assets	18	Cash at bank is recorded at its nominal amount. Interest revenue is recorded on an accrual basis although some funds held within the total cash balance are non-interest bearing.	Interest is calculated based on the average daily balances of the interest bearing funds. The interest bearing funds of the Museum Board are the Special Deposit Account titled 'Arts South Australia Operating Account' and the Deposit Account titled 'Museum Board Bequests Account'. The interest rate is the Treasurer's Approved Rate of Interest on Deposit Accounts, which is currently 5.1 percent as at 30 June 2004.
Receivables		Receivables are recorded at amounts due to the Museum Board. They are recorded when services have been completed.	Receivables are due within 30 days.
Financial Liabilities			
Payables	11	Payables are recorded at the agreed amounts at which the liabilities are to be settled. They are recorded when invoices are received.	Terms of payment are 30 days unless otherwise agreed in the terms and conditions of individual contracts.

(b) Interest Rate Risk

The effective weighted average interest rate risk is outlined below for the following financial assets and liabilities.

	2004				2003			
	Interest Rate Percent	Interest Bearing Floating Rate \$'000	Non-Interest Bearing \$'000	Total \$'000	Interest Rate Percent	Interest Bearing Floating Rate \$'000	Non-Interest Bearing \$'000	Total \$'000
Financial Assets:								
Cash assets	5.10	2 540	3	2 543	4.60	2 338	3	2 341
Receivables		-	210	210		-	180	180
		2 540	213	2 753		2 338	183	2 521
Financial Liabilities:								
Payables		-	253	253		-	93	93
		-	253	253		-	93	93

(c) Net Fair Values of Financial Assets and Liabilities

	Note	2004		2003	
		Total Carrying Amount \$'000	Net Fair Value \$'000	Total Carrying Amount \$'000	Net Fair Value \$'000
Financial Assets:					
Cash assets	18	2 543	2 543	2 341	2 341
Receivables		210	210	180	180
		2 753	2 753	2 521	2 521
Financial Liabilities:					
Payables	11	253	253	93	93
		253	253	93	93

The net fair value is determined as the carrying value of all assets and liabilities.

(d) Credit Risk Exposure

The Museum Board's maximum exposure to credit risk at reporting date in relation to financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Museum Board has no significant exposures to any concentrations of credit risk.

16. Commitments for Expenditure**Operating Lease Commitments**

Commitments under non-cancellable operating leases at the reporting date are not recognised as liabilities in the financial report, are payable as follows:

	2004 \$'000	2003 \$'000
Not later than one year	287	421
Later than one year and not later than five years	417	515
Later than five years	-	77
Total Operating Lease Commitments	704	1 013

16. Commitments for Expenditure (continued)

The operating lease commitments comprise:

- Non-cancellable property leases, with rental payable monthly in arrears. Contingent rental provisions within the lease agreements require the minimum lease payments to be increased by 5.5 percent per annum or the Consumer Price Index. Options exist to renew the leases at the end of their terms for a further five years.
- Non-cancellable motor vehicle leases, with rental payable monthly in arrears. No contingent rental provisions exist within the lease agreements and no options exist to renew the leases at the end of their terms.
- A non-cancellable photocopier lease, with rental payable monthly in arrears. No contingent rental provisions exist within the lease agreement and no option to renew the lease at the end of its term.

Capital Commitments

Capital expenditure under contract at the reporting date but are not recognised as liabilities in the financial report, are payable as follows:

	2004	2003
	\$'000	\$'000
Not later than one year	302	-
Later than one year and not later than five years	-	-
Later than five years	-	-
Total Capital Commitments	302	-

17. Contingent Liabilities

There are no known contingent liabilities as at 30 June 2004.

18. Cash Flow Reconciliation**Reconciliation of Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the items in the Statement of Financial Position as follows:

	2004	2003
	\$'000	\$'000
Deposits with Treasurer	2 540	2 338
Cash on hand	3	3
Cash as Recorded in the Statement of Financial Position	2 543	2 341

Reconciliation of Net Cash Inflows from Operating Activities to Operating Profit from Ordinary Activities

Operating Profit from Ordinary Activities	53	2 440
Less Non-Cash Items:		
Depreciation of property, plant and equipment	987	989
Donations of heritage assets	(645)	(508)
Changes in Assets and Liabilities:		
(Increase) Decrease in assets	(10)	(84)
Increase (Decrease) in liabilities	345	248
Movement in liabilities attributed to investing activities	(139)	-
Net Cash Inflows from Operating Activities	591	3 085

19. Events After Balance Date

There were no events occurring after balance date.

DEPARTMENT OF THE PREMIER AND CABINET

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Department is an Administrative Unit established pursuant to the *Public Sector Management Act 1995*.

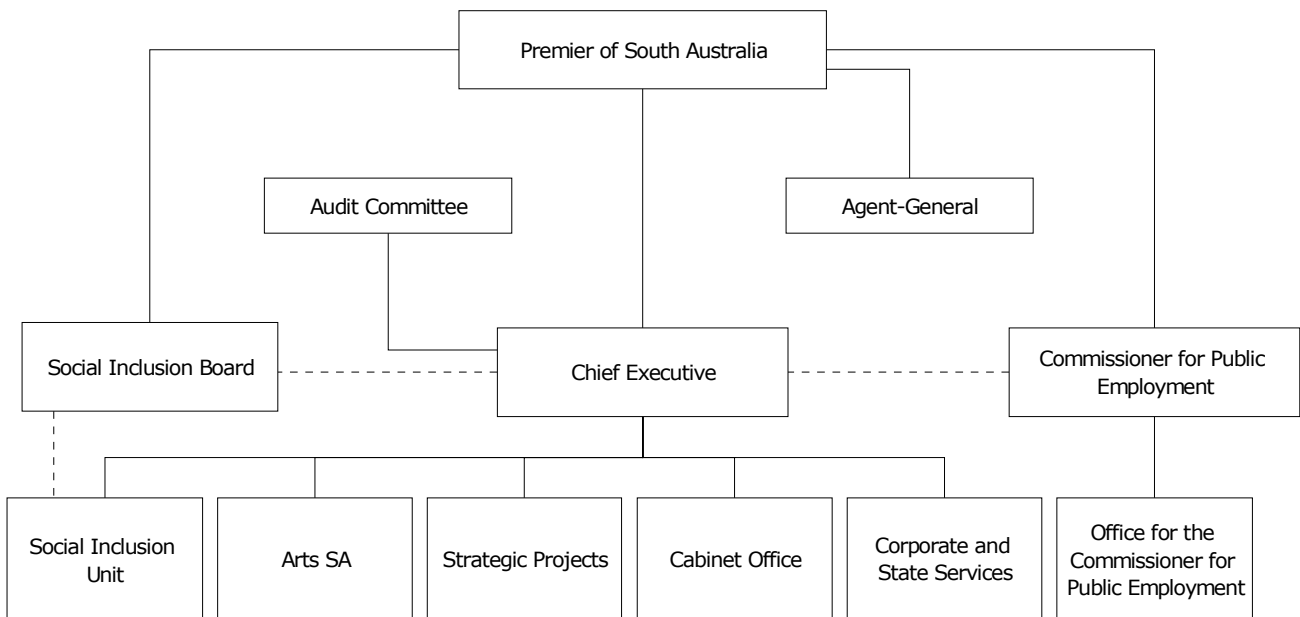
Functions

The purpose of the Department is to support the Premier, Cabinet and Executive Council in the development of a competitive, creative and well managed State. This is achieved through providing the Premier, Cabinet and Executive Council with assistance in developing policies; identifying and providing strategic advice on emerging issues and opportunities; and providing leadership and direction to the public service to achieve management improvements.

To facilitate the achievement of these objectives, the Department has been organised on a broadly functional basis, comprising a number of branches and offices which perform distinct roles consistent with the charter of the Department.

Structure

The structure of the Department of the Premier and Cabinet is illustrated in the following organisation chart.



Changes to Functions and Structure

Department Restructure

The Department of the Premier and Cabinet was restructured during the year. The restructure has resulted in the following agency transfers:

Transfers in:

- Business and Skilled Migration Unit, a division of the Department of Business, Manufacturing and Trade transferred to the Department of the Premier and Cabinet effective 1 January 2004.

Transfers out:

- Public Sector Workforce Relations Division transferred to the Department for Administrative and Information Services effective from 11 August 2003.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Department of the Premier and Cabinet for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the Department of the Premier and Cabinet in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- budgetary control
- revenue
- expenditure
- payroll
- grants management
- fixed assets
- general ledger
- strategic projects
- contractors/consultants
- financial operations of the Agent-General's Office.

In addition to the audit of financial systems and controls, the scope of audit included a review of the expression of interest process undertaken by Arts SA for the Southern Cross Replica aircraft and subsequently reviewed by the Prudential Management Group.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Department of the Premier and Cabinet as at 30 June 2004 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the Department of the Premier and Cabinet in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters of Payroll and Strategic Projects which are commented upon under 'Matters Raised with the Department', are sufficient to provide reasonable assurance that the financial transactions of the Department of the Premier and Cabinet have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. Responses to the management letters were generally considered to be satisfactory.

Matters Raised with the Department

The key issues raised with the Chief Executive were in relation to:

- *Payroll*

Audit reported on the need for the Department to establish policies and procedures in relation to the maintenance, review and authorisation of timesheets, bona fide certificates and leave reports in respect of those employees paid through the DAIS Payroll Bureau Service.

In its response, the Department advised that the policies and procedures will be reviewed during 2004-05.

- *Strategic Projects - Office for Volunteers*

The Audit review identified the need for the Department to establish policies and procedures for the grants approval process and ensure that the performance agreements are in place for all grants paid.

The Department advised that it will, through its Internal Audit Committee, review grant policies and procedures in 2004-05.

The audit also highlighted opportunities for the Department to strengthen its internal controls in the following areas:

- *Contractors/Consultants*

The existing policies and procedures with regard to the engagement of contractors/consultants do not necessarily provide appropriate guidance with respect to:

- tender process protocols;
- risk management practices to be undertaken through the process of engaging contractors/consultants and that these risks are appropriately managed throughout the procurement process;
- contract disclosure requirements.

The Department has advised that action has been taken to address the issues raised.

- *Agent-General's Office*

The existing policies and procedures in respect to payroll and bank reconciliations could be further enhanced.

In its response, the Department has advised of the action it has taken to address the issues raised by Audit.

Southern Cross Replica Aircraft - Expression of Interest (EOI) Process

This matter has been the subject of public interest and in this context should, in my opinion, be fully explained from an audit point of view.

On 10 June 2003, the South Australian Government, through Arts SA, advertised for expressions of interest (EOI) for the ownership and operation of the Southern Cross Replica aircraft. The closing date for receipt of the expressions of interest was 8 July 2004.

The advertisement advised the South Australian Government's wish to gift the aircraft to a not-for-profit community or organisation on conditions as follows:

- The organisation has the ability to repair the aircraft to airworthiness test licence standards.
- The aircraft is to be owned and operated from South Australia.
- The aircraft flies regularly in South Australian skies.
- The organisation provides evidence of its financial viability.

By the closing date of 8 July 2003, EOI submissions had been received from four organisations, namely:

- Southern Cross Replica Association Inc.
- Historical Aircraft Restoration Society Inc.
- The South Australian Aviation Museum Inc.
- The Encounter Coast Aerospace Museum Inc.

The respondent submissions were evaluated. Arts SA, in a submission dated 4 September 2003 to the Minister Assisting the Premier in the Arts, recommended a respondent organisation to own and operate the aircraft.

The Minister did not approve the recommendation. Rather the Minister requested that the Prudential Management Group (PMG) assess the EOI process that had been conducted and the reasonableness of the resultant recommendation.

The PMG identified certain issues associated with the EOI process that were in need of addressing to ensure fairness and reasonableness of the process. The issues relating to the evaluated respondent submissions were:

- the original submission received from the Historical Aircraft Restoration Society Inc. (HARS) prior to 8 July 2003 was not its full submission. While its submission, including a financial report, related on matters relevant to the conditions of the EOI, it indicated that should its expression of interest succeed, it proposed to submit a full submission.

Prior to the EOI advertisement on 10 June 2003, Arts SA made telephone contact with interested organisations based in South Australia and provided information on which to base their EOI submissions. HARS was not contacted as it was an interstate based organisation and not expected to express an interest, as a condition of the EOI was that the aircraft be owned and operated from South Australia.

In recognition of the above, Arts SA allowed HARS to submit a full submission. The submission was received on 31 July 2003. The submission conveyed that HARS was seeking advice to become a registered incorporated society in South Australia.

The PMG identified that the EOI process involved the reliance by interested parties on being made aware, informally, of information on which to base their EOI submissions. When HARS expressed interest without benefit of this information, HARS was allowed additional time to submit a full submission. The PMG considered that Arts SA should have explained to all parties that it was giving HARS additional time to submit a full submission, and the reasons for doing so;

- the original submission received from The Encounter Coast Aerospace Museum Inc. sought government funding to repair and contribute to the future operation and maintenance of the aircraft. The funding sought was significantly above the Government's contemplated 'once-off' repair assistance funding of \$187 000. This amount equated to the amount of insurance monies received by the Government after the aircraft crash landed in May 2002. As the Government intended only to pass on the \$187 000 insurance payout to the successful respondent, the submission was assessed as non-conforming and not subject to detailed evaluation.

The PMG indicated that the EOI advertisement did not specify the amount of 'once off' government funding of \$187 000. As such the PMG considered that the submission should have been subject to detailed evaluation.

The PMG forwarded a letter of advice to the Minister on 1 October 2003 providing advice of specific action that was required to be taken to address the issues that had been identified by the PMG.

The advice indicated that letters should be forwarded to all four respondents to the EOI. The audit process confirmed that Arts SA forwarded letters to all respondents. The letters prepared with advice from PMG were forwarded on 17 October 2003.

The letters advised the respondents of some ambiguities in the EOI process as well as some misunderstanding of the process itself. The letters sought from the respondents any amendments to their respective original offers or any further information in support of their respective original offers. The closing date for responses was 3 November 2003. No amendments were advised to Arts SA in respect of the respondents respective original submissions.

Arts SA forwarded a final submission, dated 6 November 2003, to the Minister Assisting the Premier in the Arts, regarding the outcome of the overall EOI process. The submission recommended the transfer of ownership of the aircraft to HARS and this was approved by the Minister.

All respondents were subsequently advised in writing of the approval to transfer ownership of the aircraft to HARS. The letter to HARS conveyed that the transfer was subject to HARS establishing an incorporated association in South Australia. HARS became registered as an incorporated association in South Australia on 15 April 2004.

In conclusion, the audit review revealed that certain issues requiring remedial action in relation to the EOI process were identified in the PMG's review of the process. The PMG forwarded advice to the Minister and Arts SA of specific action that was required to be taken to address issues of fairness and reasonableness relating to the process. Audit as part of its review process confirmed that the remedial action as recommended by the PMG was undertaken.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004 \$'million	2003 \$'million	Percentage Change
OPERATING REVENUE			
Revenues from SA Government	135.8	144.5	(6)
Fees and charges	4.1	5.1	(19)
Other	9.1	6.3	44
Total Operating Revenue	149.0	155.9	(4)
OPERATING EXPENDITURE			
Employment expenses	27.1	27.9	(3)
Grants and subsidies	92.7	106.7	(13)
Payments to SA Government	5.3	-	
Other expenses	22.7	27.1	(16)
Total Operating Expenses	147.8	161.7	(9)
Net Result before Restructuring	1.2	(5.8)	
Net Cash Flows from Operations	3.2	3.8	
ASSETS			
Current assets	37.4	34.5	8
Non-current assets	21.0	21.3	(1)
Total Assets	58.4	55.8	5
LIABILITIES			
Current liabilities	6.9	5.5	25
Non-current liabilities	4.7	5.4	(13)
Total Liabilities	11.6	10.9	6
EQUITY	46.8	44.9	4

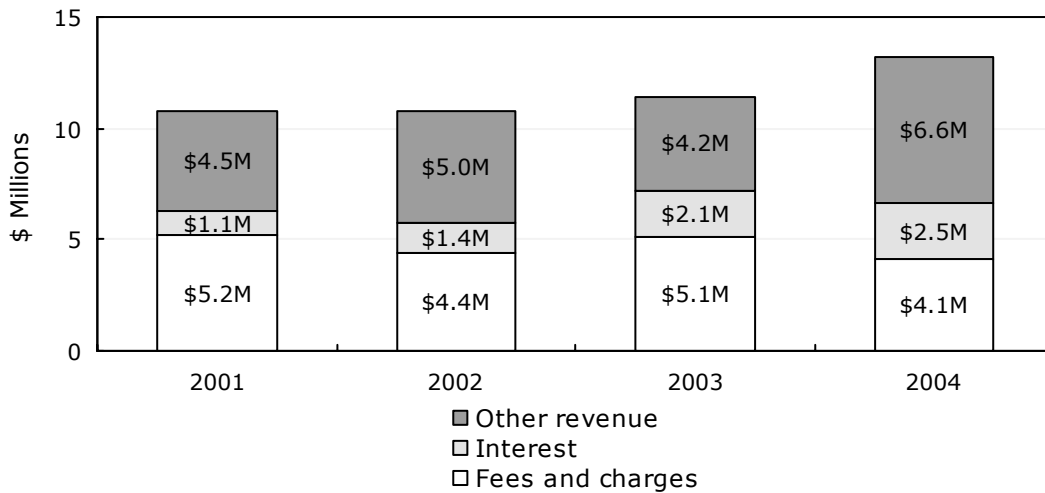
Statement of Financial Performance

Revenues from Ordinary Activities

Revenues from Ordinary Activities for the year totalled \$13.2 million (\$11.4 million), an increase of \$1.8 million. This increase is attributable mainly to:

- revenues received for the first time in 2003-04 in relation to a number of new initiatives that the Department assumed responsibility for totalled \$815 000. Refer Note 11.
- funding for the Business and Skilled Migration Unit which transferred to the Department on 1 January 2004 totalled \$500 000
- reimbursements for TVSPs paid during the year totalled \$390 000.

A structural analysis of operating revenues for the Department in the four years to 2004 is presented in the following chart.



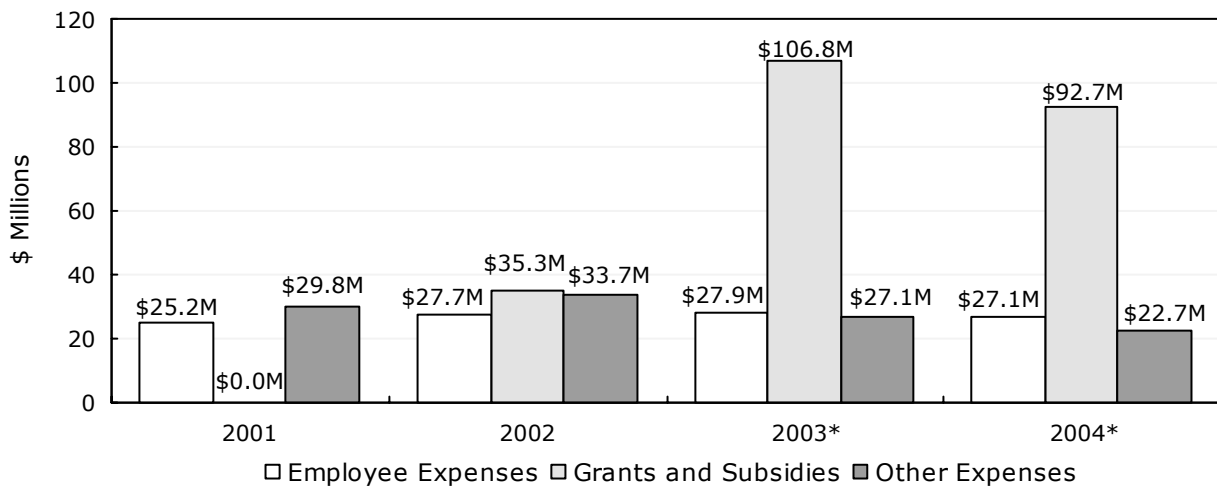
Expenses from Ordinary Activities

Expenses from Ordinary Activities totalled \$142.5 million (\$161.7 million). This represents a decrease of \$19.2 million (12 percent). This decrease is attributable mainly to:

- a decrease in grants and subsidies of \$14.1 million, of which \$13.6 million relates to a decrease in funding to the State Library. In 2003-04 the State Library received grants from Arts SA totalling \$32 million as compared to \$45.6 million in 2002-03. The decrease relates mainly to capital funding received in the previous year for the State Library redevelopment.
- a decrease in the funding transfer to the Government Workers Rehabilitation and Compensation Scheme as a result of this Unit transferring to the Department for Administrative and Information Services on 11 August 2003. In 2003-04, the Department transferred funds totalling \$295 000 as compared to \$5.3 million in 2002-03.

Grants and Subsidy payments for the year totalled \$92.7 million (\$106.8 million). This represents 65 percent (66 percent) of Expenses from Ordinary Activities.

For the four years to 2004, a structural analysis of the main operating expense items for the Department is shown in the following chart.

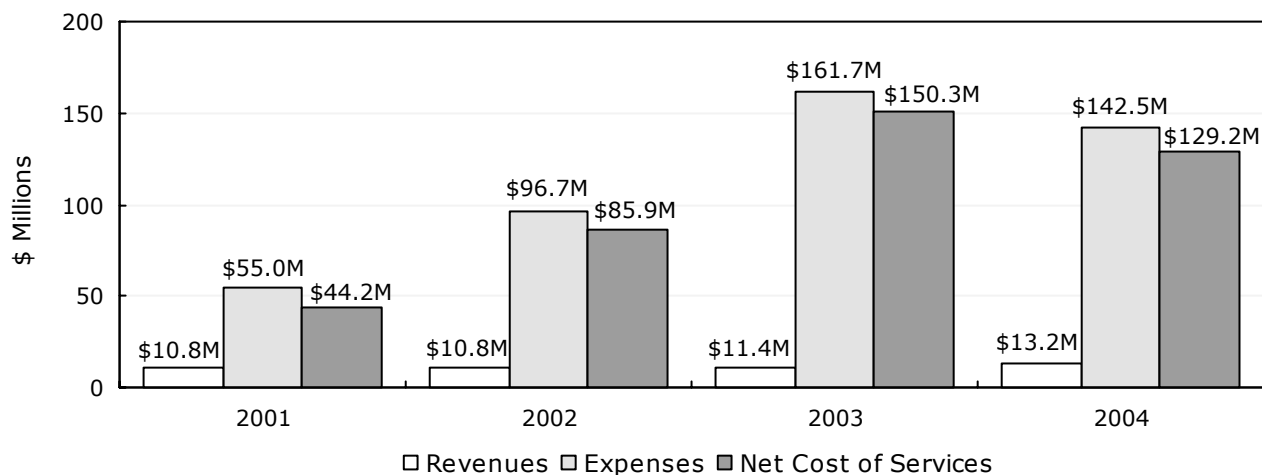


* The increase in grants and subsidies payments in 2003 and 2004 reflect the transfer of Arts SA to the Department in April 2002.

