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S O U T H   A U S T R A L I A

Report

of the

Auditor-General

Annual Report

for the

year ended 30 June 2006

Tabled in the House of Assembly and ordered to be published, 26 October 2006

First Session, Fifty-First Parliament

Part B: Agency Audit Reports

Volume IV

By Authority: K. O'Callaghan, Government Printer, South Australia

2006

Report of the Auditor-General
Annual Report for the year ended 30 June 2006

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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. This 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.

SOUTH AUSTRALIAN FIRE AND EMERGENCY SERVICES COMMISSION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Fire and Emergency Services Commission (SAFECOM) was established by the *Fire and Emergency Services Act 2005* (the Act) which was assented to on 14 July 2005. SAFECOM came into operation on 1 October 2005 replacing the Emergency Services Administrative Unit (ESAU), which was dissolved from 31 December 2005.

The Act provides for the continuation of the South Australian Metropolitan Fire Service (SAMFS), the South Australian Country Fire Service (SACFS) and the South Australian State Emergency Service (SASES). SAMFS and SACFS were previously in existence as separate entities whereas the SASES was a division of ESAU. The SASES is now a separate body corporate. The *Country Fires Act 1989*, the *South Australian Metropolitan Fire Service Act 1936* and the *State Emergency Service Act 1987* were repealed upon the proclamation of the new Act.

The Act also defines the Emergency Services Sector as consisting of the:

- South Australian Fire and Emergency Services Commission
- South Australian State Emergency Service
- South Australian Country Fire Service
- South Australian Metropolitan Fire Service.

The Act requires that a financial statement be prepared for the Emergency Services Sector.

Objectives

SAFECOM has the following main objectives:

- to develop and maintain a strategic and policy framework as well as sound corporate governance across the emergency services sector;

- to provide adequate support services to the emergency services organisations and to ensure the effective allocation of resources within the emergency service sector;

- to ensure relevant statutory compliance by the emergency services organisations;

- to build a safer community through integrated emergency services organisations;

- to liaise with the peak body responsible for managing emergencies as well as to report regularly to the Minister about relevant issues.

Community Emergency Services Fund

SAFECOM is also responsible for the administration of the Community Emergency Services Fund (the Fund) which was established by the *Emergency Services Funding Act 1998*. Responsibility for the administration of the Fund was transferred from the Attorney-General's Department on 1 April 2006.

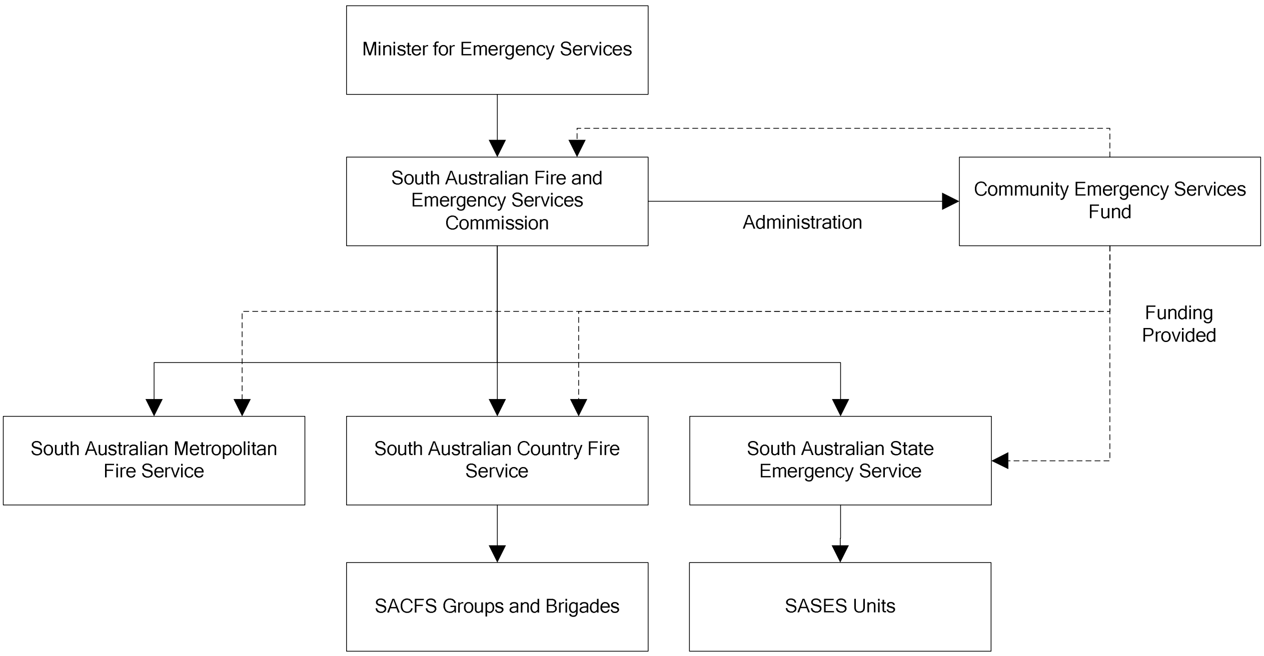
The Fund is the main source of funding for all of the Emergency Services Sector agencies.