Net Cost of Services

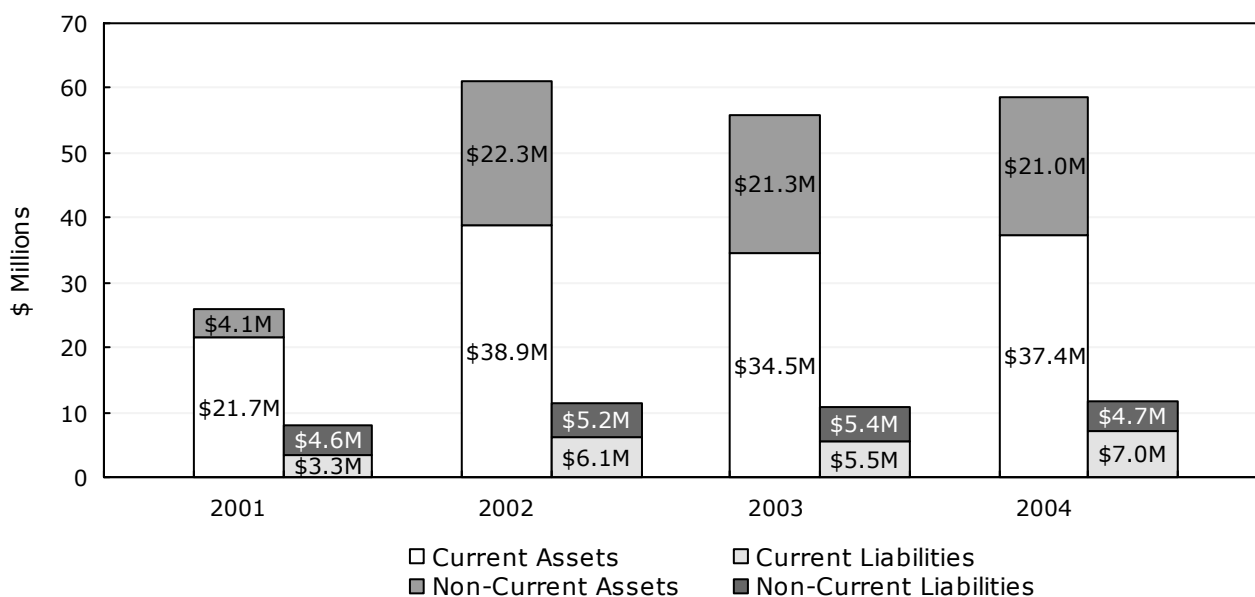
The Net Cost of Services from Ordinary Activities decreased by \$21.4 million to \$128.9 million. The decrease is attributable mainly to a decrease in Total Expenses from Ordinary Activities of \$19.6 million as explained under Operating Expenses above.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2004.



Statement of Financial Position

For the four years to 2004, a structural analysis of assets and liabilities is shown in the following chart.



Administered Items

Responsibility for Administered Items

The Department has responsibility for administering the Targeted/Voluntary Separation Package Schemes Fund. Details of the audit coverage and the financial statements relating to the operations of the Fund is included after the Department's Financial Statements.

The Department is also responsible for administering the Social Inclusion Initiative, a new initiative introduced by the Government in 2003-04. Revenues and expenses administered by the Department in relation to this initiative totalled \$8.3 million and \$8 million respectively.

These and other administered items are shown within the Administered Schedules which follow the Notes to the Financial Statements.

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee expenses	4	27 054	27 893
Supplies and services	5	17 456	18 834
Depreciation	6	1 058	1 256
Grants and subsidies	7	92 727	106 777
Other	8	4 167	6 989
Total Expenses		142 462	161 749
REVENUES FROM ORDINARY ACTIVITIES:			
Fees and charges	10	4 127	5 085
Commonwealth revenue		972	-
Grants and subsidies		575	765
Interest		2 483	2 118
Resources received free of charge		221	-
Other	11	4 857	3 435
Total Revenues		13 235	11 403
NET COST OF SERVICES		129 227	150 346
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:			
Appropriations		135 779	144 527
Payments to SA Government	27	(5 300)	-
Net Revenues from SA Government	12	130 479	144 527
NET RESULT BEFORE RESTRUCTURING		1 252	(5 819)
Increase in net assets due to administrative restructure	28	630	880
NET RESULT AFTER RESTRUCTURING		1 882	(4 939)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		1 882	(4 939)

**Statement of Financial Position
as at 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash	13	34 703	31 712
Receivables	14	2 699	2 738
Prepayment		-	53
Inventories	15	16	16
Total Current Assets		37 418	34 519
NON-CURRENT ASSETS:			
Receivables	14	64	112
Property, plant and equipment	16	20 915	21 130
Works of art	16	47	47
Total Non-Current Assets		21 026	21 289
Total Assets		58 444	55 808
CURRENT LIABILITIES:			
Payables	17	2 981	2 171
Employee benefits	18	2 998	2 477
Provision for workers compensation	19	80	86
Other	20	896	784
Total Current Liabilities		6 955	5 518
NON-CURRENT LIABILITIES:			
Payables	17	461	528
Employee benefits	18	4 021	4 595
Provision for workers compensation	19	189	232
Other	20	28	27
Total Non-Current Liabilities		4 699	5 382
Total Liabilities		11 654	10 900
NET ASSETS		46 790	44 908
EQUITY:			
Retained surplus	21	40 598	38 716
Asset revaluation reserve	21	6 192	6 192
TOTAL EQUITY		46 790	44 908
Commitments for Expenditure	23		
Contingent Liabilities	24		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows	Inflows
		(Outflows)	(Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:			
Payments to Government		(5 300)	-
Employee Payments		(26 124)	(27 542)
Supplies and services		(17 122)	(18 944)
Grants and subsidies		(92 773)	(106 727)
GST payments on purchases		(6 515)	(8 193)
Other		(3 906)	(6 632)
Total Outflows		(151 740)	(168 038)
CASH INFLOWS:			
Receipts from Government		135 779	144 527
Fees and charges		4 132	4 759
Receipts from Commonwealth		948	-
Receipts from grants and subsidies		572	765
Interest received		2 437	2 156
GST receipts on receivables		968	1 037
GST input tax credits		5 432	6 724
Other		4 709	4 315
Total Inflows		154 977	164 283
Net Cash Inflows (Outflows) from Operating Activities	25	3 237	(3 755)
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of property, plant and equipment		(838)	(601)
Total Outflows		(838)	(601)
Net Cash Outflows from Investing Activities		(838)	(601)
CASH FLOWS FROM FINANCING ACTIVITIES:			
CASH INFLOWS:			
Net cash flows from restructuring	27	342	300
Proceeds from loan repayments		250	688
Net Cash Inflows from Financing Activities		592	988
NET INCREASE (DECREASE) IN CASH HELD		2 991	(3 368)
CASH AT 1 JULY		31 712	35 080
CASH AT 30 JUNE	13	34 703	31 712

**Program Schedule of Expenses and Revenues
for the year ended 30 June 2004**

		2004			
		Program	Program	Program	Program
		1	2	3	4
		(refer Note 3)			
		\$'000	\$'000	\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:					
Employee expenses		14 526	490	6 519	702
Supplies and services		10 367	503	3 259	463
Depreciation		787	-	-	9
Grants and subsidies		1 059	490	146	32 317
Other		2 934	5	329	102
Total Expenses		29 673	1 488	10 253	33 593
REVENUE FROM ORDINARY ACTIVITIES:					
Fees and charges		419	7	957	362
Commonwealth revenue		661	-	21	-
Grants and subsidies		200	-	8	-
Interest		1 349	-	-	161
Resources received free of charge		-	-	-	-
Other		2 014	1	580	270
Total Revenue		4 643	8	1 566	793
Net Cost of Services from Ordinary Activities		25 030	1 480	8 687	32 800
		Program	Program	2004	2003
		5	6	Total	Total
		\$'000	\$'000	\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:					
Employee expenses		2 807	2 010	27 054	27 893
Supplies and services		1 180	1 684	17 456	18 834
Depreciation		25	237	1 058	1 256
Grants and subsidies		18 571	40 144	92 727	106 777
Other		227	570	4 167	6 989
Total Expenses		22 810	44 645	142 462	161 749
REVENUE FROM ORDINARY ACTIVITIES:					
Fees and charges		2 100	282	4 127	5 085
Commonwealth revenue		-	290	972	-
Grants and subsidies		-	367	575	765
Interest		326	647	2 483	2 118
Resources received free of charge		221	-	221	-
Other		530	1 462	4 857	3 435
Total Revenue		3 177	3 048	13 235	11 403
Net Cost of Services from Ordinary Activities		19 633	41 597	129 227	150 346
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:					
Appropriations				135 779	144 527
Payments to SA Government				5 300	-
Net Revenues from SA Government				130 479	144 527
NET OPERATING SURPLUS (DEFICIT)				1 252	(5 819)

The allocation to programs is indicative and is based on broad costing methodologies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Department of the Premier and Cabinet

The Department of the Premier and Cabinet has a number of key roles in assisting the Premier and his Cabinet, these include:

- provide the Premier and Cabinet with a whole of government perspective which promotes and facilitates an integrated approach to government policy development and services;
- identify and provide strategic advice and assistance to the Premier and Cabinet on emerging issues, projects and opportunities to promote the State's competitiveness and future prosperity;
- adopt a whole of government and whole of community approach to facilitate integrated services which better meets the needs of the community;
- support and promote volunteering across the State and build capacity of volunteer organisations in communities;
- provide protocol management and advice to the Premier, Cabinet, government agencies, private sector and general public;
- provide the Premier and Cabinet with responsive, relevant service through the most effective use of staff and departmental resources and systems;
- to advance the cultural, social and economic well-being of South Australians through the development of a vital and creative arts sector.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

The financial report is a general purpose financial report. The accounts have been prepared in accordance with:

- Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act 1987*;
- Applicable Australian Accounting Standards;
- Other mandatory professional reporting requirements in Australia.

The Department's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The continued existence of the Department in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by the Parliament for the Department's administration and outputs.

2.2 Reporting Entity

The financial report encompasses all activities transacted through an interest bearing Special Deposit Account entitled 'Department of the Premier and Cabinet Operating Account' and any other Funds through which the Department controls resources to carry out its functions.

The Department's principal source of funds consists of monies appropriated by Parliament. The Department is made up of a consolidation of the Department of the Premier and Cabinet and Arts SA (Arts SA consolidates Artlab Australia).

Administered Resources

The Department administers, but does not control, certain resources on behalf of the South Australian Government. It is accountable for the transactions involving those administered resources, but does not have the discretion to deploy the resources for achievement of the Department's objectives. For these resources, the Department acts on behalf of the South Australian and Commonwealth Governments.

Transactions and balances relating to these administered resources are not recognised as Departmental revenues and expenses but are disclosed in the applicable schedules.

Trust Funds

The Department has received monies in a trustee capacity for various trusts as set out in the Administered Items schedule. As the Department performs only a custodial role in respect of these monies, and because the monies cannot be used for achievement of the Department's objectives, they are not brought to account in the financial report, but are disclosed in the applicable schedules.

2.3 Changes in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia will be adopting the Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Department will adopt these standards for the first time in the published financial report for the financial year ended 30 June 2006.

Managing the Process

The Department's financial services are provided by Arts SA, Business Services, a unit of the Department of the Premier and Cabinet. Business Services is coordinating the adoption of the Australian equivalents to the International Financial Reporting Standards in conjunction with the Department of Treasury and Finance (DTF).

2.3 Changes in Accounting Policies (continued)

To obtain an understanding of the new standards and the resulting effect on the financial reports, representatives from Business Services attend information forums facilitated by DTF, professional bodies and private sector accountancy firms. Business Services representatives attend the Exposure Draft Reference Group meetings, which review Exposure Drafts released by the Australian Accounting Standards Board (AASB), provide comment and feedback to the AASB on the content of the Exposure Drafts and the resulting pending Standards.

The Department will also adopt the DTF Model Financial Report for SA Government Departments as from 30 June 2004 as required by Accounting Policy Statement 13 'Form and Content of General Purpose Financial Report'. The application of the DTF Model Financial Report complies with Generally Accepted Accounting Principles (GAAP), Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements.

Business Services is reviewing and analysing Exposure Drafts and pending Australian Accounting Standards for expected differences in accounting policies as a result of the adoption of the Australian equivalents to the IFRS. A project plan has been prepared which identifies key activities to be undertaken to adopt the AIFRS, and the working papers required by AASB 1 'First-Time Adoption of the Australian International Financial Reporting Pronouncements'.

Expected Differences in Accounting Policies

The key differences in accounting policies applied to the Department's financial reports expected to result from the adoption of the Australian equivalents to the IFRS are outlined below.

- *Changes in Accounting Policies*
The pending accounting standard, AASB 1 'First-Time Adoption of Australian Equivalents to International Financial Reporting Pronouncements', will now require the retrospective application of changes in accounting policies. This requires the restatement of comparative information except for specific exemptions as listed in AASB 1. This is a major difference in accounting policy.
- *Non-Current Asset Acquisition and Recognition*
Pending accounting standard AASB 116 'Property, Plant and Equipment' is proposing that non-current assets for Not-For-Profit entities are required to be revalued on an individual basis rather than by class of asset. DTF has indicated that an Accounting Policy Statement may be issued to require revaluation on an asset class basis rather than an individual basis.
- *Employee Benefits*
Pending accounting standard AASB 119 'Employee Benefits' is proposing that Employee Benefits, including long service leave and annual leave, payable later than 12 months from the end of the financial year, are to be measured at present value. Currently under the existing accounting standard AASB 1028 'Employee Benefits', employee benefits payable later than 12 months are measured at nominal amounts.

2.4 Transferred Function

The Public Sector Workforce Relations Division transferred to the Department for Administrative and Information Services effective 11 August 2003. The Public Sector Workforce Relations Division assists the Government to achieve its economic development and social goals, working with the parameters of relevant legislation and government policy, by providing:

- employee relations services which achieve, as far as possible, consistent and equitable employee relations practices, procedures and outcomes for employment in the public sector;
- occupational health, safety and injury management services, including a strategic monitoring and consulting role to the Premier, Cabinet and Chief Executives across the public sector; and
- strategic policy and projects, developing high-level strategic human resource management policy advice, and initiating and managing significant projects involving public sector wide outcomes.

The Business and Skilled Migration Unit (Immigration SA) transferred from the Department of Business, Manufacturing and Trade to the Department of the Premier and Cabinet effective 1 January 2004. The Unit is responsible for all matters to do with State migration, including the processing of State Sponsorship for businesses and skilled migrants, managing Immigration SA, and the development of State immigration policy.

2.5 Fees and Charges

Fees and charges controlled by the Department are recognised as revenues. Fees and charges are controlled by the Department where they can be deployed for the achievement of Departmental objectives. Such amounts are not required to be paid to the Consolidated Account or other Funds not controlled by the Department.

2.6 Appropriations

Appropriations, whether operating, investing or other, are recognised as revenues when the Department obtains control over the assets comprising the contributions. Control over appropriations is normally obtained upon their receipt.

2.7 Foreign Currency

Assets and liabilities that are in a foreign currency have been brought into the accounts at the exchange rate applying at 30 June. Income and expenses arising from transactions in a foreign currency are brought to account at the average exchange rate that applied during the period in which they occurred. Unrealised losses resulting from currency transactions have been brought to account in the Statement of Financial Performance.

2.8 Non-Current Assets

All non-current assets controlled by the Department are reported in the Statement of Financial Position. In accordance with the transitional provisions of Australian Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' and Accounting Policy Statement 3 'Valuation of Non-Current Assets', the Department has continued to apply the deprival value methodology as the basis of valuing its non-current assets until 30 June 2005.

Buildings and Improvements, Furniture and Fittings were revalued as at 30 June 2002 by Rushton Group Australia Pty Ltd (refer Note 16). Valuations of Departmental Land, Buildings and Improvements held for cultural purposes were determined as at 30 June 2002 by the Australian Valuation Office.

2.9 Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable non-current asset over its expected useful life. Estimates of remaining useful lives are reviewed on a regular basis for all assets. The estimated useful lives of each asset class are as follows:

	Years
Buildings and improvements	10-40
Furniture and fittings	5-15
Office equipment	3
Systems development	3-5
Motor vehicles	5

Works of Art controlled by the Department are anticipated to have very long and indeterminate useful lives. Their service potential has not, in any material sense, been consumed during the reporting period. Consequently, no amount for depreciation has been recognised for this class of asset.

2.10 Employee Benefits*(i) Wages and Salaries*

Liabilities for wages and salaries are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) Annual Leave

A liability for annual leave is calculated by determining the amount unpaid at the reporting date and estimating the nominal amount that is expected to be paid when the obligation is settled, as directed in the Accounting Policy Statements.

(iii) Long Service Leave

A liability for long service leave is calculated by using the product of the current liability in time for all employees who have completed seven or more years of service and the current rate of remuneration for each of these employee respectively. The seven years has been based on an actuarial calculation as stated in Accounting Policy Statement 9 'Employee Benefits'. The portion of current and non-current long service leave is based on past history of payments and any specific known factors. The current liability is measured at the nominal amount that is expected to be paid when the obligation is settled and a salary inflation rate of 4 percent is applied. The non-current liability is measured as the amount unpaid at the reporting date.

(iv) Superannuation

The Department makes contributions to several superannuation schemes operated by the State Government. These contributions are treated as an expense when they occur. There is no liability for payment to beneficiaries as they have been assumed by the Superannuation Funds. The only liability outstanding at balance date related to any contribution due but not yet paid to the superannuation schemes.

(v) Employment On-costs

The liability for employment on-costs includes superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave. These amounts are classified under Payables.

2.11 Workers Compensation Provision

A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on an actuarial assessment performed by the Public Sector Occupational Health and Injury Management Branch of the Department for Administrative and Information Services.

2.12 Leases

The Department has entered into a number of operating lease agreements for buildings and office equipment where the lessors effectively retain all of the risks and benefits incidental to ownership of the items held under the operating leases.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Statement of Financial Performance in the periods in which they are incurred.

2.13 Cash

For the purposes of the Statement of Cash Flows, cash includes cash deposits which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis. Cash is measured at nominal value.

In October 2003 the Government introduced a policy with respect to aligning agency cash balances with appropriation and expenditure authority. During 2003-04 the Department has not transferred any of its cash balance to the Consolidated Account.

2.14 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. The Department of the Premier and Cabinet has a clearly identifiable operating cycle of 12 months. Therefore assets and liabilities that will be realised as part of the normal operating cycle will be classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

2.15 Receivables

Trade receivables arise in the normal course of selling goods and services to other agencies and to the public. Trade receivables are payable within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

Other debtors arise outside the normal course of selling goods and services to other agencies and to the public. If payment has not been received within 90 days after the amount falls due, under the terms and conditions of the arrangement with the debtor, the Department of the Premier and Cabinet is able to charge interest at commercial rates until the whole amount of the debt is paid.

The Department of the Premier and Cabinet determines the provision for doubtful debts based on a review of balances within trade receivables that are unlikely to be collected. These are generally receivables that are 90 days or more overdue.

2.16 Inventories

Inventories are stated at the lower of cost or their net realisable value. Inventory is measured at cost, with cost being allocated in accordance with the first-in, first-out method. Net realisable value is determined using the estimated sales proceeds less costs incurred in marketing, selling and distribution to customers.

2.17 Payables

Payables include creditors, accrued expenses and employment on-costs.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Department of the Premier and Cabinet.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 'Expenditure for Supply Operations and Other Goods and Services' after the Department of the Premier and Cabinet receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

2.18 Accounting for the Goods and Services Tax (GST)

The accounting policies adopted for the treatment of Goods and Services Tax (GST) are in accordance with Urgent Issues Group Abstract 31 'Accounting for the Goods and Services Tax (GST)'. Input tax credits due from the Australian Taxation Office are included in receivables.

The Department prepares a Business Activity Statement on behalf of its administered entities under the grouping provisions of the GST legislation. Under these provisions, the Department is liable for the payment and entitled to the receipt of GST. As such, the GST applicable to these entities forms part of the Statement of Financial Position and Statement of Cash Flows of the Department.

2.19 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

2.20 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

3. Programs of the Department

Programs are defined as goods or services produced, provided to or acquired for external customers. The Department has identified six major classes of programs that it delivers to the community and the Premier. The identity and description of each major program class for the Department during the year ended 30 June 2004 is summarised below (refer to the Program Schedule – Department's Expenses and Revenues):

Program 1 - Executive Government

Support the Premier as Head of Government and Chair of Cabinet by providing high-level strategic advice and support, managing executive government processes, and coordinating and developing strategic projects and whole-of-government initiatives.

Program 2 - Office for Volunteers

Provision of services that facilitate and enhance a partnership between the Government and the volunteer sector for the benefit of the South Australian community; provision of policy and strategic advice that enhances the Government's capacity to identify, prioritise and respond appropriately to the needs of the volunteer community in South Australia; initiation of programs that support and promote volunteering.

Program 3 - Public Sector Human Resource Management

Provision of strategic human resource management planning, policy, advice, monitoring and reporting; improving capability and professionalism of the public sector through people development; and helping the Government achieve its economic development and social goals by providing employee relations services and occupational health, safety and injury management services.

Program 4 - Library and Information Services

Provision of information to the public, industry and government agencies and to fund services provided by PLAIN Central Services to public libraries.

Program 5 - Access to Art, Museum and Heritage Services and Preservation of State Collections

Provision of services that enable the State's cultural, heritage and arts assets to be maintained and to be accessible to the community.

Program 6 - Arts Industry Development and Access to Artistic Product

Provision of services that enhance opportunities for emerging artists, cultural tourism, festivals and events and provide for productions, exhibitions, tours and events to the community.

4. Employee Expenses	2004	2003
	\$'000	\$'000
Wages and salaries	18 892	19 884
TVSPs (refer below)	390	-
Employment on-costs	4 168	4 059
Annual leave	1 486	1 579
Long service leave	1 219	1 270
Board fees	119	133
Other employee related expenses	780	968
	27 054	27 893
Targeted Voluntary Separation Packages (TVSPs)		
TVSPs paid to 4 (nil) employees during the reporting period	390	-
Recovery from the Targeted Voluntary Separation Package Scheme Special Deposit Account	390	-
Annual leave and long service leave accrued over the period	145	-
Remuneration of Employees		
The number of employees whose remuneration received or receivable falls within the following bands:	Number of Employees	Number of Employees
Department of the Premier and Cabinet:		
\$100 000 - \$109 999	6	6
\$110 000 - \$119 999	7	5
\$120 000 - \$129 999	2	6
\$130 000 - \$139 999	7	6
\$140 000 - \$149 999	5	4
\$150 000 - \$159 999	1	1
\$160 000 - \$169 999	1	-
\$170 000 - \$179 999	2	6
\$180 000 - \$189 999	4	2
\$190 000 - \$199 999	1	-
\$200 000 - \$209 999	-	1
\$220 000 - \$229 999	-	1
\$240 000 - \$249 999	-	1
\$290 000 - \$299 999	-	1
\$300 000 - \$309 999	1	-
	37	40
Unattached Unit:		
\$100 000 - \$109 999	1	1
\$120 000 - \$129 999	1	3
\$130 000 - \$139 999	1	-
\$180 000 - \$189 999	-	1
	3	5
Total Number of Employees	40	45

The table includes all employees who received remuneration of \$100 000 or more during the year paid by the Department of the Premier and Cabinet. The total remuneration received by these employees for the year was \$5.7 million (\$6.6 million).

2004 figures include 6 (5) employees from Arts SA amounting to \$760 000 (\$649 000).

Remuneration of Employees (continued)

Unattached unit consists of *Public Sector Management Act 1995* employees who are unable to be placed in government agencies and authorities.

Remuneration of employees is calculated in accordance with APS 13, remuneration is defined to mean money, consideration or benefit but does not include amounts in payment or reimbursement of out-of-pocket expenses incurred for the benefit of the Department. The remuneration calculated includes salary, allowances, superannuation, vehicle, parking and fringe benefits tax paid.

Average number of employees during the reporting period: 327

5. Supplies and Services	2004	2003
	\$'000	\$'000
Accommodation	3 887	4 104
Telecommunication	634	622
Staff development and recruitment	839	903
General administration and consumables	2 263	2 544
Promotion, marketing	2 800	1 770
Repairs, maintenance and minor equipment purchases	466	542
Service level agreements	1 526	1 507
IT and computing charges	2 234	3 227
Professional fees	2 332	3 179
Other	475	436
	17 456	18 834

Payments to Consultants

The number and dollar amount of consultancies paid/payable that fell within the following bands:

\$0 - \$10 000
\$10 000 - \$50 000
Above \$50 000

	2004	2003
	Number of Employees	Number of Employees
	29	23
	10	8
	-	2
	39	33

The total payments to consultants was \$322 000 (\$428 000) in 2003-04.

6. Depreciation	2004	2003
	\$'000	\$'000
Depreciation was charged in respect of:		
Buildings and improvements	254	252
Furniture and fittings	393	324
Office equipment	384	448
Motor vehicles ⁽¹⁾	5	24
Systems development	22	208
	1 058	1 256

(1) Revision in Accounting Estimates

Depreciation on a motor vehicle differed between 2004 and 2003 because of a reassessment of the useful life of this asset. This has resulted in a decrease of \$20 000 in the amount of depreciation calculated on this asset in the 2004 financial year.

7. Grants and Subsidies	2004	2003
	\$'000	\$'000
Grants and subsidies paid/payable to entities within the SA Government:		
Recurrent grant	67 426	65 927
Capital grant	7 342	22 531
	74 768	88 458
Grants and subsidies paid/payable to entities external to the SA Government:		
Recurrent grant	17 932	18 107
Capital grant	27	212
	17 959	18 319
	92 727	106 777

The following details figures for grants and subsidies paid by Arts SA:

Lead Agency Art Grants:

Museum Board	7 780	8 982
Libraries Board of South Australia	31 983	45 639
Adelaide Festival Centre Trust	8 183	8 659
Art Gallery Board	6 270	5 725
Country Arts SA	5 229	4 633
South Australian Film Corporation	5 095	4 592
History Trust of South Australia	3 624	3 545
Adelaide Festival Corporation	2 515	3 019
State Opera of South Australia	1 346	1 034
South Australian Youth Arts Board	1 849	1 710
State Theatre Company of South Australia	1 732	1 597
Adelaide Symphony Orchestra	2 114	1 708

7. Grants and Subsidies (continued)	2004	2003
	\$'000	\$'000
Jam Factory of Contemporary Craft and Design	882	824
Australian Dance Theatre	850	1 140
Carrick Hill Trust	897	646
Tandanya	600	594
Windmill Performing Arts	1 000	1 000
Adelaide Fringe	853	403
Disability Information and Resource Centre (DIRC)	173	173
Community Information Strategies Australia (CISA)	161	161
Arts Industry Development Grants:		
Project assistance	2 267	2 771
General purpose assistance	2 854	2 747
Other arts grants	2 775	2 808
	91 032	104 110
8. Other Expenses from Ordinary Activities		
Appropriation transfer to DAIS for the management of the across Government building security upgrade program	1 850	-
Special Projects	819	669
Other	700	658
Funding transfer to Government Workers Rehabilitation and Compensation Scheme	295	5 322
Funding transfer to the Public Sector Workforce Relations Unit	296	-
National depression initiative	278	278
Bad and doubtful debts	(71)	62
	4 167	6 989
9. Auditors' Remuneration		
Audit fees paid/payable to the Auditor-General's Department	116	113
No other services were provided by the Auditor-General's Department.		
10. Fees and Charges		
Arts SA Industry related fees	2 744	2 798
DPC other recoveries	1 383	2 287
	4 127	5 085
11. Other Revenue		
TVSPs recoveries	390	-
Community Development Fund	900	650
Business Manufacturing and Trade Funding	500	-
Functions	223	-
Recoveries or reimbursements from or in relation to:		
Social Inclusion Homelessness Initiative	151	-
Administration of TVSP Fund	184	172
Economic Development Framework Implementation Unit	420	-
Promotion of the new Freightlink and Ghan	244	-
Adelaide City Council for the Capital City Project Team	164	235
Private industry	251	360
Conference fees	124	194
Arts SA industry related	238	103
Other	1 068	1 721
Total Other Revenue	4 857	3 435
12. Net Revenues from SA Government		
Appropriations from Consolidated Account pursuant to the <i>Appropriation Act</i>	137 660	144 527
Less: Appropriation administered on behalf of the Department for Administrative and Information Services	(1 881)	-
	135 779	144 527
Less: Transfer to SA Government (refer to Note 27)	(5 300)	-
	130 479	144 527
13. Cash		
Deposits at call - Westpac	28 223	25 870
Deposits with the Treasurer	6 447	5 810
Other	33	32
	34 703	31 712

Deposits with the Treasurer

Includes Accrual Appropriation Account and Surplus Cash Working Account balances. With the implementation of the cash alignment policy, it is anticipated there will be a reduction in the level of cash at June 2005.

14. Receivables							2004	2003
Current:							\$'000	\$'000
Receivables							1 813	1 860
Less provision for doubtful debts							(2)	(87)
Accrued revenues							142	96
GST receivable							746	869
Total Current Receivables							2 699	2 738
Non-Current:							64	112
Receivables							64	112
Total Non-Current Receivables							64	112
Total Receivables							2 763	2 850
15. Inventories							16	16
Work in progress							16	16
Total Inventories							16	16
16. Property, Plant and Equipment								
	Buildings and	Furniture	Office	Systems	Motor	Works	2004	
Valuation at Current Cost	Improvements	and	Equipment	Development	Vehicles	of Art	Total	
and Historical Cost:	\$'000	Fittings	\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at 30 June 2003	25 814	1 938	1 825	1 060	70	47	30 754	
Additions	100	11	85	7	-	-	203	
Assets transferred in	226	-	9	-	-	-	235	
Assets transferred out	-	-	(155)	(995)	-	-	(1 150)	
Work in progress	582	-	-	420	-	-	1 002	
Disposals	-	-	(26)	-	-	-	(26)	
Balance at 30 June 2004	26 722	1 949	1 738	492	70	47	31 018	
Accumulated Depreciation:								
Balance at 30 June 2003	(7 608)	(324)	(1 135)	(487)	(23)	-	(9 577)	
Disposals	-	-	26	-	-	-	26	
Assets transferred in	(5)	-	-	-	-	-	(5)	
Assets transferred out	-	-	78	480	-	-	558	
Depreciation expense	(254)	(393)	(384)	(22)	(5)	-	(1 058)	
Balance at 30 June 2004	(7 867)	(717)	(1 415)	(29)	(28)	-	(10 056)	
Net Book Value:								
Balance at 30 June 2004	18 855	1 232	323	463	42	47	20 962	
Balance at 30 June 2003	18 206	1 614	690	573	47	47	21 177	
Valuations of Buildings and Improvements, and Furniture and Fittings were determined as at 30 June 2002 by Rushton Group Australia Pty Ltd. Valuations of assets held by the office of the Agent General in London were determined as at 30 June 2002 by Wellingtons Estate Agents. The assets have been revalued using the net method as prescribed in AASB 1041 'Revaluation of Non-Current Assets'. Valuations of Department Land, Buildings and Improvements held for cultural purposes were determined as at 30 June 2002 by the Australian Valuation Office.								
17. Payables							2004	2003
Current:							\$'000	\$'000
Creditors and accrued expenses							2 533	1 804
Employment on-costs							448	367
Total Current Payables							2 981	2 171
Non-Current:							461	528
Employment on-costs							461	528
Total Non-Current Payables							461	528
Total Payables							3 442	2 699
18. (a) Employee Benefits								
Current:								
Annual leave							1 792	1 608
Long service leave							987	809
Accrued salaries and wages							219	60
							2 998	2 477
Non-Current:							4 021	4 595
Long service leave							4 021	4 595
							7 019	7 072
(b) Employee Benefits and related On-Costs								
Accrued Salaries and Wages:								
On-costs included in payables - Current (refer Note 17)							45	14
Provision for employee benefits - Current (refer Note 18(a))							219	60
Total Accrued Salaries and Wages							264	74

18.	(b) Employee Benefits and related On-Costs (continued)	2004	2003
	Annual Leave:	\$'000	\$'000
	On-costs included in payables - Current (refer Note 17)	290	260
	Provision for employee benefits - Current (refer Note 18(a))	1 792	1 608
	Total Annual Leave	2 082	1 868
	Long Service Leave:		
	On-costs included in payables - Current (refer Note 17)	113	93
	Provision for employee benefits - Current (refer Note 18(a))	987	809
	On-costs included in payables - Current (refer Note 17)	461	528
	Provision for employee benefits - Current (refer Note 18(a))	4 021	4 595
	Total Long Service Leave	5 582	6 025
	Total Employee Benefits and Related On-Costs	7 928	7 967
19.	Provisions		
	Current:		
	Provision for workers compensation	80	86
		80	86
	Non-Current:		
	Provision for workers compensation	189	232
		189	232
		269	318
	Reconciliation of the Provision for Workers Compensation		
	Provision at the beginning of the financial year	318	42
	(Decrease) Increase in provision during the year	(49)	276
	Provision for Workers Compensation at 30 June	269	318
20.	Other Liabilities		
	Current:		
	Unearned revenue	896	784
		896	784
	Non-Current:		
	Imprest account	28	27
		28	27
		924	811
21.	Equity		
	Retained surplus	40 598	38 716
	Asset revaluation reserve	6 192	6 192
	Total Equity	46 790	44 908
	Retained Surplus:		
	Balance at the beginning of the financial year	38 716	45 674
	Transfer to asset revaluation reserve	-	(2 019)
	Net result for the period	1 882	(4 939)
	Balance at the End of the Financial Year	40 598	38 716
	Asset Revaluation Reserve:		
	Balance at the beginning of the financial year	6 192	4 173
	Transfer from retained surplus	-	2 019
	Balance at the End of the Financial Year	6 192	6 192
22.	Financial Instruments		
	(a) Terms, Conditions and Accounting Policies		
	<i>Financial Assets</i>		
	• Cash is available at call and is recorded at cost.		
	• Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 30 days.		
	<i>Financial Liabilities</i>		
	• The imprest account is repayable to the Treasurer and is recorded at the value of the monies received.		
	• Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days.		

22. Financial Instruments (continued)**(b) Interest Rate Risk**

Financial Instrument	Floating Interest Rate		Non-Interest Bearing		Total Carrying Amount		Weighted Average Effective Interest Rate	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	Percent	Percent
Financial Assets:								
Cash on hand	34 670	31 680	33	32	34 703	31 712	5.10	4.6
Receivables	-	-	2 763	2 850	2 763	2 850		-
	34 670	31 680	2 796	2 882	37 466	34 562		
Financial Liabilities:								
Imprest account	-	-	28	27	28	27		-
Payables	-	-	2 533	1 804	2 533	1 804		-
	-	-	2 561	1 831	2 561	1 831		

(c) Net Fair Values

Financial instruments are valued at the carrying amount as per the Statement of Financial Position which approximates the net fair value. The carrying amount of financial assets approximates net fair value due to their short-term to maturity or being receivable on demand. The carrying amount of financial liabilities is considered to be a reasonable estimate of net fair value.

23. Commitments for Expenditure**Operating Lease Commitments**

At the reporting date, the Department's operating leases are for the lease of office accommodation and office equipment.

- Office accommodation is leased from the Real Estate Management business unit of the Department for Administrative and Information Services (DAIS). The leases are non-cancellable with terms ranging from 2 to 15 years with some leases having right of renewal. The rental amount is based on floor space and the time period of the lease, with the rental rate reviewed taking into account movements in market rental values or CPI. Rental is payable in arrears.
- Office equipment leases are non-cancellable with rental payable in arrears. No contingent rental provisions exist within the lease arrangement and no options exist to renew the leases at the end of their term.

For the current financial year, the total amount of rental expense for minimum lease payments for operating leases was \$2 822 000 (\$3 196 000).	2004	2003
	\$'000	\$'000
Not later than one year	2 701	3 204
Later than one year and not later than five years	2 342	2 845
Later than five years	2 181	2 473
Total Operating Leases Commitments	7 224	8 522

24. Contingent Liabilities**Non-Quantifiable Contingent Liabilities**

The AustralAsia Railway Corporation, the Northern Territory (NT) and South Australian (SA) Governments and Asia Pacific Transport Pty Ltd have entered into a concession arrangement for the design, construction, operation and maintenance of the Alice Springs to Darwin Railway on a build, own, operate, transfer-back basis.

Both the SA and NT Governments guarantee the obligations of the Corporation. The guarantee is a joint guarantee but SA and NT each accept responsibility for breach of an indemnity that is caused by its act or omission. Where the event giving rise to a Corporation obligation is solely caused by one jurisdiction, that jurisdiction accepts sole responsibility. If both the SA and NT caused the event, then each accepts responsibility to the extent to which it caused the event.

For other Corporation obligations, SA and NT accept liability for events occurring within the geographical area of its jurisdiction. Principally, the Corporation has granted indemnities to ensure that title to the railway corridor is secure for the construction and operation of the railway infrastructure. These indemnities cover risks related to native title claims, undisclosed interests in the corridor, environmental contamination, heritage and sacred sites and environmental assessment processes.

The project documents provide for the early termination of the concession arrangement by Asia Pacific Transport Pty Ltd. In certain circumstances that would give rise to the payment of an early termination amount. The amount includes all debt and debt break costs for the project, certain agreed break costs for the project, certain agreed break costs for third party contractors and payments to equity. For all these events the cure is within the control of either the Corporation or the Governments.

While the Department of the Premier and Cabinet is not a signatory to these agreements, the SA Government has assigned responsibility for these agreements to the Department. If a subsequent event were triggered such that the SA Government had to honour a commitment under the agreement that commitment would have to be funded by the SA Government and the payment would be made through the Department.

The prospect of any of the contingent liabilities arising is considered to be extremely remote.

25. Cash Flow Reconciliation	2004	2003
Reconciliation of Cash:	\$'000	\$'000
Cash as recorded in the Statement of Financial Position	34 703	31 712
Cash as recorded in the Statement of Cash Flows	34 703	31 712
<hr/>		
Reconciliation of Net Cash Inflows (Outflows) from Operating Activities to Net Cost of Services:		
Net cash inflows (outflows) from operating activities	3 237	(3 755)
Less: Revenues from government	(135 779)	(144 527)
Add: Payments to Government	5 300	-
Add/Less Non-Cash Items:		
Depreciation of property, plant and equipment	(1 058)	(1 256)
(Loss) Gain on restructuring	(870)	(693)
Assets transferred in	221	-
Bad and doubtful debts expense	10	-
Change in Assets and Liabilities:		
Increase (Decrease) in receivables	(753)	(321)
Increase (Decrease) in other assets	903	-
Increase (Decrease) in prepayments	(53)	(38)
(Increase) Decrease in payables	(476)	715
(Increase) Decrease in provisions	49	(276)
(Increase) Decrease in employee benefits	155	14
(Increase) Decrease in other liabilities	(113)	(209)
Net Cost of Services	(129 227)	(150 346)

26. Events After Balance Date
There were no events after balance date.

27. Payments to SA Government
As part of the restructuring arrangements for the Public Sector Workforce Relations Unit, the Department transferred back to the Department of Treasury and Finance \$5.3 million in appropriation. These monies were subsequently transferred to the transferee government department.

28. Transferred Functions
As a result of restructuring of Administrative arrangements, the Department assumed the responsibility of Business and Skilled Migration Unit as at 1 January 2004. In addition, the Department relinquished its responsibility for the Public Sector Workforce Relations Unit and the Government Workers Rehabilitation and Compensation Fund as at 11 August 2003.

(a) Net Assets Transferred	Business and Skilled Migration Unit Transferred In \$'000	Public Sector Workforce Relations Unit Transferred Out \$'000	Total 2004 \$'000
Current Assets:			
Cash Transferred	445	-	445
Non-Current Assets:			
Office Equipment	9	(578)	(569)
Total Assets	454	(578)	(124)
Current Liabilities:			
Employee costs	(114)	233	119
Non-Current Liabilities:			
Employee costs	-	635	635
Total Liabilities	(114)	868	754
Net Assets Transferred	340	290	630
(b) Net Expenses for the Business and Skilled Migration Unit for 2003-04	01.07.03 - 31.12.03 \$'000	01.01.04 - 30.06.04 \$'000	Total for 2003-04 \$'000
Expenses:			
Employee costs	219	341	560
Grant payment	181	193	374
Supplies and services	234	219	453
Total Expenses Incurred	634	753	1 387

(c) Administered Items Transferred Out - Government Workers Rehabilitation and Compensation Scheme	2004 \$'000
Current Assets:	
Cash at bank	571
Receivables	28
Non-Current Assets:	
Receivables	94
Total Assets	<u>693</u>
Current Liabilities:	
Claims liabilities	5 955
Non-Current Liabilities:	
Claims liabilities	18 051
Total Liabilities	<u>24 006</u>
Net Liabilities Transferred Out	<u>23 313</u>

Schedule of Administered Expenses and Revenues for the year ended 30 June 2004

ADMINISTERED REVENUES:		2004	2003
Revenues from SA Government includes:	Note	\$'000	\$'000
Salary and allowances pursuant to:			
(i) <i>Parliamentary Remuneration Act 1990</i>		314	255
(ii) <i>Agent-General Act 1901</i>		290	305
Premier - Other payments		1 166	637
State Disaster Relief Fund		5	4
Social Inclusion Initiative:			
Drug summit		1 787	-
Homelessness		3 000	-
School retention action plan		3 500	-
Targeted/Voluntary Separation Package Scheme Account		50 000	10 000
Government Workers Rehabilitation and Compensation Fund		295	6 044
Trust Fund:			
Bank of Tokyo Cultural and Social Exchange Program		7	6
SA Okayama account		2	1
Other Includes:			
Receipts received in administering the Public Sector Workforce Relations Unit		1 881	-
Funding transfer to administer the Public Sector Workforce Relations Unit		296	-
Government Workers Rehabilitation and Compensation Fund		-	26
Total Administered Revenue		62 543	17 278
ADMINISTERED EXPENSES:			
Employee expenses includes:			
Salary and allowances pursuant to:			
(i) <i>Parliamentary Remuneration Act 1990</i>		314	255
(ii) <i>Agent-General Act 1901</i>		290	305
Targeted Voluntary Separation Package Scheme Account		50 748	9 623
Payments to workers compensation		1 292	150
Grants and subsidies includes:			
Social Inclusion initiative:			
Drug Summit		1 787	-
Homelessness		3 000	-
School Retention Action Plan		3 248	-
Trust Fund:			
Bank Of Tokyo Cultural and Social Exchange Program		12	15
Payments to Consolidated Account includes:			
Government Workers Rehabilitation and Compensation Fund		-	1 000
Other includes:			
Expenses incurred in administering the Public Sector Workforce Relations Unit		2 177	-
Premier - Other payments		1 166	637
Government Workers Rehabilitation and Compensation Fund		533	9 495
Targeted Voluntary Separation Package Scheme Account		197	185
Total Administered Expenses		64 764	21 665
NET OPERATING DEFICIT		(2 221)	(4 387)
RESTRUCTURE OF GOVERNMENT WORKERS REHABILITATION AND COMPENSATION FUND			
	28	23 313	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		21 092	(4 387)

**Schedule of Administered Assets and Liabilities
as at 30 June 2004**

	2004	2003
	\$'000	\$'000
ADMINISTERED CURRENT ASSETS:		
Cash includes:		
Trust Fund - Bank of Tokyo Cultural and Social Exchange Program	136	141
Trust Fund - SA Okayama Account	43	41
Government Workers Rehabilitation and Compensation Fund	-	1 834
State Disaster Relief Fund	100	95
Targeted/Voluntary Separation Package Scheme Account	11 993	978
Cash received for APY lands from the Commonwealth	4 700	-
Social Inclusion Initiative - School Retention Action Plan	252	-
Receivables includes:		
Government Workers Rehabilitation and Compensation Fund	-	178
Total Administered Current Assets	17 224	3 267
ADMINISTERED NON-CURRENT ASSETS:		
Receivables includes:		
Government Workers Rehabilitation and Compensation Fund	-	94
Total Administered Non-Current Assets	-	94
Total Administered Assets	17 224	3 361
ADMINISTERED CURRENT LIABILITIES:		
Payables includes:		
Targeted Voluntary Separation Package Scheme Account	13 974	722
Government Workers Rehabilitation and Compensation Fund	-	1 174
Other includes:		
Unearned revenue received for APY lands from the Commonwealth	4 700	-
Government Workers Rehabilitation and Compensation Fund	-	5 956
Total Administered Current Liabilities	18 674	7 852
ADMINISTERED NON-CURRENT LIABILITIES:		
Other includes:		
Government Workers Rehabilitation and Compensation Fund	-	18 051
Total Administered Non-Current Liabilities	-	18 051
Total Administered Liabilities	18 674	25 903
NET ADMINISTERED LIABILITIES	(1 450)	(22 542)
TOTAL ADMINISTERED EQUITY	(1 450)	(22 542)

Schedule of Administered Cash Flows for the year ended 30 June 2004

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:	Inflows	Inflows
CASH INFLOWS:	(Outflows)	(Outflows)
	\$'000	\$'000
Receipts from Government Includes:	Note	
Salary and allowances pursuant to:		
(i) <i>Parliamentary Remuneration Act 1990</i>	314	255
(ii) <i>Agent-General Act 1901</i>	290	305
Premier - Other payments	1 166	637
State Disaster Relief Fund	5	4
Social Inclusion Initiative - Drug Summit	1 787	-
Social Inclusion Initiative - Homelessness	3 000	-
Social Inclusion Initiative - School Retention Action Plan	3 500	-
Targeted/Voluntary Separation Package Scheme Account	50 000	10 000
Government Workers Rehabilitation and Compensation Fund	295	5 322
Trust Fund - Bank Of Tokyo Cultural and Social Exchange Program	7	6
Trust Fund - SA Okayama Account	2	1
Other includes:		
Receipts received in administering the Public Sector Workforce Relations Unit	1 881	-
Funding transfer in administering the Public Sector Workforce Relations Unit	296	-
Cash received for APY lands from the Commonwealth	4 700	-
Government Workers Rehabilitation and Compensation Fund	150	574
Targeted/Voluntary Separation Package Scheme Account	-	48
Total Cash Inflows	67 393	17 152
CASH OUTFLOWS:		
Employee payments includes:		
Salary and allowances pursuant to:		
(i) <i>Parliamentary Remuneration Act 1990</i>	(314)	(255)
(ii) <i>Agent-General Act 1901</i>	(290)	(305)
Targeted Voluntary Separation Package Scheme Account	(38 617)	(9 236)
Government Workers Rehabilitation and Compensation Fund	(1 623)	(6 136)
Grants and subsidies includes:		
Social Inclusion Initiative - Drug Summit	(1 787)	-
Social Inclusion Initiative - Homelessness	(3 000)	-
Social Inclusion Initiative - School Retention Action Plan	(3 248)	-
Trust Fund - Bank Of Tokyo Cultural and Social Exchange Program	(12)	(15)
Other includes:		
Expenses incurred in administering the Public Sector Workforce Relations Unit	(2 177)	-
Premier - Other payments	(1 166)	(637)
Government Workers Rehabilitation and Compensation Fund	(85)	(1 259)
Targeted Voluntary Separation Package Scheme Account	(368)	(7)
Total Cash Outflows	(52 687)	(17 850)
Net Cash inflows (outflows) from Operating Activities	14 706	(698)
Net Cash transferred due to restructure of Government Workers Rehabilitation and Compensation Scheme	28	(571)
NET INCREASE (DECREASE) IN CASH HELD		14 135
CASH AT 1 JULY		3 089
CASH AT 30 JUNE		17 224

The accounting policies outlined in Note 2 to the Departmental Financial Statements apply to both the Departmental and Administered Financial Statements.