Structure

While each of the agencies which comprise the Emergency Services Sector are separate corporate bodies, SAFECOM, in performing its functions, has the power to issue directions to SAMFS, SACFS and SASES, except in relation to matters dealing with emergency situations.

The Chief Officers of SAMFS, SACFS and SASES are all members of the SAFECOM Board.

The structure of SAFECOM is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 21(2) of the *Fire and Emergency Services Act 2005* provide for the Auditor-General to audit the accounts of the South Australian Fire and Emergency Services Commission and also the consolidated accounts for the emergency services sector 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 Fire and Emergency Services 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 with respect to the financial statements and internal controls.

During 2005-06, 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;
- general ledger.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 Fire and Emergency Services Commission and of the consolidated Emergency Services Sector as at 30 June 2006, the results of their operations and their cash flows for the period then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian Fire and Emergency Services Commission 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 SAFECOM Charter, Accounts Payable and Purchasing, Assets and Payroll as outlined under 'Audit Communications with Management', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Fire and Emergency Services Commission have been conducted properly and in accordance with law.

Audit Communications with 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 SAFECOM and the related responses are considered herein.

Overall Comment on the Results of the Audit

Governance Arrangements

The audit identified a number of legal compliance and governance issues which have arisen as a result of the major restructure and establishment of SAFECOM which took place following the enactment of the *Fire and Emergency Services Act 2005*. Audit acknowledges that such issues are common in the early stages of a new agency and that action is underway to address these matters.

Accounting Systems and Processes

For a number of years Audit has raised issues with the former ESAU in relation to various accounting processes where improvement in controls could be achieved. SAFECOM retains the accounting and financial record keeping systems utilised by ESAU.

The results of the 2005-06 audit of SAFECOM highlighted that many of the areas raised in previous years with ESAU have seen little improvement and were raised again.

SAFECOM have implemented some restructuring of the management of the financial operations with new senior personnel undertaking overall responsibility for the finance functions and it has also identified the need to boost its financial capabilities through the recruitment of additional, suitably qualified personnel. Audit considers that this is a positive move in seeking to facilitate the improvements needed.

Legislative Compliance and Governance Arrangements

SAFECOM Charter

Section 8(4) of the *Fire and Emergency Services Act 2005* requires that SAFECOM must have a charter stating its function and operations and the charter must be provided to the Minister and be publicly available. A charter for SAFECOM was compiled by the taskforce in charge of establishing SAFECOM and parts of this charter were available on SAFECOM's website. However, at the time the audit was conducted Audit could find no evidence of the SAFECOM charter being approved by the Board or presented to the Minister.

In response SAFECOM indicated that the Charter would be updated as part of the strategic planning process.

Approval of Workforce Plans

The Act requires that the workforce plans for SAMFS, SASES and SACFS must be approved by the SAFECOM Board (the Board). The agencies are unable to appoint staff unless they are detailed in a workforce plan approved by the Board. The workforce plan for SAMFS was not submitted to the Board until late May 2006 was not approved until August 2006. Audit is of the view that submission of these plans should be aligned with the budget and planning cycle of the agency.