TARGETED VOLUNTARY SEPARATION PACKAGE (TVSP) SCHEME

SCHEME OBJECTIVES

Since 1993, various Targeted Voluntary Separation Package Schemes have been utilised by Government to facilitate workforce restructuring, the enhancement of the workforce skills profile, graduate recruitment and the ongoing modernisation and improvement of the efficiency and productivity of the public sector.

For the 2003-04 financial year, two schemes were in operation. The Government approved in July 2002 the implementation of a Targeted Voluntary Separation Package (TVSP) Scheme for a 12 month period ending on 11 August 2003. While all formal offers of TVSPs had to occur no later than 11 August 2003, separations could be paid up to 8 September 2003. This TVSP scheme was replaced by a Government approved TVSP scheme in January 2004 for a 6 month period ending on 18 June 2004. While all formal offers had to close no later than 21 May 2004, separations had to be paid by 18 June 2004.

The purpose of the TVSP Schemes was to assist agencies to meet budget targets by reducing numbers of excess employees.

ADMINISTRATIVE RESPONSIBILITY

The financial arrangements of the Targeted Voluntary Separation Package Scheme are administered by the Department of the Premier and Cabinet's Office for the Commissioner for Public Employment through a Special Deposit Account titled 'Targeted Voluntary Separation Package Scheme'.

Payments through the account included separation costs, workers compensation and costs associated with the processing of packages. The principal source of funds consists of monies appropriated by Parliament to the Treasurer.

The calculation of the separation payments is based on staged levels of payment depending on separation date and years of service, and are set out in the Determinations of the Commissioner for Public Employment issued under the *Public Sector Management Act 1995*.

SIGNIFICANT FEATURES

- The approved budget allocation for the TVSP Scheme ended on 11 August was \$42 million. The approved budget allocation for the Scheme ended on 18 June 2004 was \$25 million.
- Appropriations for the year totalled \$50 million as compared to \$10 million in 2002-03.
- Payments made for Targeted Voluntary Separation Packages during the year totalled \$50.8 million, an increase of \$41.1 million over the previous year.

AUDIT MANDATE AND COVERAGE

The audit of the Department of the Premier and Cabinet included matters relating to the audit of the TVSP Scheme which it administers.

Audit Authority

Audit of Financial Statements

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Targeted Voluntary Separation Package Scheme for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised over the Targeted Voluntary Separation Package Scheme in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

Scope of Audit

The audit program was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Targeted Voluntary Separation Package Scheme as at 30 June 2004 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised over the Targeted Voluntary Separation Package Scheme in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Targeted Voluntary Separation Package Scheme have been conducted properly and in accordance with law.

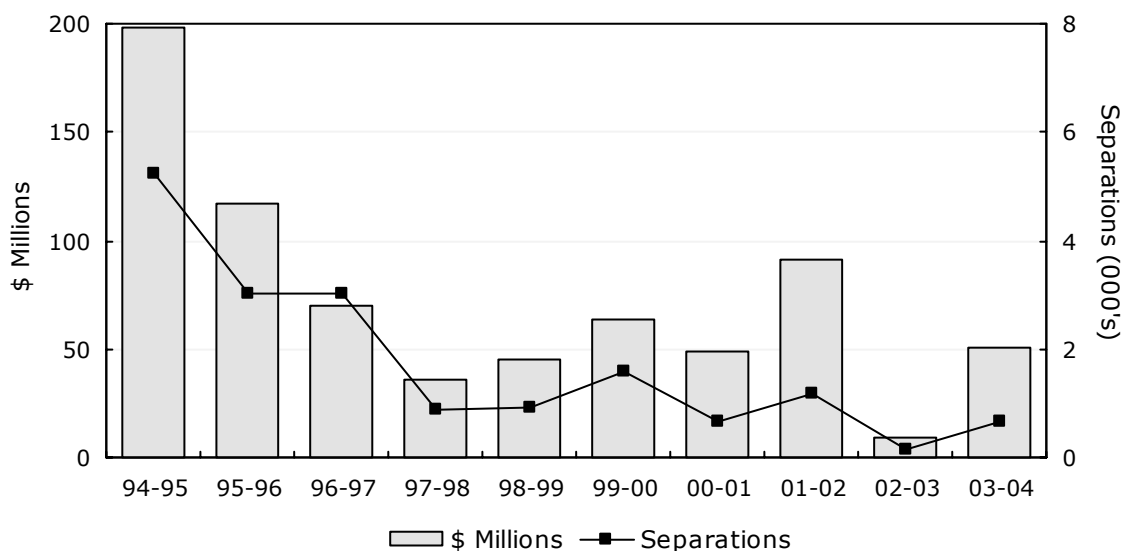
Audit Communications to Management

As there were no matters arising during the course of the audit, no management letter was forwarded to the Chief Executive Officer.

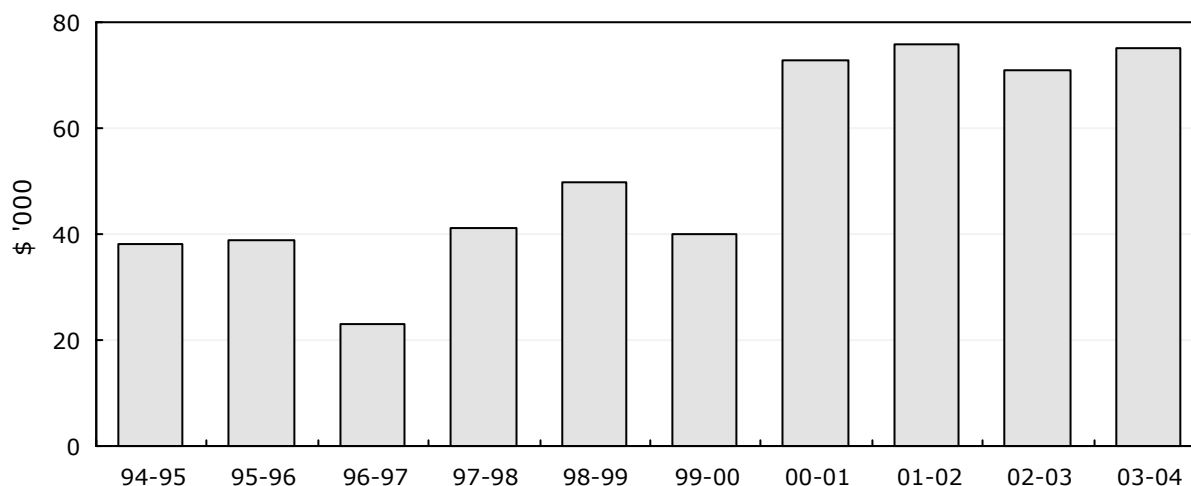
INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Total Separations

The total number of separations and the cost of those separation packages, excluding other payments, for the past 10 years is illustrated in the following chart.



The following chart illustrates the average separation payments made over the last 10 years.



TARGETED VOLUNTARY SEPARATION PACKAGE SCHEMES

Statement of Financial Performance for the year ended 30 June 2004

		2004	2003
	Note	\$'000	\$'000
EXPENSES FROM ORDINARY ACTIVITIES:			
Targeted Voluntary Separation Packages	3	50 748	9 623
Workers compensation		1 292	150
Other expenses from ordinary activities	4	197	185
Total Expenses from Ordinary Activities		52 237	9 958
NET COST OF SERVICES		(52 237)	(9 958)
REVENUES FROM GOVERNMENT			
Appropriation		50 000	10 000
Total Revenues from Government		50 000	10 000
(DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		(2 237)	42
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		(2 237)	42

Statement of Financial Position as at 30 June 2004

		2004	2003
	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash		11 993	978
Total Current Assets		11 993	978
Total Assets		11 993	978
CURRENT LIABILITIES:			
Payments due to external parties	5	13 974	722
Total Current Liabilities		13 974	722
Total Liabilities		13 974	722
NET ASSETS	6	(1 981)	256
EQUITY:			
Retained (deficit) surplus	7	(1 981)	256
TOTAL EQUITY		(1 981)	256

Statement of Cash Flows for the year ended 30 June 2004

		2004	2003
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		(Outflows)	(Outflows)
PAYMENTS:	Note	\$'000	\$'000
Targeted Voluntary Separation Packages		(38 087)	(9 236)
Workers compensation		(530)	-
Other payments from ordinary activities		(368)	(7)
Total Payments		(38 985)	(9 243)
RECEIPTS:			
Other receipts from ordinary activities		-	48
Total Receipts		-	48
CASH FLOWS FROM GOVERNMENT:			
Appropriation		50 000	10 000
Total Cash Flows from Government		50 000	10 000
Net Cash provided by Operating Activities	8	11 015	805
NET INCREASE IN CASH HELD		11 015	805
CASH AT 1 JULY		978	173
CASH AT 30 JUNE		11 993	978

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives

The Targeted Voluntary Separation Package Scheme was established in March 1993 to assist agencies in organisational restructuring, workforce reductions and achievement of Cabinet approved savings targets.

Two Schemes operated during the 2003-04 period. The first Scheme existed between the period 12 August 2002 until 11 August 2003. The second Scheme existed between 19 January 2004 until 18 June 2004.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report. The statement have been prepared in accordance with:

- Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act 1987*;
- Applicable Australian Accounting Standards; and
- Other mandatory professional reporting requirements in Australia.

The Scheme's Statement of Financial Performance and Statement of Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention.

(b) The Reporting Entity

The financial arrangements of the Targeted Voluntary Separation Package Scheme are administered by, but not controlled by, the Department of the Premier and Cabinet through a Special Deposit Account titled 'Targeted Voluntary Separation Package Scheme' (the Account). The Scheme's principal source of funds consists of monies appropriated by Parliament to the Treasurer - Other Items line entitled 'Funding for Targeted Voluntary Separation Package Scheme'.

(c) Changes in Accounting Policies

- *Impact of Adopting Australian Equivalents to International Financial Reporting Standards*
Australia will be adopting the Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Scheme will adopt these standards for the first time in the published financial report for the financial year ended 30 June 2006.
- *Managing the Process*
The Scheme's financial services are provided through Arts SA, Business Services, a unit of the Department of the Premier and Cabinet. Business Services is coordinating the adoption of the Australian equivalents to the International Financial Reporting Standards in conjunction with the Department of Treasury and Finance (DTF).

- *Managing the Process (continued)*
To obtain an understanding of the new standards and the resulting effect on the financial reports, representatives from Business Services attend information forums facilitated by DTF, professional bodies and private sector accountancy firms. Business Services representatives attend the Exposure Draft Reference Group meetings, which review Exposure Drafts released by the Australian Accounting Standards Board (AASB), provide comment and feedback to the AASB on the content of the Exposure Drafts and resulting pending Standards.

The Scheme will adopt the DTF Model Financial report for SA Government entities as from 30 June 2005 which will comply with Generally Accepted Accounting Principles (GAAP), Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements.

Business Services is reviewing and analysing Exposure Drafts and pending Australian Accounting Standards for expected differences in accounting policies as a result of the adoption of the Australian equivalents to the IFRS. A project plan has been prepared which identifies key activities to be undertaken to adopt AIFRS, and the working papers required by AASB 1 'First-Time Adoption of the Australian International Financial Reporting Pronouncements'.

- *Expected Differences in Accounting Policies*
The key differences in accounting policies applied to the Scheme's financial reports expected to result from the adoption of the Australian equivalents to the IFRS are outlined below.
- *Changes in Accounting Policies*
The pending accounting standard, AASB 1 'First-Time Adoption of the Australian International Financial Reporting Pronouncements', will now require the retrospective application of changes in accounting policies. This requires the restatement of comparative information except for specific exemptions listed in AASB 1. This is a major difference in accounting policy.

(d) Appropriations

Appropriations are recognised as revenue when the Fund obtains control over the assets comprising the contribution. Control over appropriation is normally obtained upon their receipt.

(e) Cash

For the purposes of the Statement of Cash Flows, cash includes cash deposits which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis.

3. Targeted Voluntary Separation Packages	2004	2003
Agencies receiving reimbursements for the year are:	\$'000	\$'000
Department of Transport and Urban Planning	8 184	866
Attorney-General's Department	622	396
TransAdelaide	2 578	-
Department of Human Services	2 122	2 699
Department of Education and Children's Services	6 812	-
Department of Further Education, Employment, Science and Technology	11 830	-
Department of Water, Land and Biodiversity Conservation	1 572	-
Department for Administrative and Information Services	6 719	1 054
Department of Justice	-	631
Department of Primary Industries and Resources	1 446	819
Department for Environment and Heritage	2 649	1 187
Lyell McEwin Hospital	723	83
Department of Business, Manufacturing and Trade	1 341	1 217
Other agencies	4 150	671
	50 748	9 623
4. Other Expenses from Ordinary Activities		
Expenses incurred in administering the Scheme are reimbursed to the following:		
Department of the Premier and Cabinet	181	172
Audit fees	16	13
	197	185
5. Payments Due to External Parties		
Unreimbursed TVSP payments due to external parties	13 048	387
Payment due to Government Workers Rehabilitation and Compensation Scheme	912	150
Accrued administration costs due to external parties	1	172
Accrued audit fees due to the Auditor-General's Department	13	13
	13 974	722
6. Revenue Due from the Department of Treasury and Finance		
As the Scheme has closed as at 18 June 2004, all outstanding financial obligations will be met by the Treasurer, thus enabling full closure of the Account.		
7. Retained (Deficit) Surplus		
Balance at the beginning of the financial year	256	214
(Decrease) Increase in net assets resulting from operations	(2 237)	42
Balance at the End of the Financial Year	(1 981)	256

8. Reconciliation of Net Cash provided by Operating Activities to Net Cost of Services

Net cash provided by operating activities	11 015	805
Cash flows from Government	(50 000)	(10 000)
Change in operating assets and liabilities:		
Increase (Decrease) in receivables	-	(48)
(Increase) in creditors	(13 252)	(715)
Net Cost of Services	(52 237)	(9 958)

SOUTH AUSTRALIAN FILM CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Film Corporation was established pursuant to the *South Australian Film Corporation Act 1972*.

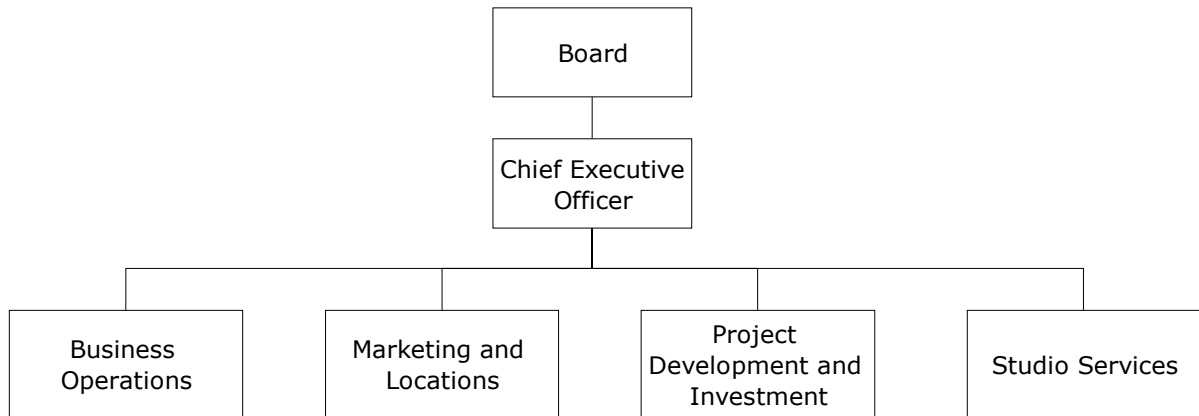
Functions

The functions of the South Australian Film Corporation are as follows:

- Development of the South Australian film industry.
- Provision of financial assistance to film producers by way of grants, loans and investment capital.
- Provision of studio and facilities to film producers.

Structure

The structure of the South Australian Film Corporation is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 31(2) of the *South Australian Film Corporation Act 1972* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the South Australian Film Corporation for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the South Australian Film Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- budgetary control and management reporting
- expenditure
- payroll
- revenue, including studio hire, cash receipting and banking
- grants, loans and investments for film producers
- property, plant and equipment
- general ledger
- risk management.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the South Australian Film Corporation as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the South Australian Film Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities except for the matters of risk management, policies and procedures and investments, loans and grants as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Film Corporation have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. Responses to the management letter were generally considered to be satisfactory. Matters raised with the Corporation and the related responses are considered herein.

Risk Management

Audit has commented for a number of years on the need for the Corporation to establish a Risk Management Policy and Plan. In 2003-04, a risk matrix was developed for review and comment but there had been no outcome from this action.

The Corporation has advised that a draft Risk Management Plan has been written and presented to the Board. The Plan is being reviewed by management for final Board approval.

Policies and Procedures

During the year, the Corporation engaged assistance to draft a revised Policies and Procedures Manual. The Manual has not yet been promulgated to staff.

Changes to the Manual are being finalised and it is being included in stages on the Corporation's intranet site for staff access.

Investments, Loans and Grants

Audit recommended that the Corporation consider implementing a standard checklist for Investments, Loans and Grants as a tool to monitor documentation required from the applicant during the application and assessment process and also to ensure compliance with reporting requirements contained in the Agreements.

The Corporation accepted the recommendation.

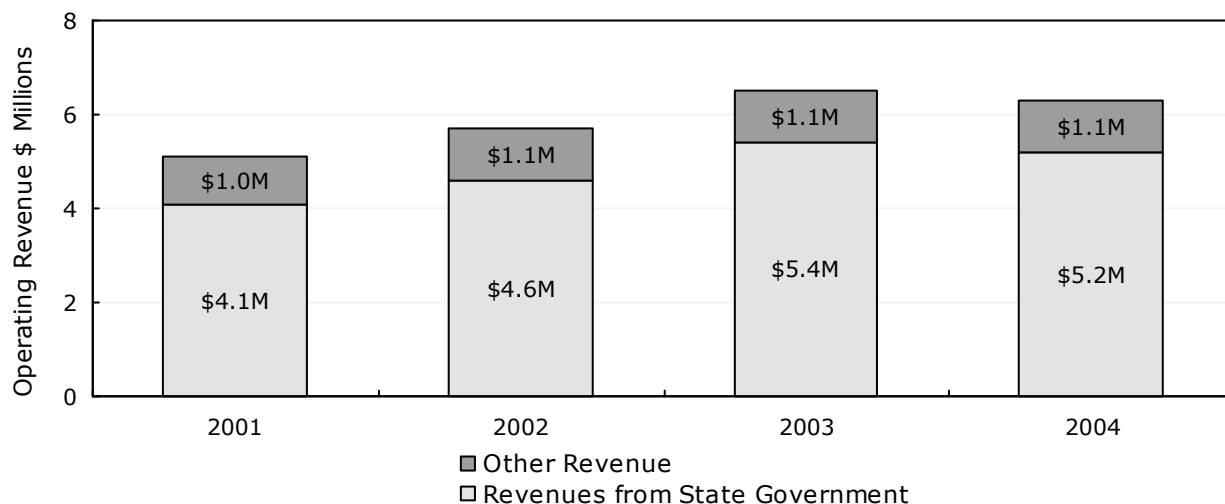
INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Statement of Financial Performance

Operating Revenues

Revenues from the State Government comprise 82 percent of operating revenue and decrease by \$228 000 to \$5.2 million. Refer to Note 12.

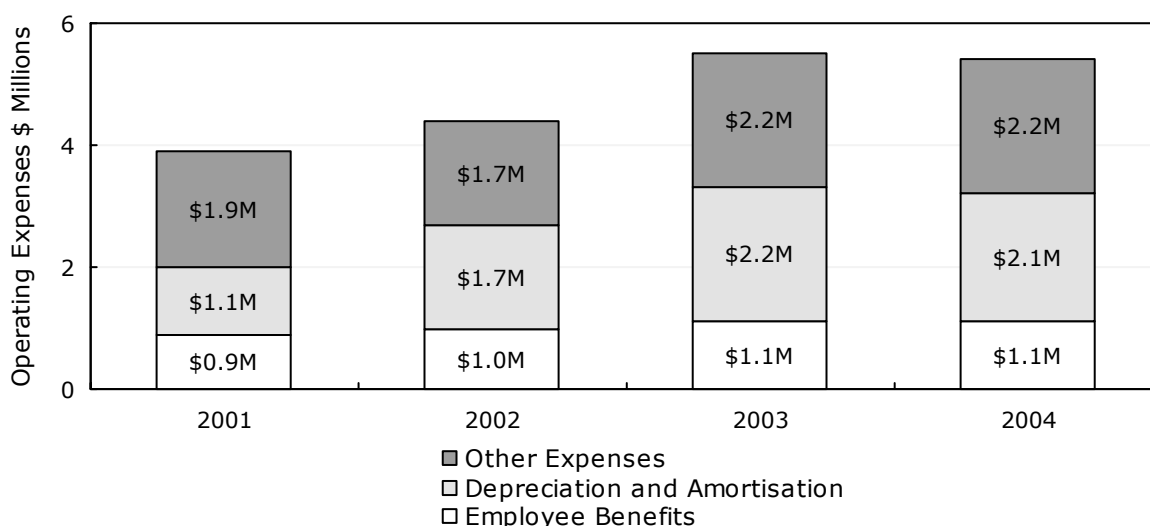
A structural analysis of operating revenues for the Department in the four years to 2004 is presented in the following chart.



Operating Expenses

Depreciation and amortisation expense comprises 38 percent of operating expenses with amortisation expense on film investments and loans reflecting 33 percent of operating expenses.

For the four years to 2004, a structural analysis of the main operating expense items for the Corporation is shown in the following chart.



Amortisation Expense

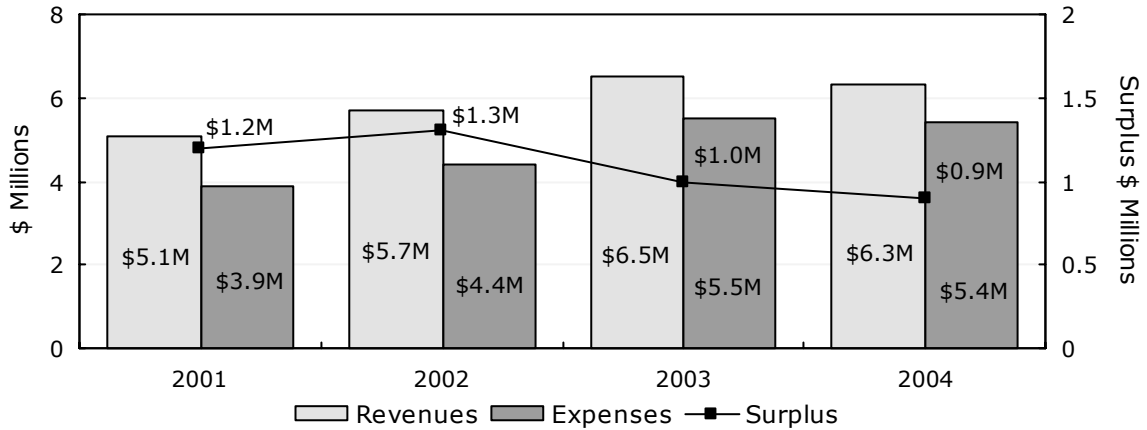
The Corporation invests in film and television productions in return for a share of the sales proceeds after their release to the market. The Corporation also provides unsecured film development loans in return for interest payments and principal repayments upon the projects going into production. In recognition of the prospect that projects may not go into production or succeed in the market, and consequently that proceeds may not eventuate, the Corporation amortises its production investments and unsecured loans. This

amortisation is reflected as an expense within the Statement of Financial Performance. Amortisation expense on Film Investments and Loans in 2003-04 decreased by \$167 000 to \$1.8 million.

Operating Result

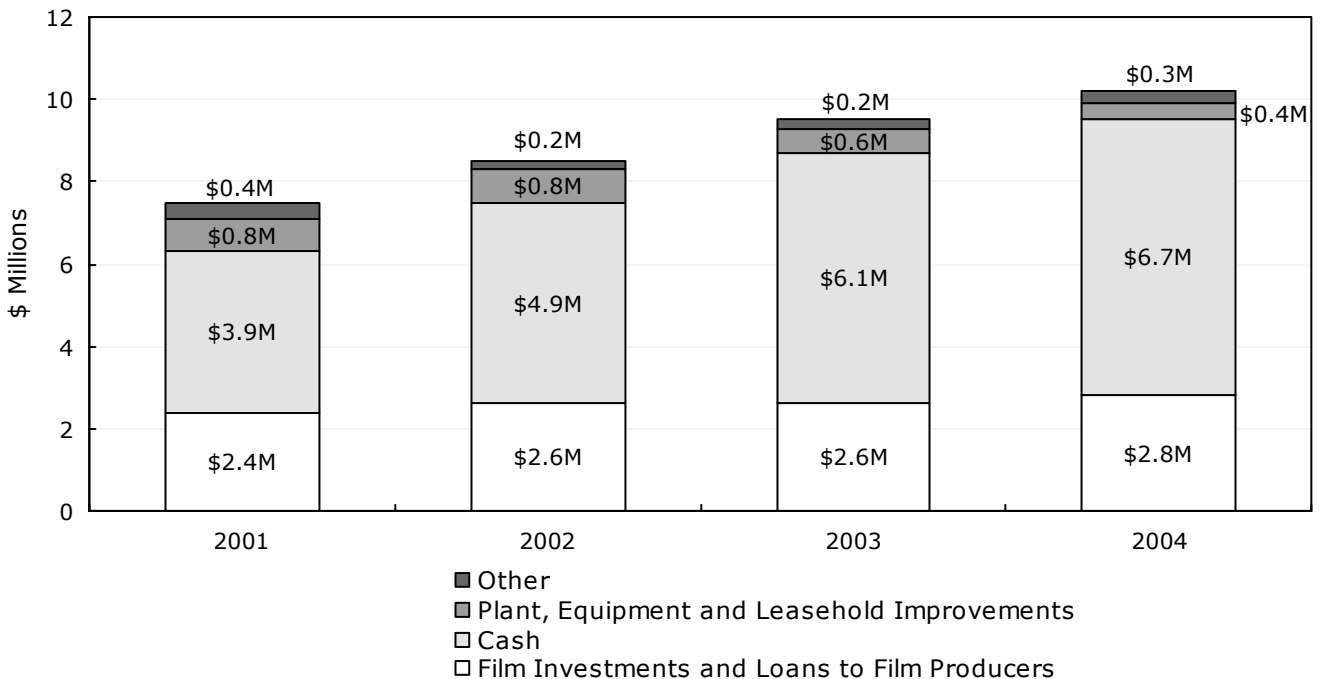
Revenues from the State Government have been approximately equal to operating expenses, with revenues from other sources creating a surplus for the current and preceding three years.

The following chart shows the operating revenues, operating expenses and surpluses for the four years to 2004.



Statement of Financial Position

A structural analysis of the Corporation’s assets for the last four years as shown in the following chart indicates that the amortised balance of film investments and loans to film producers has been relatively constant while cash has accumulated. While the level of cash is increasing, it is important to note that the Corporation had commitments of \$3.1 million at 30 June 2004.



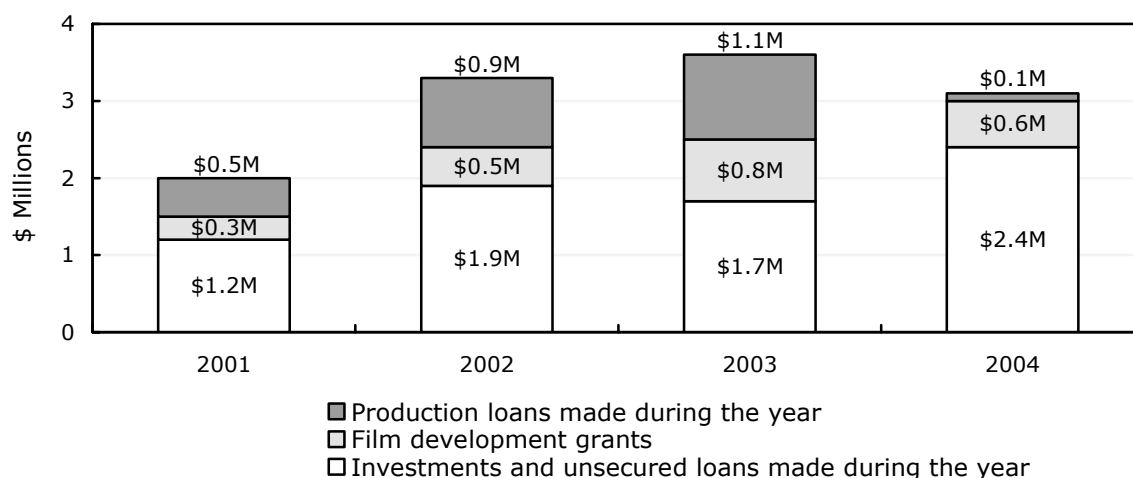
Administered Items

The Corporation provides a disbursement service to film producers and receives an administration fee for distributing film returns to investors. Disbursements decreased by \$398 000 to \$639 000. (Refer to Note 24 to the Financial Statements).

FURTHER COMMENTARY ON OPERATIONS

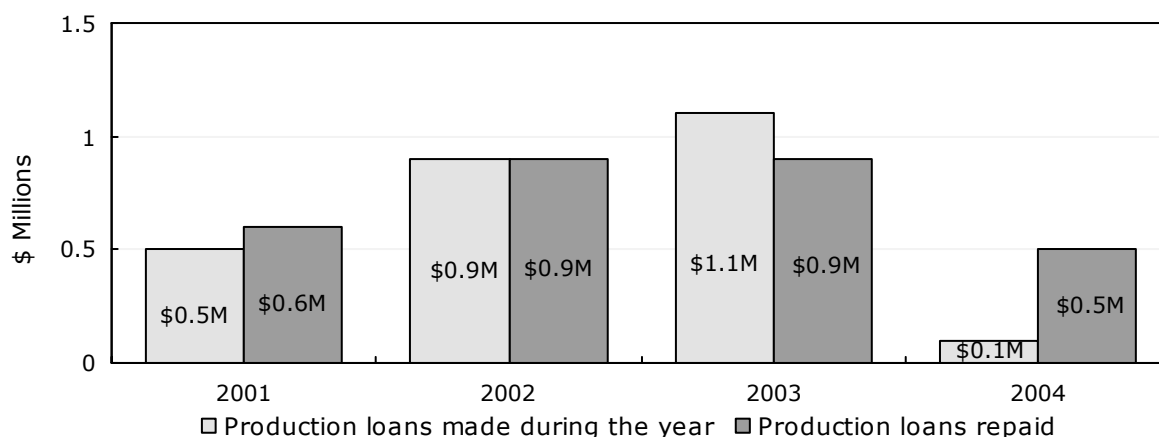
Provision of Financial Assistance to Film Producers

The following chart reflects the general growth in the Corporation's function as a provider of financial assistance to film producers over the last four years. In addition, \$3.1 million was committed to programs at 30 June 2004 - refer Note 4.



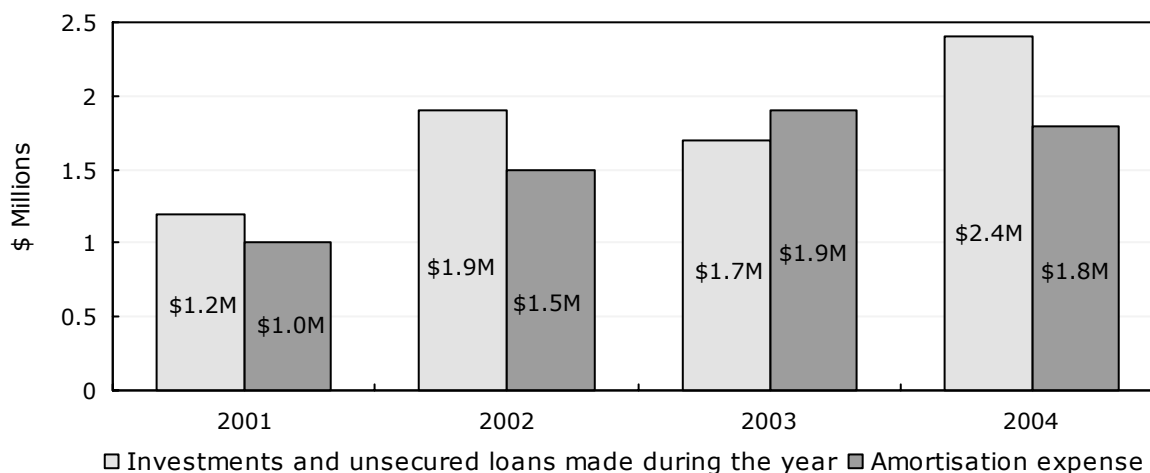
Production Loans

The chart below identifies the value of production loans provided each year to film producers and production loans repaid each year for the last four years and indicates that loans are generally being repaid in a timely manner. Production loans are secured by a combination of a charge over the producer's assets from the film, including the right to receive income, and a charge over the gross proceeds from the exploitation of the film.



Unsecured Loans and Film Investments

The chart below identifies the value of unsecured loans and film investments provided each year to film producers and the associated annual amortisation expense.



**Statement of Financial Performance
for the year ended 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Studio hire		391	350
Interest	20	375	325
Film distribution returns		291	326
Other income	6	68	115
Total Revenues		1 125	1 116
EXPENSES FROM ORDINARY ACTIVITIES:			
Depreciation and amortisation	7	2 085	2 163
Goods and services	8	1 072	1 124
Employee benefits	9	1 149	1 123
Industry development program grants	4	618	774
Education film production costs	4	404	220
Board fees and related expenses	10	87	95
Total Expenses		5 415	5 499
NET COST OF SERVICES		(4 290)	(4 383)
REVENUES FROM STATE GOVERNMENT	12	5 166	5 394
INCREASE IN NET ASSETS RESULTING FROM ORDINARY ACTIVITIES		876	1 011
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER		876	1 011

**Statement of Financial Position
as at 30 June 2004**

		2004	2003
ASSETS:	Note	\$'000	\$'000
CURRENT ASSETS:			
Cash assets	13	6 722	6 107
Receivables	14	136	155
Inventories		17	10
Production loans	15	1 050	1 434
Total Current Assets		7 925	7 706
NON-CURRENT ASSETS:			
Production loans	15	-	26
Investments and unsecured loans	16	1 797	1 144
Plant, equipment and leasehold improvements	17	439	592
Total Non-Current Assets		2 236	1 762
Total Assets		10 161	9 468
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	18	214	393
Provision for employee benefits	19	43	47
Total Current Liabilities		257	440
NON-CURRENT LIABILITIES:			
Provision for employee benefits	19	10	10
Total Non-Current Liabilities		10	10
Total Liabilities		267	450
NET ASSETS		9 894	9 018
EQUITY:			
Capital contribution from State Government		8 460	8 460
Accumulated funds	5	1 434	558
TOTAL EQUITY		9 894	9 018
Commitments	21		
Contingent Liabilities	22		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
RECEIPTS:			
Studio, film development, film investment and documentary sales income		611	860
Interest		398	368
Repayment of production loans		512	862
Other		68	132
GST refunded by Australian Taxation Office		26	191
State Government		5 166	5 144
PAYMENTS:			
Employee benefits		(1 153)	(1 115)
Programs and suppliers		(4 844)	(5 173)
Net Cash provided by Operating Activities	23(b)	784	1 269
CASH FLOWS FROM INVESTING ACTIVITIES:			
PAYMENTS:			
Payments for purchases of plant, equipment and leasehold improvements		(169)	(69)
Net Cash used in Investing Activities		(169)	(69)
NET INCREASE IN CASH HELD		615	1 200
CASH AT 1 JULY		6 107	4 907
CASH AT 30 JUNE	23(a)	6 722	6 107

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. **Objective and Funding**
The principal objective of the South Australian Film Corporation (the Corporation) is to develop the South Australian screen industries through provision of program and practitioner development funds, production equity funding, studio facilities and financial assistance to film producers.

The Corporation provides financial assistance by way of grants, loans and equity investments.

The Corporation's principal sources of funds are State Government grants, investment income, revenue from studio and facilities hire and screen distribution returns.
2. **Economic Dependency**
The ongoing activities of the Corporation are dependent on the annual provision of grants from the State Government.
3. **Summary of Significant Accounting Policies**
 - (a) **Basis of Accounting**
The general purpose financial report has been prepared on the basis of historical cost and is in accordance with Treasurer's Instructions and Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*, and applicable Australian Accounting Standards, Statements of Accounting Concepts, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. The accrual method of accounting has been used.

The financial statements do not take into account changing money values or, except where stated, the current valuations of non-current assets.

(b) The Reporting Entity

All funds through which the Corporation controls resources to perform its functions have been included in this financial report.

In the process of reporting on the Corporation as a single entity, all internal transactions have been eliminated.

Administered Item: Disbursement Returns Account

The Corporation provides to film producers a service for disbursing investment returns to investors. The Corporation does not have control or discretion to apply the undisbursed investment returns towards achieving the Corporation's objectives, therefore, the disbursement activities are not recognised in the financial statements but have been reflected in Note 24.

(c) Revenue Recognition

Government grants and film distribution returns are recognised on receipt. Interest revenues are recognised as they accrue. Other revenue is recognised after the service has been provided.

(d) Depreciation and Amortisation*Depreciation*

Plant and equipment items with an initial cost greater than \$500 are depreciated over their estimated useful lives using the straight line method and the following rates:

	Percent
Production, projection, editing and sound equipment	10-30
Office furniture and equipment	10-40

Depreciation rates and methods are reviewed annually.

Amortisation of Leasehold Improvements

Leasehold improvements are amortised over the lease term or estimated useful life, whichever is the shorter, using the straight line method.

Amortisation of Film Production Investments and Film Development Unsecured Loans

The Corporation acknowledges the high level of risk and low rate of return on film investments and loans and accordingly reviews annually its portfolio of investments and unsecured loans made under the Film Development Program and uses its professional judgment to determine the level of amortisation required.

(e) Provisions*Doubtful Debts*

The collectability of trade debts is assessed annually and provision is made for any doubtful debts.

Employee Benefits

Provision has been made in the financial statements, where stated, for the Corporation's liability for employee benefits arising from services rendered by employees to balance date. Related on-costs consequential to the employment of employees (superannuation, payroll tax and workers compensation insurance) have been included in payables.

Annual Leave

Provision has been made for the unused component of annual leave at balance date. The provision has been calculated at the prescribed percentage using current salary rates.

Long Service Leave

Long service leave is recognized on a pro-rata basis in respect of services provided by employees up to the reporting date. Liabilities in respect of these entitlements have been calculated at nominal amounts based on current salary and wages rates. The Department of Treasury and Finance have advised that a benchmark of seven years can be used for a short hand estimation of long service leave liability in accordance with the provisions of Australian Accounting Standard AASB 1028 'Employee Benefits'. This advice has been adopted and the long service leave liability has been calculated on that basis.

Sick Leave

No provision has been made in respect of sick leave. As sick leave taken by employees is considered to be taken from the current year's accrual, no liability is recognised.

(f) Inventories

Inventories are valued at their lower of cost or net realizable value. Obsolete inventories are written off.

(g) Superannuation

The Corporation contributes to an externally managed fund in respect of the provision of future retirement benefits for its employees. Pursuant to the Commonwealth Government's Superannuation Guarantee legislation contributions were made at a rate of 9 percent of eligible earnings.

The Corporation does not guarantee the performance of the fund.

These contributions are treated as an expense when they occur (refer Note 9). There is no liability for payments to beneficiaries as they have been assumed by the fund. The only liability outstanding at balance date relates to any contribution due but not yet paid to the fund.

(h) Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from the investing activities, which are recoverable from, or payable to the Australian Taxation Office have however been classified as operating cash flows.

(i) Tax Status

The activities of the Corporation are exempt from Commonwealth income tax but subject to other Commonwealth taxes such as fringe benefits tax, goods and services tax and State taxes.

(j) Rounding

All amounts are rounded to the nearest thousand dollars.

(k) International Financial Reporting Standards

Australia will be adopting Australian equivalents to the International Financial Reporting Standards (AIFRS) for reporting periods commencing on or after 1 January 2005. The Corporation will adopt these standards for the first time in the published financial report for the year ended 30 June 2006.

The Corporation is keeping abreast of changes in Accounting Standards in managing the transition to the new Standards. It is expected that there will be no material impact on the financial report. Any changes in reporting will be approved by the Corporation's Finance and Audit Committee.

4. Program Funds

The Corporation receives funds from the State Government which are allocated for use in the following ways:

Industry Development Program Fund

The Industry Development Program Fund provides investments, unsecured loans and grants to film, television and digital media producers, directors and script writers. Fees for the administration of these funds are deducted from the funds received from the State Government.

Educational Film Fund

The Educational Film Fund provides funding for non-print communication resources to meet the South Australian Government's requirements. The Corporation receives an executive producer fee for productions that utilise these funds.

Revolving Fund

The Revolving Fund provides loans to film and television producers. The loans are provided on an interest bearing basis and secured, with due regard to the credit worthiness of the producer and the distributors providing distribution guarantees by a combination of:

- a charge over the producer's assets from the film, including the right to receive income; and
- a charge over the gross proceeds from exploitation of the film.

Fees for the administration of the loans are deducted from the Fund.

The financial performance and position of each Fund is as follows:

	Industry Development Program Fund		Educational Film Fund		Revolving Fund	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Balance at 1 July	3 606	3 422	634	529	3 537	3 378
Revenues from Ordinary Activities:						
Investment income	-	-	-	-	114	197
Total Revenues	-	-	-	-	114	197
Expenses from Ordinary Activities:						
Administration fees	(498)	(528)	(34)	(12)	(29)	(38)
Grants	(618)	(774)	-	-	-	-
Amortisation (Note 7)	(1 764)	(1 931)	-	-	-	-
Production costs	-	-	(404)	(220)	-	-
Total Expenses	(2 880)	(3 233)	(438)	(232)	(29)	(38)

<i>Revolving Fund (continued)</i>	Industry Development Program Fund		Educational Film Fund		Revolving Fund	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenues from State Government:						
Grants from Arts SA (Note 12)	3 923	3 417	200	200	-	-
Contributions from other State Government Agencies (Note 12)	-	-	71	137	-	-
Total Revenues from State Government	3 923	3 417	271	337	-	-
Balance at 30 June	4 649	3 606	467	634	3 622	3 537
Represented by:						
Production Loans (Note 15)	-	-	-	-	1 050	1 460
Film Production Investments and unsecured loans (Note 16)	1 797	1 144	-	-	-	-
Cash assets	2 852	2 462	467	634	2 572	2 070
Receivables	-	-	-	-	-	7
	4 649	3 606	467	634	3 622	3 537
Program Commitments at 30 June (Note 21)	2 626	2 441	159	464	300	983
Cash Assets Uncommitted at 30 June	226	21	308	170	2 272	1 087
5. Accumulated Funds					2004	2003
Accumulated funds at 1 July					\$'000	\$'000
Add: Net increase in assets resulting from ordinary activities					558	(453)
Accumulated Funds at 30 June					876	1 011
					1 434	558
6. Other Income						
Loan administration fees					34	18
Disbursement Service administration fee					17	27
Sundry income					17	70
					68	115
7. Depreciation and Amortisation						
Depreciation:						
Production, projection, editing and sound equipment					227	135
Office furniture and equipment					43	64
Amortisation:						
Film investments and loans					1 764	1 931
Leasehold improvements					51	33
					2 085	2 163
8. Goods and Services						
Building rent					162	158
Industry promotion and participation					130	145
Utility expenses					98	100
Motor vehicle and travelling					91	90
Bad and doubtful debts					(9)	25
Temporary staff and contractors					91	83
Computer supplies and related expenses					54	63
Repairs and maintenance					24	49
Contract cleaning and associated expenses					45	46
Audit fees for the audit of the financial report*					31	31
Audit fees for disbursement service					6	2
Telephones and communications					28	28
Location promotion costs					20	95
Consultants					51	3
Other					250	206
					1 072	1 124

* The auditors provided no other services.

9. Employee Benefits	2004	2003
	\$'000	\$'000
Salary and wages (including annual leave)	1 009	936
Superannuation	86	134
Long service leave	2	4
Workers compensation (insurance)	10	8
Payroll and fringe benefits tax	42	41
	1 149	1 123
Remuneration paid to executives was in the following bands:		
	2004	2003
	Number of	Number of
	Executives	Executives
\$120 001 - \$130 000	1	-
\$130 001 - \$140 000	-	1
10. Board Fees and Related Expenses	2004	2003
Remuneration paid to Board members was in the following bands:	Number of	Number of
	Members	Members
\$0 - \$10 000	10	9
\$10 001 - \$20 000	-	1
The aggregate remuneration referred to in the above table for all members was \$65 000 (\$74 000). Other Board related expenses were \$22 000 (\$21 000).		
The following held office as Board Members for the full year ended 30 June 2004 unless otherwise stated:		
C Bart	Appointed 1 March 2004	
J Chataway	Appointed 1 March 2004	
B Fox		
G Fuller	Resigned 30 December 2003	
L Hart		
H Leake		
P Martin		
D Minear	Term ended 2 February 2004	
B Morris		
J Shteinman		
A Walton	Resigned 30 December 2003	
11. Transactions with Related Parties	Project development loans, grants and production investments to the value of \$350 000 were approved for a production company with which Board member J Shteinman is associated. The approval of the transaction was in accordance with the Corporation's guidelines. The interested party was excluded from the approval process for the relevant application for funding.	
12. Revenues from State Government	2004	2003
Grants from Arts SA:	\$'000	\$'000
Film development	3 923	3 417
Operating	972	990
Educational Film Fund	200	200
Office of Economic Development grants	-	400
Contributions from other State Government agencies	71	137
De-recognition of liability under guarantee to Department of Treasury and Finance	-	250
	5 166	5 394
13. Cash Assets	6 718	6 105
Short term deposits	4	2
Cash at bank and on hand	6 722	6 107
14. Receivables	89	213
Trade debtors	41	109
Less: Provision for doubtful debts	48	104
Accrued revenue	21	24
Sundry debtors and prepayments	67	27
	136	155

15. Production Loans				2004	2003
Movements in production loans provided from the Revolving Fund (detailed in Note 4) were:				\$'000	\$'000
Balance at 1 July				1 460	1 225
Add: Advances				102	1 097
Less: Repayments				512	862
Balance at 30 June				1 050	1 460
Classified as:					
Current Assets				1 050	1 434
Non-Current Assets				-	26
				1 050	1 460
16. Investments and Unsecured Loans					
Film production investments				1 797	1 144
Comprising:					
(a) Film Production Investments					
Balance at 1 July				10 925	9 682
Add: Investments during the year				1 947	1 243
				12 872	10 925
Less: Accumulated amortisation				11 075	9 781
Balance at 30 June				1 797	1 144
(b) Film Development Unsecured Loans					
Balance at 1 July				3 221	2 792
Add: Loans during the year				469	429
				3 690	3 221
Less: Accumulated amortisation				3 690	3 221
Balance at 30 June				-	-
17. Plant, Equipment and Leasehold Improvements					
	Leasehold	Production, Projection, Editing and Sound Equipment	Office Furniture and Equipment	2004	2003
Historical Cost:	Improve-ments	\$'000	\$'000	\$'000	Total
Opening balance	1 662	1 716	452	3 830	3 893
Additions	28	22	122	172	69
Scrapped	-	-	(10)	(10)	(132)
Adjustment	-	(16)	16	-	-
	1 690	1 722	580	3 992	3 830
Less: Accumulated Depreciation/Amortisation					
Opening balance	1 623	1 235	380	3 238	3 138
Depreciation/Amortisation	51	227	43	321	232
Sales	-	-	4	4	-
Scrapped	-	-	(10)	(10)	(132)
	1 674	1 462	417	3 553	3 238
Net Written Down Value	16	260	163	439	592
18. Payables				2004	2003
Trade creditors				\$'000	\$'000
Other payables				125	105
				89	288
				214	393
19. Provision for Employee Benefits					
Current Liability:					
Provision for annual leave				43	47
Non-Current Liability:					
Provision for long service leave				10	10
20. Interest					
Deposits with SA Government Financing Authority				320	292
Production loans				52	31
Film projects				3	2
				375	325

21. Commitments	2004	2003
(a) Operating Lease	\$'000	\$'000
Not later than one year	180	164
Later than one year but not later than five years	-	-
Total Operating Lease Commitments (including GST)	180	164

Operating lease commitments are not recorded as a liability in the financial statements.

The operating lease is in respect of premises at Hendon which has a right of renewal for a further term.

(b) Program Funds (refer Note 4)

Program Fund commitments to approved applicants, not recognised in the financial statements at 30 June 2004, were \$3 085 000 (\$3 888 000).

22. Contingent Liabilities

The Corporation has no material contingent liabilities.

23. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash consists of cash on hand and at bank and investments in money market instruments.

Cash at 30 June as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

	2004	2003
	\$'000	\$'000
Cash assets	6 722	6 107

(b) Reconciliation of Net Cost of Services to Net Cash provided by Operating Activities

Net cost of services	(4 290)	(4 383)
Revenues from State Government	5 166	5 394
Non-cash flows:		
Depreciation and amortisation	2 085	2 163
Provision for doubtful debts	(9)	25
Changes in assets and liabilities:		
(Increase) Decrease in inventories	(7)	-
Decrease in receivables	28	36
(Increase) in investments and unsecured loans	(2 416)	(1 662)
Decrease (Increase) in production loans	410	(235)
(Decrease) Increase in payables	(179)	173
(Decrease) Increase in provision for employee benefits	(4)	8
(Decrease) in other provisions	-	(250)
Net Cash provided by Operating Activities	784	1 269

24. Administered Item: Disbursement Returns Account

Balance at 1 July	364	531
Add: Receipts:		
Royalties, distribution advances, etc	486	897
Less: Expenditure:		
Disbursements to and on behalf of investors	639	1 037
Disbursement fees	17	27
Balance at 30 June	194	364

25. Additional Financial Instruments Disclosure

(a) Accounting Policies and Terms and Conditions Affecting Future Cash Flows

Financial Assets

Cash assets are available at call and are recorded at cost.

Receivables are recorded at cost. Film Production investments and film development unsecured loans are recorded at amortised cost. Production loans (refer Note 15) are advanced to production companies and are secured by way of a charge or guarantee appropriate to the circumstances of each loan. Interest is charged at rates consistent with usual Corporation policy, being 4 percent per annum. Production loans are recognised at cost and are classified between current asset and non-current asset elements based on the repayment terms specified in each agreement.

Financial Liabilities

Payables are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days.

STATE OPERA OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The State Opera of South Australia (State Opera) is a body corporate established pursuant to subsection 5(1) of the *State Opera of South Australia Act 1976*. The State Opera is responsible to the Minister for the Arts.

Functions

The functions of the State Opera of South Australia are:

- to promote the art of opera and related theatrical arts by presenting performances;
- commissioning the scoring and writing of operas;
- training people concerned in operatic presentations;
- establishing and conducting educational programs.

Structure

The State Opera operates with a permanent staff of five including a General Director, Finance Director, Production Manager, Office Administrator and Head of Wardrobe. Permanent employees are supplemented by temporary staff as required.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 23(3) of the *State Opera of South Australia Act 1976* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987*, provide for the Auditor-General to audit the accounts of the State Opera for each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the State Opera of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls.

During 2003-04, specific areas of audit attention included:

- budgetary control and management reporting
- accounts payable
- payroll
- revenue, including cash receipting and banking
- project and contract management.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable accounting standards and other mandatory professional reporting requirements in Australia, the financial position of the State Opera of South Australia as at 30 June 2004, its financial performance and cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the State Opera of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities except for the matter referred to under Production Evaluation and Approval and Relationship with the State Supply Board are sufficient to provide reasonable assurance that the financial transactions of the State Opera of South Australia have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the General Director. The responses to the management letter were generally considered to be satisfactory. Major matters raised with the State Opera and the related responses are considered herein.

Production Evaluation and Approval

Audit observed that the State Opera does not have formal documented policies and procedures for the evaluation and approval of operatic productions.

State Opera responded that it will endeavour to develop a more formal procedure and policy in relation to the evaluation and approval of future 'existing' productions and for small scale, low budget 'new' productions.

Relationship with the State Supply Board

Last year Audit noted instances where the contracting and procurement activities associated with the construction of sets for the 2004-05 production of *The Ring* had not been undertaken in accordance with policies of the State Supply Board. Audit recommended that State Opera seek written clarification from the State Supply Board regarding its accredited purchasing delegation threshold and obtain appropriate ratification from the State Supply Board for procurement and contracting activities already carried out.

During 2003-04 Audit noted that the State Opera had not sought written clarification from the State Supply on these matters.

In June 2004 the State Opera sought retrospective approval from the State Supply Board to waive a competitive tendering process for set construction for *The Ring*. The State Supply Board has responded that it is unable to approve this request.

Risk Management

Audit observed that the State Opera had not developed a risk management plan to ensure that the requirements of its risk management policy were being met. Specifically, Audit noted that State Opera had not initiated a formal process to identify, analyse, assess, treat and monitor potential risks.

State Opera responded that during 2003-04 it had completed a detailed exercise of identifying risks associated with the staging of *The Ring*, which included undertaking specific occupational health and safety audits relevant to the staging of the production at the Festival Theatre. The State Opera indicated that this assessment would provide the basis on which to develop a formal process for the identification, analysis, assessment and treatment of potential risks for future productions.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**Highlights of Financial Statements**

	2004	2003	Percentage
	\$'million	\$'million	Change
OPERATING REVENUE			
Government grants	3.74	2.44	53
Box office and production revenue	0.58	1.45	(60)
Other revenue	0.53	0.68	(22)
Total Operating Revenue	4.85	4.57	6
OPERATING EXPENDITURE			
Production expenses	1.63	2.93	(44)
Administrative expenses	0.59	0.61	(3)
Total Operating Expenses	2.22	3.54	(37)
Surplus	2.63	1.03	155
Net Cash Flows from Operations	(0.61)	1.97	(131)
ASSETS			
Current assets	10.06	3.84	162
Non-current assets	0.24	1.99	(88)
Total Assets	10.30	5.83	77
LIABILITIES			
Current liabilities	5.18	0.63	722
Non-current liabilities	0.17	2.89	(94)
Total Liabilities	5.35	3.52	52
EQUITY	4.95	2.31	114

Statement of Financial Performance**Operating Revenues**

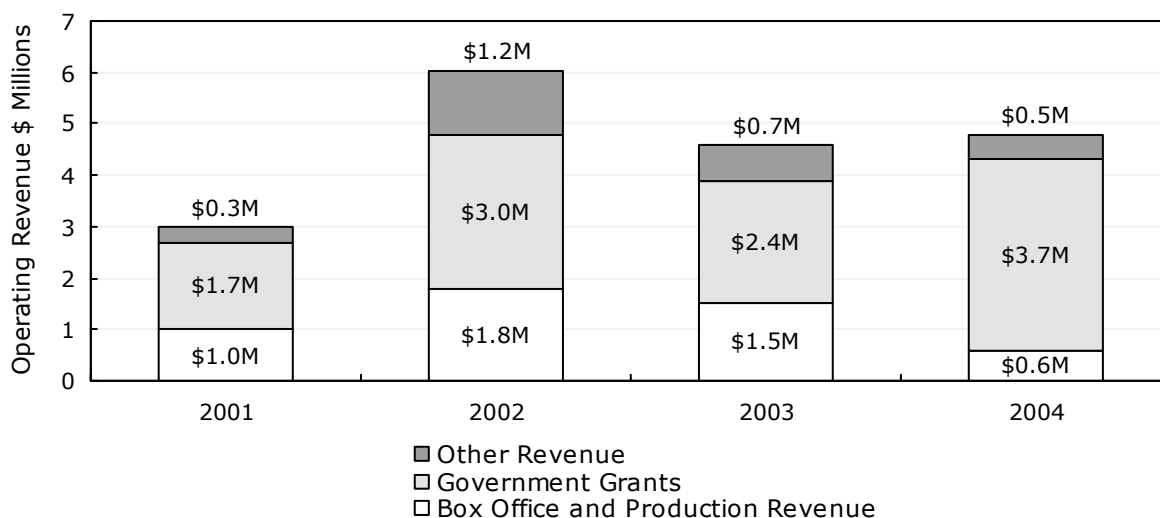
Revenues from State and Commonwealth grants (net of payments to the Adelaide Symphony Orchestra) increased by 53 percent to \$3.74 million mainly as a result of additional funding received from the Commonwealth of \$1.0 million for the 2004-05 production of Wagner's Der Ring des Nibelungen (The Ring). This additional funding was provided by the Commonwealth on the condition that the State Opera appoint an Executive Producer and Associate Producer to assume production and fiscal responsibility for The Ring.

Special purpose funding of \$1.4 million received in 2003-04 includes \$429 000 provided by the Commonwealth through the Australia Council under a funding agreement between the Australia Council and the State Opera for the production of The Ring in 2004-05. Contributions provided by the Australia Council pursuant to this agreement have been provided on the basis that, if for any reason whatsoever the State Opera fails to carry out the 2004-05 Wagner Ring Cycle, any unexpended money's provided by the Australia Council for this opera must be refunded.

State and Commonwealth grants represent 77 percent of total revenues and indicate the extent of the economic dependency of the State Opera on government grants. The Australia Council and Arts South Australia have, through a funding agreement with the State Opera, agreed to provide grant funding for the State Opera until at least 31 December 2006.

Box office and production revenue decreased by 60 percent to \$58 000 reflecting the decrease in the number and scale of performances staged in 2003-04. This reflects the significant pre-production activity associated with The Ring.

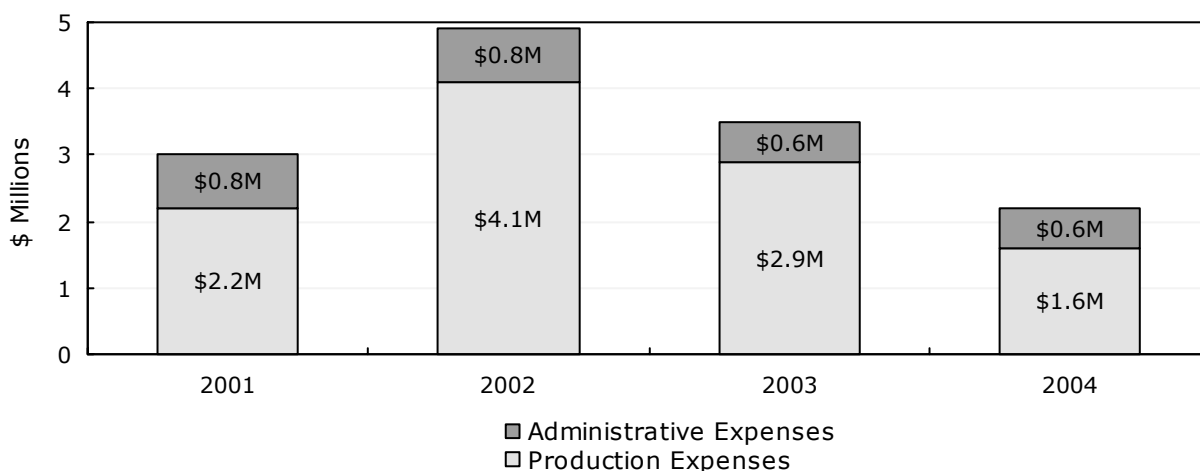
A structural analysis of operating revenues for the State Opera in the four years to 2004 is presented in the following chart.



Operating Expenses

Production expenses, which represent 73 percent of total operating expenses, have decreased by 44 percent to \$1.63 million reflecting the decrease in the number of major performances in 2003-04. During 2003-04 the State Opera’s only major production was the opera *Dead Man Walking*. This decrease in major productions is a reflection of the significant pre-production activity necessary for the 2004-05 production of *The Ring*.

For the four years to 2004, a structural analysis of the main operating expense items for the State Opera is shown in the following chart.

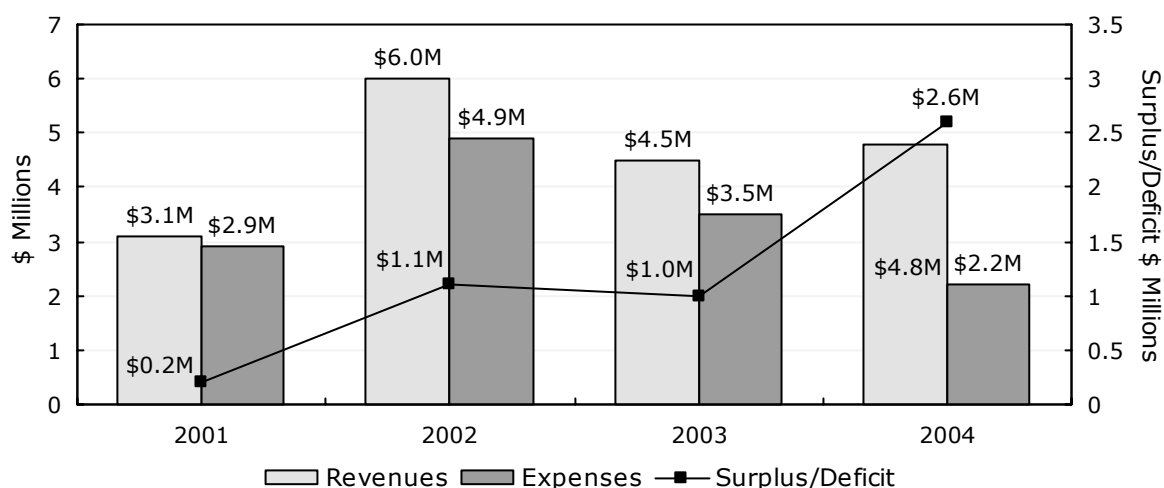


Operating Result

It is difficult to apply meaningful financial analysis for the operating result of State Opera. The large surpluses experienced by the State Opera in the past three years reflect the accumulation of funds by State Opera to be spent on the 2004-05 production of *The Ring*. This reflects State Opera’s accounting policy whereby ticket sales for, and production costs of, future productions such as *The Ring* are recognised as liabilities and prepayments until the reporting period in which the relevant opera has been performed, when they are then recognised as revenues and expenses.

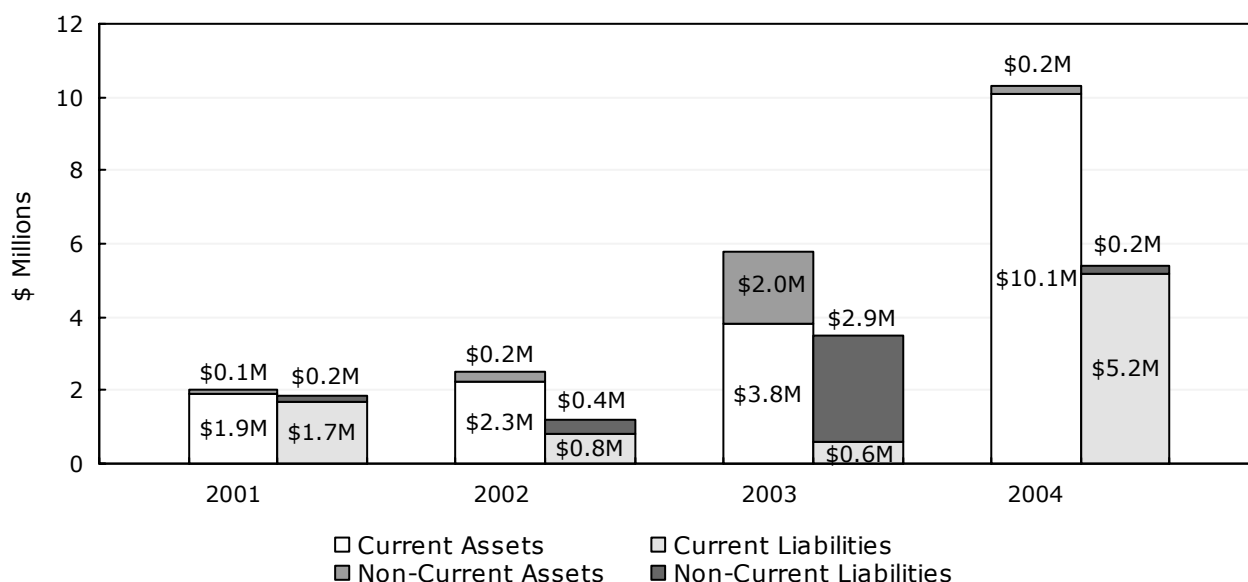
Government revenues received in advance for future productions are recognised as revenue on receipt.

The following chart shows the operating revenues, operating expenses and surpluses/deficits for the four years to 2004.



Statement of Financial Position

For the four years to 2004, a structural analysis of assets and liabilities is shown in the following chart.



The increase in assets and liabilities in 2003 and 2004 recognises increased financial activity associated with the 2004-05 production of *The Ring*. As already mentioned this reflects State Opera's accounting policy whereby ticket sales, and production costs for future productions such as *The Ring* are recognised as liabilities and prepayments until the reporting period in which the relevant opera has been performed, when they are then recognised as revenues and expenses.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004 \$'million	2003 \$'million	2002 \$'million	2001 \$'million
Net Cash Flows				
Operations	(0.6)	1.97	0.62	0.83
Investing	(0.02)	(0.03)	(0.16)	(0.01)
Financing	-	-	-	-
Change in Cash	(0.62)	1.94	0.46	0.82
Cash at 30 June	2.91	3.53	1.59	1.13

The analysis of cash flows demonstrates the significant receipts from Box Office and Productions and the production, administration marketing and other payments all associated with the production of the Ring Cycle in 2004-05. As is discussed elsewhere these receipts are recognised as liabilities at Advance Box Office and the payments are recognised as prepayments.

FURTHER COMMENTARY ON OPERATIONS

The Ring

In June 2000 the State Opera prepared a five year business plan which incorporated initial budget estimated costs of \$9.3 million for a 2004-05 production of Der Ring des Nibelungen (The Ring). The business plan was approved by the Board in August 2000. This initial expenditure budget represented a \$1.4 million increase on the actual production costs incurred for the 1998 production of The Ring, and took into consideration that the 1998 production was an existing production which had previously been staged in Europe. The 2004-05 production was proposed to be a new production.

Audit have observed that since June 2000 a number of revisions have been made to the production budget. On the 27 April 2004 the State Opera approved a revised budget of \$14.2 million. The increase in the budget from the June 2000 estimates is due mainly to increases in the estimated costs associated with scenery and costumes, casual production staff costs to be incurred during the performances, and additional costs associated with the contracting of a full time Executive Producer and Associate Producer.

Budget projections reflecting Commonwealth and State funding, box office sales and other revenue, less production costs reflect an estimated loss of \$451 000.

In last year's Report Audit commented that:

- Audit had been unable to locate documentation which supported a conclusion that the State Opera's decision to schedule the 2004-05 production of The Ring was based on a full review and evaluation of the merits of the production;
- the designer contracted to provide a creative design for The Ring had failed to deliver completed designs by the agreed date of December 2002;
- contracting and procurement activities associated with the construction of sets for the production had not been undertaken in accordance with the policies of the State Supply Board.

In this Report under the heading 'Audit Communications to Management', Audit has noted that the State Supply Board advised State Opera that it was not able to provide approval to waiver a competitive tendering process for the construction of sets.

Production Statistics

Unaudited statistical details for major productions over the last three years, as provided by the State Opera, are presented in the following table:

	2003-04	2002-03	2001-02
	Numbers	Numbers	Numbers
Number of major productions	1	3	5
Number of performances	4	14	23
Total seat capacity	7 112	25 144	22 900
Number of seats sold*	5 078	17 162	17 800
Average number of seats sold per performance	1 270	1 230	770
	\$	\$	\$
Production costs per seat sold**	248	140	210
Box office and production revenue per seat sold	84	85	99
Subsidy per seat sold***	164	55	111

* Seats sold exclude complimentary tickets.

** Excludes Opera Conference support and other production costs.

*** Subsidy per seat sold represents the amount of government grants, private sponsorship and donations received by the State Opera per seat sold.

**Statement of Financial Performance for
the year ended 30 June 2004**

	Note	2004 \$'000	2003 \$'000
REVENUES FROM ORDINARY ACTIVITIES:			
State Government grants		1 369	1 059
Less: Payment to Adelaide Symphony Orchestra		(230)	(230)
	3	1 139	829
Commonwealth Government grants	3	2 602	1 606
Box office and production revenue	4	581	1 449
Donations	5	320	450
Sponsorship		104	88
Interest and sundry revenue		106	146
Total Revenues		4 852	4 568
EXPENSES FROM ORDINARY ACTIVITIES:			
PRODUCTION COSTS:			
Performers and employee entitlements		710	1 339
Theatre hire and related expenses		364	663
Costumes and sets		116	125
Advertising		106	212
Travel and accommodation		90	146
Shipping and freight		78	48
Opera conference support		-	163
Other expenses		165	232
	6	1 629	2 928
ADMINISTRATION, MARKETING AND FINANCIAL:			
Employee entitlements		223	284
Rental accommodation and service expenses		156	149
Subscription and marketing costs		20	22
Other expenses		186	152
Total Expenses		585	607
OPERATING SURPLUS		2 214	3 535
OPERATING SURPLUS		2 638	1 033
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH THE STATE GOVERNMENT AS OWNER			
		2 638	1 033

**Statement of Financial Position
as at 30 June 2004**

	Note	2004	2003
ASSETS:		\$'000	\$'000
CURRENT ASSETS:			
Cash assets	7, 15	2 907	3 530
Prepayments		7 014	233
Receivables		114	66
Inventories		22	16
Total Current Assets		10 057	3 845
NON-CURRENT ASSETS:			
Investments		158	159
Plant and equipment	8	80	84
Prepayments		-	1 745
Total Non-Current Assets		238	1 988
Total Assets		10 295	5 833
LIABILITIES:			
CURRENT LIABILITIES:			
Advance box office		3 720	197
Advance sponsorship		1 036	27
Creditors		297	299
Accruals		91	77
Provision for employee entitlements	9	37	34
Total Current Liabilities		5 181	634
NON-CURRENT LIABILITIES:			
Provision for employee entitlements	9	166	149
Advance box office		-	2 140
Advance sponsorship	2	-	600
Total Non-Current Liabilities		166	2 889
Total Liabilities		5 347	3 523
NET ASSETS		4 948	2 310
EQUITY:			
Reserves	10	4 797	2 242
Accumulated surplus	10	151	68
TOTAL EQUITY		4 948	2 310
Commitments and Contingent Liabilities	11		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		(Outflows)	(Outflows)
RECEIPTS:	Note	\$'000	\$'000
Grants - State and Commonwealth Government		3 741	2 579
Box office and production		1 962	3 290
Sponsorship		520	427
Donations		320	450
Interest and sundries		106	146
GST collected on sales		547	325
PAYMENTS:			
Performers and employee entitlements		(1 899)	(1 566)
Production, administration, marketing and other payments		(5 355)	(3 360)
GST paid on purchases		(328)	(204)
GST remitted to Australian Taxation Office		(220)	(121)
Net Cash (used in) provided by Operating Activities	16	(606)	1 966
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(17)	(28)
Net Cash used in Investing Activities		(17)	(28)
NET (DECREASE) INCREASE IN CASH HELD		(623)	1 938
CASH AT 1 JULY		3 530	1 592
CASH AT 30 JUNE	15	2 907	3 530

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. State Opera of South Australia Objectives and Funding

The State Opera of South Australia (the Company) objectives are to:

- promote and develop The State Opera of South Australia as one of Australia's most exciting and innovative performing arts companies.
- reinforce, through the Company's activities, South Australia's reputation both nationally and internationally as a State recognised for its rich cultural life and artistic excellence.
- be recognised nationally and internationally as a forward-thinking performing arts company that 'does it differently'.
- be renowned nationally and internationally as the performing arts company that makes Adelaide a 'Wagner City'.

The State Opera of South Australia's principal source of funds are State Government appropriations, Commonwealth Government grants (through the Australia Council) and box office and production revenues.

2. Statement of Significant Accounting Policies

The significant accounting policies adopted by the Company are stated in order to assist in a general understanding of the financial report. These policies have been consistently applied except as otherwise indicated.

Basis of Accounting

The general purpose financial report has been prepared on the basis of historical cost and in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), Department of Treasury and Finance Accounting Policy Statements and the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*. The accrual method of accounting has been used. The financial statements do not take into account changing money values or, except where stated, the current valuations of non-current assets.

Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The State Opera's management are assessing the significance of these changes and preparing for their implementation.

Employee Entitlements

Employee entitlements include entitlements to salaries, wages, long service leave, annual leave and superannuation benefits.

Long service leave and annual leave is recognised on a pro-rata basis in respect of services provided by employees up to the reporting date. Liabilities in respect of these entitlements have been calculated at nominal amounts based on current salaries and wages rates and include related on-costs. The Department of Treasury and Finance has advised that a benchmark of seven years can be used for a shorthand estimation of the long service leave liability in accordance with the provisions of Australian Accounting Standard AASB 1028 'Employee Benefits'. This advice has been adopted and the long service leave liability has been calculated on that basis.

The superannuation expense comprises contributions to accumulation style superannuation schemes for performers and employees. In addition, in accordance with employment agreements, amounts are payable to externally managed funds. The schemes have the responsibility for meeting benefit payments, in accordance with scheme rules.

Sick leave is not provided for as it is non-vesting, however, entitlements are accumulated.

The State Opera of South Australia pay workers compensation insurance premiums to the WorkCover Corporation, and as such no liability for workers compensation has been reflected in the financial report.

Depreciation of Non-Current Assets

Depreciation of plant and equipment is calculated using the straight line method of allocation and is recognised in the financial report from 1 July following acquisition. All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner, which reflects the consumption of their service potential. Useful lives are reviewed annually. The expected useful lives are as follows:

	Years
Computer equipment	3
Office furniture and equipment	5
Production equipment	10

Result of Operations

Receipts from Advance Box Office for the Ring Cycle of \$3.7 million are recognised as a current liability. Payments amounting to \$7 million for production, administration, marketing and other costs associated with the Ring Cycle have been recognised as prepayments. Budget projections reflecting Commonwealth and State funding, box office sales and other revenue, less production costs reflect an estimated loss of \$451 000. This projected loss will be recognised in the Statement of Financial Performance in 2004-05, when a transfer of funds from Other Reserves will be required.

Operating Grants

The State Government and Australia Council grants are based on the Company's cash flows and as such do not take into account accrued expenses and amounts set aside for depreciation and future employee entitlements.

Economic Dependency

The normal business activities of the State Opera of South Australia are dependent on the continuation of grants from the State Government and the Australia Council at an appropriate level. The State Opera of SA, Arts South Australia and the Australia Council have entered into a formal agreement which maintains funding at current levels or better until 31 December 2006.

Financial Instruments

The Company's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2004 are as follows:

Financial Assets

Cash at bank (Note 7) comprises deposits at call with the Commonwealth Bank of Australia. No interest is earned on this account.

Short term deposits (Note 7) comprises deposits at call with the:

- South Australian Government Financing Authority (SAFA)
- Commonwealth Bank - Thora and Frank Pearce Opera Foundation
- Adelaide Bank and Adelaide Managed Funds - Diana Ramsay Fund.

Financial Assets (continued)

Interest revenues are recognised as they accrue. Interest rates are at market rates and have fluctuated between 3.2 percent and 5.15 percent for the year ended 30 June 2004 (between 3.2 percent and 4.8 percent in 2002-03).

Receivables are reported at amounts due, less provision for doubtful debts.

Investments comprise equity shares and are brought to account at cost and dividends are credited to revenue when they are declared. The fair value of investments as at 30 June 2004 was \$169 000.

Financial Liabilities

Creditors are raised for amounts billed but unpaid and are normally settled within 30 days.

All financial instruments are valued at the carrying amount as per the Statement of Financial Position, which approximates net fair value, with the exception of investments.

Revenue Recognition

Government grants and other revenue are recognised on receipt. Interest revenues are recognised as they accrue. Box office, production and sponsorship revenue is recognised after the service has been provided.

Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of the UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)' revenues, expenses and assets are recognised net of the amount of GST except that:

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

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing activities, which are recoverable from, or payable to the Australian Taxation Office have however been classified as operating cash flows.

Tax Status

The activities of the State Opera of South Australia are exempt from Commonwealth income tax but subject to other Commonwealth taxes such as Fringe Benefits Tax, Goods and Services Tax and other State taxes (including payroll tax).

Rounding

All amounts are rounded to the nearest thousand dollars.

3. Grant Revenues	2004	2003
State Government	\$'000	\$'000
From Arts SA for:		
General	926	829
Special purpose relating to the Ring Cycle	200	-
Special purpose relating to the opera <i>Undertow</i>	13	-
Orchestral services	230	230
	1 369	1 059
<i>Less:</i> Payment to Adelaide Symphony Orchestra	230	230
	1139	829
Commonwealth Government		
From Australia Council for:		
General	1 164	736
Special purpose relating to the Ring Cycle*	1 429	667
Opera conference	-	163
Other special purpose funding relating to artist support	9	40
	2 602	1 606

* Includes Special purpose funding of \$429 000 provided under a separate funding agreement for the production of Wagner's *Der Ring des Nibelungen* (Wagner Ring Cycle) in 2004-05. Contributions received from the Australia Council under this agreement have been provided on the basis, that if for any reason whatsoever the State Opera fails to carry out the 2004-05 Wagner Ring Cycle, any unexpended monies provided must be refunded.

4. Box Office and Production Revenue	2004
Comprises revenue for operas and other events staged during the year:	\$'000
Opera:	
<i>Dead Man Walking</i>	427
<i>Undertow</i>	67
<i>Ring weekend</i>	59
<i>Akhnaten - Interstate Tour</i>	51
	604
Less: BASS ticket service charges	23
	581

In 2002-03 there were four operas staged which generated revenue of \$1 513 000.

5. Donations	2004	2003
This comprises money received from:	\$'000	\$'000
Patrons specifically for 2004-05 Wagner Ring Cycle	304	297
Diana Ramsay Fund	-	50
Patrons	16	97
Thora and Frank Pearce Opera Foundation	-	6
	320	450

6. Production Costs	2004
Production costs which can be directly attributed to operas, staged during the year, other events and other production costs, are as follows:	\$'000
Opera:	
<i>Dead Man Walking</i>	1 261
<i>Undertow</i>	116
<i>Ring weekend</i>	55
<i>Akhnaten - Interstate Tour</i>	51
	15
Contribution to Opera Studio Young Artists Program	131
Other Production costs	131
	1 629

In 2002-03 there were four operas staged at a production cost of \$2 928 000.

7. Cash Assets	2004	2003
Cash assets comprise:	\$'000	\$'000
Short term deposits	2 892	3 527
Cash at bank	12	1
Cash on hand	3	2
	2 907	3 530

8. Plant and Equipment			
Production equipment - At cost	148	132	
Less: Accumulated depreciation	80	66	
	68	66	
Office furniture and equipment- At cost	56	56	
Less: Accumulated depreciation	54	52	
	2	4	
Computer equipment - At cost	57	56	
Less: Accumulated depreciation	47	42	
	10	14	
	80	84	

Movements in Carrying Amounts	Production Equipment	Office Equipment	Computer Equipment	2004
Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:	\$'000	\$'000	\$'000	Total
				\$'000
Balance at 1 July	66	4	14	84
Additions	16	-	1	17
Disposals	-	-	-	-
Depreciation expense	(14)	(2)	(5)	(21)
Carrying amount at 30 June	68	2	10	80

9. Provision for Employee Entitlements	2004	2003
Current:	\$'000	\$'000
Annual leave	37	34
Non-Current:		
Long service leave	166	149

10. Equity		2004	2003
Movements during the year were:		\$'000	\$'000
Reserves - Wagner Ring Cycle:			
Balance at 1 July		1 695	812
Net transfer from accumulated surplus		2 239	883
Balance at 30 June		3 934	1 695
Other Reserves:			
Balance at 1 July		547	433
Net transfer from accumulated surplus		316	114
Balance at 30 June		863	547

Other reserves are for Diana Ramsay Fund, the Thora and Frank Pearce opera Foundation and future periods.

Accumulated Surplus:			
Accumulated Surplus at 1 July		68	32
Operating surplus		2 638	1 033
Net transfers to reserves		(2 555)	(997)
Accumulated Surplus at 30 June		151	68

11. Commitments and Contingent Liabilities

The Company, by the nature of its operations, has entered into contracts with artists and theatre proprietors for performances scheduled to take place subsequent to 30 June 2004. The terms and conditions of the contracts may also place a liability on the Company to pay some or all of these amounts should the artist not be engaged or the theatre, hired scenery, or costumes not be used.

These commitments have been made on the basis that ongoing funding will continue from the State and Federal Governments at an appropriate level.

	Due within	Due within	2004	2003
	1 Year	1-5 Years	Total	Total
	\$'000	\$'000	\$'000	\$'000
Performers' salaries, etc	2 763	254	3 017	2 800
Construction and hire agreements	447	233	680	930
	3 210	487	3 697	3 730

12. Related Party Information

The Board members who have held office during the financial year are:

Mr Ian Kowalick (Chair)	Lady Neal AM
Mr Terry Evans	Mr Robert Pontifex
Ms Patricia Lange	Mrs Jeanette Sandford-Morgan OAM
Ms Deborah Morgan	Mr Christopher Stone
	Dr Christine Rothhauser

No Board member received any remuneration from the Company during the 12 months to 30 June 2004 (\$nil). All Board members have waived the basic sitting fees as a contribution to the Company. Members of the Board of Management use the services of the Company no more favourably than members of the public, except for the provision of tickets to each staged production.

13. Remuneration of Employees

Remuneration includes salary and other employee entitlements and benefits that form the total remuneration package for an employee. The Company has one employee whose normal remuneration fell within the band \$140 000-\$150 000. Total remuneration paid to that employee was \$145 000 (\$139 000).

14. Auditors' Remuneration

The amount received or due and receivable by the Auditor-General for auditing the accounts was:	2004	2003
	\$'000	\$'000
	19	18

The auditor provided no other services.

15. Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand, at bank and short-term deposits.

Cash at 30 June as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:	2004	2003
	\$'000	\$'000
State Opera - Cash on hand	2 703	3 343
Trust funds - Cash on hand (refer Note 18)	204	187
	2 907	3 530

16. Reconciliation of Operating surplus to Net Cash (used in) provided by Operating Activities	2004	2003
	\$'000	\$'000
Operating surplus	2 638	1 033
Depreciation of plant and equipment	21	17
(Increase) Decrease in receivables and prepayments	(5 084)	(1 389)
Decrease (Increase) in stock on hand	(6)	-
Increase (Decrease) in advance box office sales and advanced sponsorship	1 792	2 120
Increase (Decrease) in Creditors and accruals	12	128
Increase in Provisions	21	57
Net Cash (used in) provided by Operating Activities	(606)	1 966
17. Consultants		
Consultant expenses	-	47

No consultants were engaged during 2003-04.

18. Trust Funds

The State Opera of South Australia holds funds in a trustee capacity. These funds are included in the financial statements as they are effectively controlled by the State Opera.

The State Opera administers the Thora and Frank Pearce Opera Foundation established in August 1999 and the Diana Ramsay Fund established in November 2001. The Foundation and the Fund are both financed by public donations. All funds are to be used exclusively for cultural purposes associated with opera.

The revenues and expenses of controlled Trusts reflected in the Statement of Financial Performance for the year ended 30 June 2004 were:

	Thora and Frank Pearce Opera Foundation	Diana Ramsay Fund	Total
	\$'000	\$'000	\$'000
Revenue from Ordinary Activities:			
Donations	-	-	-
Interest and sundry revenue	4	13	17
Expenses from Ordinary Activities:			
Other expenses	-	-	-
	4	13	17
Represented by:			
Cash assets	87	117	204
Investments	-	158	158
	87	275	362

STATE THEATRE COMPANY OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The State Theatre Company of South Australia (the Company) is a body corporate established pursuant to subsection 5(1) of the *State Theatre Company of South Australia Act 1972* (the Act).

Functions

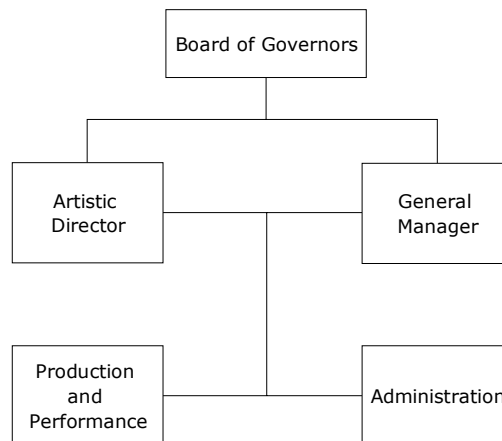
The functions of the State Theatre Company of South Australia are to:

- present theatrical performances to promote the art of the theatre;
- promote and commission the writing of works for theatrical performances;
- promote the training of people in the production, presentation and performance of theatrical works;
- promote public interest and participation in the art of the theatre;
- establish and conduct educational programs.

The Company uses the facilities of the Adelaide Festival Centre to stage theatrical performances and occupies workshops and offices within and adjacent to the Centre. The Adelaide Festival Centre Trust charges the Company for the use of the facilities and premises. The Company also makes and purchases costumes, props and sets for use in theatrical performances and stores them at rented premises located at Pennington. The items are available for hire to other theatrical companies and the public.

Structure

The structure of the State Theatre Company of South Australia is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of Financial Statements

Subsection 26(2) of the *State Theatre Company of South Australia Act 1972* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts of the Company in respect of each financial year.

Assessment of Controls

Subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to assess the controls exercised by the State Theatre Company of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

This assessment also considers whether those controls are consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an audit opinion to be formed with respect to the financial statements and internal controls. Further, with respect to the assessment of controls, the audit considered whether they were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

During 2003-04, specific areas of audit attention included:

- the Company's governance and risk management framework
- accounts payable
- payroll
- revenue, including box office sales, grants and sponsorship.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of Financial Statements

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the State Theatre Company as at 30 June 2004, its financial performance and its cash flows for the year then ended.

Assessment of Controls

Audit formed the opinion that the controls exercised by the State Theatre Company of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, are sufficient to provide reasonable assurance that the financial transactions of the State Theatre Company of South Australia have been conducted properly and in accordance with law.

Audit Communications to Management

Matters arising during the course of the audit were detailed in management letters to the General Manager. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Company and the related responses are considered herein.

Documentation of Policies and Procedures

To strengthen Corporate Governance, Audit is of the opinion that all policies and procedures relating to the Company's operations should be documented and approved. This has been brought to the attention of management in prior years and Audit was advised that the Accounting Policy and Procedure Manual would be completed by May 2004.

A Policy and Procedure Manual lays a foundation for a good control environment and can assist in guiding the operations of the Company. Review of the progress in the development and approval of the Policy and Procedure Manual revealed that it had not yet been written and approved. Audit acknowledges that a Document Framework has been established are that some draft policies have been prepared.

The Company has responded that the Policy and Procedure Manual would be completed by early 2005.

Leases

The Company rents its office premises from the Adelaide Festival Centre Trust. Costumes, props and sets are located at rented premises at Pennington. In August 2004 lease negotiations for both premises had not been finalised and the agreements remained unsigned. The execution of these agreements will ensure that both parties accept their terms and conditions.

The Company has indicated that a recommendation to the Board will be made for the signing of the Pennington lease. The Adelaide Festival Centre Trust has been informed by the Company of changes the Company would like to the lease for the office premises.

Casual Employment Contracts

Audit identified that documented contracts between the Company and casual employees did not exist. Audit considers that documented contracts for casual employment are an important control in ensuring employee agreement on the terms and conditions of employment.

The Company has advised that managers have been asked to issues contracts for all casual employees and to enter the details of each contract onto the Contracts Register.

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

Highlights of Financial Statements

	2004	2003	Percentage
	\$'million	\$'million	Change
ORDINARY REVENUES			
Government grants	2.2	2.1	5
Box office and related revenue	1.4	1.1	27
Other	0.9	0.7	29
Total Ordinary Revenue	4.5	3.9	15
ORDINARY EXPENDITURE			
Employment benefits	2.4	2.2	9
Other expenses	1.9	1.7	12
Total Ordinary Expenses	4.3	3.9	10
Surplus (Deficit)	0.2	-	
Net Cash Flows from Operations	0.2	0.1	100
ASSETS			
Current assets	0.7	0.9	(22)
Non-current assets	0.4	-	
Total Assets	1.1	0.9	22
LIABILITIES			
Current liabilities	0.7	0.8	(12)
Non-current liabilities	0.2	0.1	100
Total Liabilities	0.9	0.9	-
EQUITY	0.2	-	

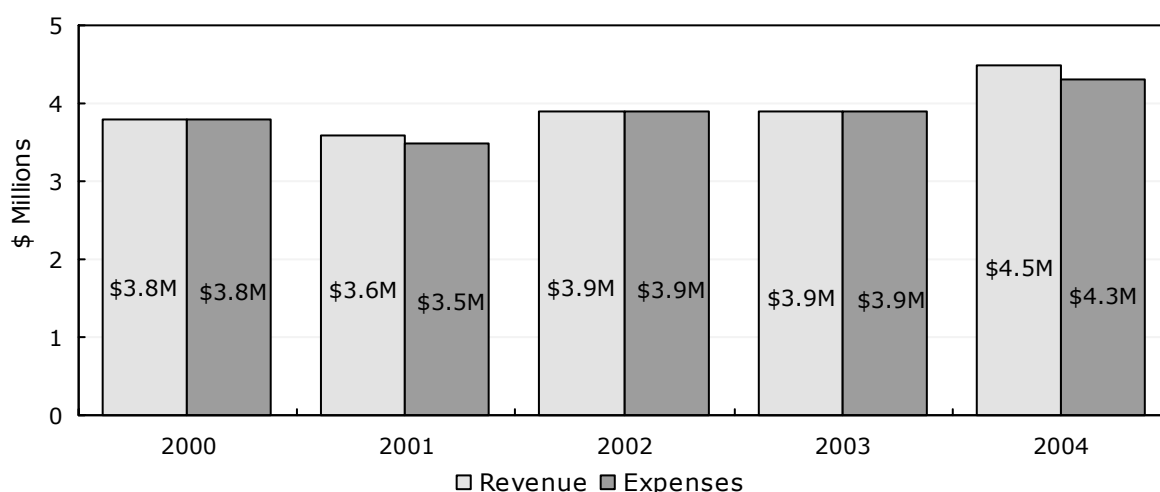
Statement of Financial Performance

The Company's operations and, in consequence its financial performance, is largely influenced by the level of grant funding provided by the State Government and the Australia Council. Over the last five years that source of funding has represented between 50 and 56 percent of the Company's revenue. The balance of revenue is due largely to box office receipts, sponsorship and donations.

The expenses of the Company are predominantly employee related which, over the past five years, has comprised between 51 and 56 percent of total expenses.

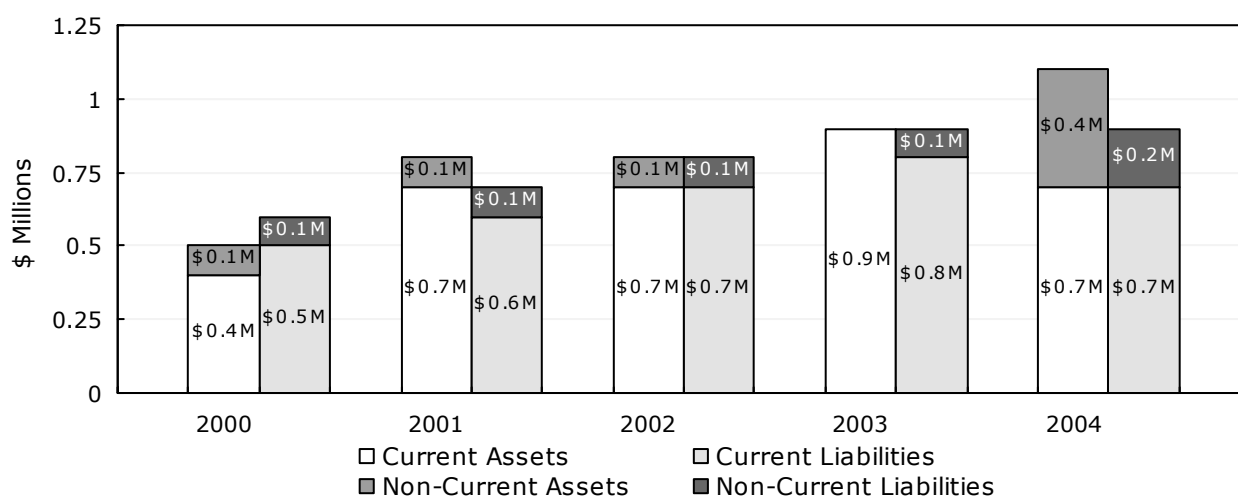
The Company has managed its operations and expenses within the available funding which is reflected in the small operating surpluses reported by the Company over the past five years.

The following chart shows the ordinary revenues and ordinary expenses for the five years to 2004.



Statement of Financial Position

For the five years to 2004, a structural analysis of assets and liabilities is shown in the following chart.



The increase in the Company's non-current assets is due to an investment with the South Australian Government Financing Authority. It represents the contributions made by the Company, Arts SA and the Australia Council under the Reserves Incentive Funding Scheme Agreement.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2004.

	2004	2003	2002	2001
	\$'000	\$'000	\$'000	\$'000
Net Cash Flows				
Operations	226	89	134	264
Investing	(375)	(14)	(18)	(3)
Financing	(9)	(3)	(16)	(16)
Change in Cash	(158)	72	100	245
Cash at 30 June	475	633	561	461

The analysis of cash flows shows that the State Theatre Company of South Australia had gradually been increasing its cash assets over a number of years, however, 2003-04 has seen a decrease in cash due to a cash transfer of \$114 000 to investments under the Reserves Incentive Funding Scheme Agreement.

FURTHER COMMENTARY ON OPERATIONS

	2003-04	2002-03	2001-02	2000-01
	Number	Number	Number	Number
Number of productions	7	7	7	7
Number of performances	164	153	161	161
Number of seats sold	39 839	45 514	42 253	42 000

	2003-04	2002-03	2001-02	2000-01
	\$	\$	\$	\$
Total expenses per seat sold	109	86	91	82
Box office and other internally generated revenue per seat sold	53	41	40	39

**Statement of Financial Performance
for the year ended 30 June 2004**

		2004	2003
	Note	\$'000	\$'000
REVENUES FROM ORDINARY ACTIVITIES:			
Grants	3	2 169	2 063
Box office and related revenue	3	1 365	1 164
Sponsorship and donations	3	534	508
Revenues from non-operating activities	3	229	-
Other revenue	3	227	215
Total Revenues		4 524	3 950
EXPENSES FROM ORDINARY ACTIVITIES:			
Employee benefits	2(i)	2 437	2 162
Sales and sponsorship expenses		459	486
Theatre hire and charges		381	441
Rent		178	182
Ticket agency charges		90	93
Scenery, sound, lighting and special effects		165	85
Travel and accommodation		192	82
Royalties		92	79
Communications		56	49
Costume and props		52	48
Depreciation and amortisation	9	30	25
Other		193	217
Total Expenses		4 325	3 949
SURPLUS FROM ORDINARY ACTIVITIES		199	1

**Statement of Financial Position
as at 30 June 2004**

	Note	2004 \$'000	2003 \$'000
ASSETS:			
CURRENT ASSETS:			
Cash	5, 17.1	495	656
Receivables and prepayments	7	230	239
Stock on hand	8	4	26
Total Current Assets		729	921
NON-CURRENT ASSETS:			
Investments	6	343	-
Plant and equipment	9	59	52
Total Non-Current Assets		402	52
Total Assets		1 131	973
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	10	664	763
Employee benefits	11	77	73
Special funds	12	4	4
Total Current Liabilities		745	840
NON-CURRENT LIABILITIES:			
Payables	10	22	13
Employee benefits	11	109	61
Special funds	12	16	19
Total Non-Current Liabilities		147	93
Total Liabilities		892	933
NET ASSETS		239	40
TOTAL EQUITY:			
Accumulated surplus	13	239	40
TOTAL EQUITY		239	40
Commitments and Contingent Liabilities	16		

**Statement of Cash Flows
for the year ended 30 June 2004**

		2004	2003
		Inflows (Outflows)	Inflows (Outflows)
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:	Note		
PAYMENTS:			
Employee benefits		(2 371)	(2 141)
Suppliers		(1 964)	(1 808)
GST paid to suppliers		(185)	(184)
RECEIPTS:			
Grants from funding bodies		2 169	2 063
Grants with respect to Reserves Incentive Funding Scheme Agreement		229	-
Box office and other receipts		2 094	1 940
Interest received		35	35
GST refunded by Australian Taxation Office		58	83
GST received		161	101
Net Cash provided by Operating Activities	17.2	226	89
CASH FLOWS FROM INVESTING ACTIVITIES:			
PAYMENTS:			
Payments for plant and equipment		(48)	(14)
Payments for investments		(343)	-
RECEIPTS:			
Proceeds from sale of plant and equipment		16	-
Net Cash used in Investing Activities		(375)	(14)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of finance leases		(9)	(3)
Net Cash used in Financing Activities		(9)	(3)
NET (DECREASE) INCREASE IN CASH HELD		(158)	72
CASH AT 1 JULY		633	561
CASH AT 30 JUNE	17.1	475	633

Schedule of Company's Expenses for the year ended 30 June 2004

	Production and Performance \$'000	Administration \$'000	2004 Total \$'000	2003 Total \$'000
Employee benefits	2 191	246	2 437	2 162
Sales and sponsorship expenses	459	-	459	486
Theatre hire and charges	381	-	381	441
Rent	87	91	178	182
Ticket agency charges	90	-	90	93
Scenery, sound, lighting and special effects	165	-	165	85
Travel and accommodation	187	5	192	82
Royalties	92	-	92	79
Communications	2	54	56	49
Costume and props	52	-	52	48
Depreciation and amortisation	-	30	30	25
Other	55	138	193	217
	3 761	564	4 325	3 949

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

The State Theatre Company of South Australia aims to establish itself as a parent body to innovation that is also successful in producing populist and commercial work that appeals to a broad audience. Our vision is to present, produce, manage and conduct theatrical performances, and be a Company that is driven by artists and ideas.

The State Theatre Company of South Australia's principal source of funds are State Government appropriations, Commonwealth Government grants and Box Office and related revenues.

2. Statement of Significant Accounting Policies

These policies are consistent with those adopted in the previous year.

(a) Basis of Accounting

The general purpose financial report has been prepared in accordance with Statements of Accounting Concepts, applicable Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), Department of Treasury and Finance Accounting Policy Statements and the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, and the historical cost convention using the accrual method of accounting.

(b) Economic Dependency

The normal business activities of the Company are dependent on the continuation of grants from the State Government and the Australia Council at appropriate levels. The State Government has advised that funding at current levels will be maintained through to 31 December 2006. Accordingly, this financial report has been prepared on a going concern basis.

(c) Operating Grants

The State Government and Australia Council grants are based on the Company's cash flow and do not take into account accrued expenses and amounts set aside for depreciation, amortisation and future employee entitlements.

In accordance with Department of Treasury and Finance Accounting Policy Statement APS 11, 'Contributions', grants received to fund expenses in the following financial year are recognised as revenues when received.

(d) Result of Operations

Ticket sales for, and production costs of, future productions and productions in progress at year end are carried forward as advance box office revenue and prepayments and are not included in revenues and expenses from ordinary activities for the year.

(e) Stock on Hand

In addition to the assets reported, the Company also holds stocks of costumes and theatre props. However, given the special purpose nature of these items, the Board of Governors does not believe it appropriate to bring the value of costumes and theatre props to account.

(f) Provision for Doubtful Debts

The Company established a provision for any doubtful debts based on a review of all outstanding amounts at year end. Bad debts are written off when they are identified.

(g) Plant and Equipment

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of their service potential. Useful lives are reviewed annually. The major asset categories and their expected useful lives are as follows:

	Years
Motor vehicles	5
Office equipment	5
Computer equipment	4

Depreciation is calculated using the straight line method of allocation and is recognised in the financial statements from the date of acquisition. Acquisitions of \$1 000 or less are expensed.

(h) Leased Assets

Assets of the Company acquired under finance leases are capitalised. Leased assets are amortised over the life of the relevant lease, or where it is likely the Company will obtain ownership of the asset on expiration of the lease, the expected useful life of the asset.

(i) Employee Benefits

Employee benefits include entitlements to salaries, wages, long service leave, annual leave and superannuation benefits.

Long service leave is recognised on a pro-rata basis in respect of services provided by employees up to the reporting date. Liabilities in respect of these entitlements have been calculated at nominal amounts based on current salary and wages rates. The Department of Treasury and Finance have advised that a benchmark of seven years can be used for a short hand estimation of long service leave liability in accordance with the provisions of Australian Accounting Standard AASB 1028 'Employee Benefits'. This advice has been adopted and the long service leave liability has been calculated on that basis. Liabilities for employment on-costs, such as superannuation and payroll tax, are reported as payables.

The superannuation expense comprises contributions to accumulation style superannuation schemes for employees. In addition, in accordance with employment agreements for employees and artists, amounts are payable to externally managed funds. The schemes have the responsibility for meeting benefit payments, in accordance with the rules.

The State Theatre Company of South Australia pays workers compensation insurance premiums to the WorkCover Corporation, and as such no liability for workers compensation has been reflected in the financial report.

Sick leave is not provided for as it is non-vesting, however, entitlements are accumulated.

(j) Tax Status

The activities of the State Theatre Company of South Australia are exempt from Commonwealth income tax but subject to other Commonwealth taxes such as fringe benefits tax, goods and services tax and other State taxes (including payroll tax).

(k) Financial Instruments

The Company's accounting policies, including the terms and conditions of each class of financial asset and financial liability, are as follows:

Financial Assets

Cash at bank comprises deposits at call with BankSA and are recorded at cost.

Interest revenues are recognised as they accrue. The interest rate for 2003-04 was 0.5 percent (1 percent in 2002-03).

Short term deposits (Note 5) includes deposits at call with the South Australian Government Financing Authority and are recorded at cost. Interest revenues are recognised as they accrue. Interest rates are at market rates of 4.65 percent (Jul-Nov) and 5.15 percent (Dec-Jun) for the year ended 30 June 2004 (4.65 percent in 2002-03).

Investments include long term deposits with the South Australian Government Financing Authority and are recorded at cost. Interest revenues are recognised as they accrue, and are reinvested in the fund. Interest rates are at market rates of 5.5 percent. These funds are held in escrow and are subject to the terms and conditions of the Reserve Incentive Funding Scheme Agreement between the Company, the Australia Council and Arts SA.

Trade Receivables (Note 7) are reported at amounts due.

Financial Liabilities

Trade Creditors (Note 10) are raised for amounts billed but unpaid and are normally settled within 30 days.

Finance leases (Notes 10 and 16) are recognised at the present value of the minimum lease payments at the beginning of the lease. The discount rates used are estimates of the interest rates implicit in the leases. At the reporting date, the Company had one finance lease with a term of 1 year at an interest rate of 9 percent. Lease liabilities are reduced by the principal component of lease payments and are secured by the lease assets. The interest component is charged as an operating expense.

All financial instruments are valued at the carrying amount as per the Statement of Financial Position, which approximates net fair value.

(l) Revenue Recognition

Government grants and other revenue are recognised on receipt. Interest revenues are recognised as they accrue. Box Office and related revenue is recognised after the final performance of the production has concluded.

(m) Accounting for the Goods and Services Tax (GST)

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

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

The net GST receivable/payable to the Australian Taxation Office has been recognised as a receivable/payable in the Statement of Financial Position.

Cash flows are reported on a gross basis in the Statement of Cash Flows. The GST component of cash flows arising from investing activities, which are recoverable from, or payable to the Australian Taxation Office have however been classified as operating cash flows.

(n) International Financial Reporting Standards

The adoption of Australian equivalents to International Financial Reporting Standards in 2005 is not expected to have a material impact on the accounting policies of the Company. The Company is managing the transition through attending training seminars and the Company's own internal review.

(o) Rounding

All amounts are rounded to the nearest thousand dollars.

3. Operating Revenues Comprise	2004	2003
Grants from the:	\$'000	\$000
State Government:		
Operating	1 618	1597
Special purpose	125	20
Australia Council:		
Operating	404	399
Special purpose	22	47
Total Grants	2 169	2 063
Box Office and related revenue	1 365	1 164
There were seven productions staged during the year and seven productions staged last year.		
Sponsorship and donations	534	508
Other Revenue:		
Interest	35	35
Prop Shop income	103	94
Miscellaneous revenue	89	86
Total Other Revenue	227	215
Revenues from Non-operating Activities:		
State Government grants - Reserves Incentive Funding Scheme	114	-
Australia Council grants - Reserves Incentive Funding Scheme	114	-
Interest - Reserves Incentive Funding Scheme	1	-
Total Non-operating Revenues	229	-

3. Operating Revenues (continued)

The Company entered into an agreement, known as the Reserves Incentive Funding Scheme Agreement, with the Australia Council and Arts SA during 2003-04. The Scheme is designed to encourage and assist the Major Performing Arts companies to strengthen their balance sheets by building reserves to a level that is sufficient to underpin their financial health.

Contributions were received during the year totalling \$228 000. These funds received under the Agreement must be placed in escrow and can only be released under certain circumstances, which are set out in the Agreement, which includes the Company making a formal submission, signed by the Board Chair, to Arts SA and the Australia Council.

4. Auditors' Remuneration

	2004	2003
	\$'000	\$'000
Amount due and receivable by the auditors for auditing the financial report.	21	15

No other services were provided by the auditors.

5. Cash Assets

Short-term deposits	453	608
Cash at bank and on hand	42	48
	495	656

6. Investments

Reserves Incentives Scheme Cash Management Fund	343	-
	343	-

7. Receivables and Prepayments

Prepayments for future productions	98	183
Trade receivables	134	58
Provision for doubtful debts	(2)	(2)
	230	239

8. Stock on Hand

Production materials	4	4
Major lottery prize (Peugeot)	-	22
	4	26

9. Plant and Equipment

Production equipment - At cost	5	5
Accumulated depreciation	(5)	(5)
	-	-
Motor vehicle - At cost	22	21
Accumulated depreciation	(2)	(7)
	20	14
Office equipment - At cost	151	149
Accumulated depreciation	(142)	(136)
	9	13
Computer equipment - At cost	190	166
Accumulated depreciation	(160)	(141)
	30	25
	59	52

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year are as follows:

	Production Equipment \$'000	Motor Vehicles \$'000	Office Equipment \$'000	Computer Equipment \$'000	2004 Total \$'000
Balance as at 1 July	-	14	13	25	52
Additions	-	22	2	24	48
Disposals	-	(11)	-	-	(11)
Depreciation expense	-	(5)	(6)	(19)	(30)
Carrying Amount at 30 June	-	20	9	30	59

10. Payables

	2004	2003
	\$'000	\$'000
Current Liabilities:		
Trade creditors	88	193
ATO Liabilities	79	-
Advance box office revenue	438	451
Accruals and advances	41	75
Major lottery prize (Peugeot)	-	22
Employee benefit on-costs	15	13
Finance leases	3	9
	664	763

10. Payables	2004	2003
Non-Current Liabilities:	\$'000	\$000
Finance leases	-	3
Employee benefits on-costs	22	10
	22	13
<hr/>		
11. Employee Benefits		
Current Liabilities:		
Annual leave	50	58
Long service leave	27	15
	77	73
<hr/>		
Non-Current Liability:		
Long service leave	109	61
<hr/>		
Employee Benefits and Related On-cost Liabilities		
Annual Leave:		
Included in payables - Current (Note 10)	9	10
Provision for employee benefits - Current (Note 11)	50	58
	59	68
<hr/>		
Long Service Leave:		
Included in payables - Current (Note 10)	6	3
Provision for employee benefits - Current (Note 11)	27	15
	33	18
<hr/>		
Included in payables - Non-current (Note 10)	22	10
Provision for employee benefits - Non-current (Note 11)	109	61
	131	71
<hr/>		
Aggregate Employee Benefit and Related On-cost Liabilities	223	157
<hr/>		
12. Special Funds		
The Company administers two special funds, the Adele Koh Scholarship Acting Fund and the Jill Blewett Playwright's Award, both of which are financed by public donations.		
Adele Koh Scholarship Acting Fund:		
Balance at 1 July	6	9
Interest	0*	0*
Payments	(2)	(3)
Balance at 30 June	4	6
<hr/>		
Jill Blewett Playwright's Award Fund:		
Balance at 1 July	17	16
Interest	1	1
Payments	(2)	-
Balance at 30 June	16	17
<hr/>		
* Zero denotes values under \$1 000.		
13. Accumulated Surplus		
Accumulated surplus at 1 July	40	39
Surplus from ordinary activities	199	1
Accumulated Surplus at 30 June	239	40
<hr/>		
14. Related Party Information		
Members of the Board of Governors who have held office during the year are:		
	Attendances (8 meetings held)	
Mr David Gray (Chair)	8	
Mr Peter Vaughan	7	
Ms Catherine Fitzgerald	5	
Ms Julie Brennan	4	
Ms Kaye Weeks	1	
Ms Barbara Messenger	3	
Ms Liz Wilson	4	
Ms Georgina Legoe	4	
Mr Areste Nicola	7	
Mr Jock O'Keefe	2	
Mr Richard Flynn	4	
Ms Rachel Spencer	4	
Mr Brenton Wright	4	
Ms Nicola Downer	2	

14. Related Party Information (continued)

No member of the Board of Governors received remuneration from the Company, during the reporting period ended 30 June 2004 (no members received remuneration in 2002-03). Members of the Board of Governors use the services of the Company no more favourably than members of the public, except for members receiving complimentary tickets to each production.

15. Remuneration of Employees

The number of employees whose total remuneration falls within the following bandwidth:
\$100 000 - \$109 999

2004	2003
Number of	Number of
Employees	Employees
1	1

16. Commitments and Contingent Liabilities**Finance Leases**

Finance leases expenditure (excluding GST) contracted for is payable as follows:

Not later than one year
Later than one year but not later than five years

Future finance charges

Net Finance Lease Liability

Current liability
Non-current liability

Note	2004	2003
	\$'000	\$'000
	3	11
	-	3
	3	14
	-	(2)
	3	12
	3	9
	-	3
	3	12

Operating Leases

Operating leases commitments (excluding GST) contracted for are payable as follows:

Not later than one year
Later than one year but not later than five years

8	7
3	11
11	18

This commitment relates to a lease of a photocopier. The rental lease on the State Theatre Prop Shop building at Pennington expired 1 March 2003. A new lease has been drafted but not signed as at 30 June 2004, therefore no commitment has been disclosed.

Production Contracts

The Company, given the nature of its operations, has entered into contracts with artists and arrangements with interstate Theatre Companies for theatre performances scheduled to take place subsequent to 30 June 2004. The terms and conditions of the contracts and the arrangements may place a liability on the Company to make some payments should the artists or the interstate Theatre Companies not be engaged.

Contracts and arrangements amounting to \$228 000 were entered into as at 30 June 2004 (\$76 000 as at 30 June 2003) and are all due for payment as follows:

2004	2003
\$'000	\$'000
228	76
228	76

17. Statement of Cash Flows**17.1 Reconciliation of Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits, net of bank overdraft and cash held in trust. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

2004	2003
\$'000	\$'000
495	656
(20)	(23)
475	633

17.2 Reconciliation of Surplus from Ordinary Activities to Net Cash provided by Operating Activities

Surplus (Deficit) from ordinary activities
Adjustments for non-cash revenue and expense items:

Depreciation and amortisation
(Revenue) from sale of motor vehicle

Changes in assets and liabilities:

(Increase) Decrease in receivables
(Increase) Decrease in prepayments
(Increase) Decrease in stock on hand
Increase (Decrease) in payables

Increase (Decrease) in employee benefits and on-costs

Net Cash provided by Operating Activities

199	1
30	25
(5)	-
(76)	(12)
85	(54)
22	(23)
(95)	131
66	21
226	89

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