SAFECOM responded that it will establish a planning cycle which will include the requirement for the submission of workforce plans.

Governance Arrangements

Audit noted potential improvements in relation to the following areas:

- regular monitoring and reporting in relation to the risk management plan;

- the development of a planning cycle to assist in ensuring the all aspects of SAFECOM's planning and governance requirements are prepared and approved on a timely basis;
- finalisation and approval of the strategic plan and key performance indicators;
- provision of financial information to the Board in relation to balance sheet items.

In response SAFECOM indicated that action would be taken to address the issues raised.

Accounting Systems and Processes

Accounts Payable and Purchasing

The audit of accounts payable and purchasing revealed room for improvement in the documentation of and compliance with policies and procedures related to purchasing activities. Audit also noted that certain types of invoices were not being approved in accordance with the delegations of authority.

SAFECOM 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, Audit noted that the process for deciding whether an expense should be capitalised was not clearly documented.

SAFECOM advised that they would review the accounting processes in relation to capital projects.

Payroll

The audit of payroll revealed a need for improvement in the documentation of payroll policies and procedures, the timeliness of processing of payroll adjustments for SAMFS and the active monitoring and management of excessive annual leave balances. Audit also noted that bona fide reports were not always issued on a timely basis and that there was inadequate follow up of outstanding reports.

In response, SAFECOM advised that the payroll policies and procedures would be improved and payroll adjustments would be processed in a timely manner. SAFECOM also advised that action would be taken to ensure bona fide reports were distributed and returned in a timely manner and that active management of excessive leave balances would be undertaken.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	Consolidated 2006 $'million	SAFECOM 2006* $'million
INCOME		
Contributions from Community Emergency Services Fund	**150**	**9**
Other	**11**	**-**
Total Income	**161**	**9**
EXPENSES		
Employee benefit costs	**79**	**6**
Depreciation	**18**	**-**
Supplies and services	**40**	**3**
Other	**15**	**-**
Total Expenses	**152**	**9**
Net Result before Restructure	**9**	**-**
Net revenue from restructure	**210**	**(1)**
Net Result after Restructure	**219**	**(1)**

	Consolidated 2006 $'million	SAFECOM 2006* $'million
Net Cash Flows from Operations	**24**	**-**
ASSETS		
Current assets	**38**	**2**
Non-current assets	**242**	**1**
Total Assets	**280**	**3**
LIABILITIES		
Current liabilities	**18**	**1**
Non-current liabilities	**24**	**3**
Total Liabilities	**42**	**4**
EQUITY	**238**	**(1)**

* SAFECOM was established on 1 October 2005. Transactions represent the nine month period of operation to 30 June 2006.

Consolidated Emergency Services Sector

Income Statement

The main source of income for the sector is the contribution from the Community Emergency Services Fund, $150 million, which accounts for 93 percent of total income.

Expenses are dominated by employee benefit costs, $79 million, which represent 52 percent of total expenses.

Balance Sheet

The Balance Sheet shows that non-current assets of $242 million represent 86 percent of total assets. The main asset classes held are land and buildings (written down value of $121 million) and vehicles (written down value of $82.9 million).

SAFECOM

Income Statement

SAFECOM's main source of funding is from the Community Emergency Services Fund ($9 million) and its main expenses relate to employee benefits costs ($6 million).

Administered Item

Community Emergency Services Fund

SAFECOM took over responsibility for the administration of the Fund from the Attorney-General's Department on 1 April 2006.

Contributions, by way of levies, are made by all owners (including both State and Local Government) of both fixed and mobile property to fund the provision of emergency services. Levies are collected in accordance with the *Emergency Services Funding Act 1998*. The levy on fixed property applies to capital values adjusted for location and land use and is collected by RevenueSA. The levy on mobile property is collected by the Department for Transport, Energy and Infrastructure using the vehicle registration system.

In addition, the Government makes a contribution in the form of remissions of levies charged.

All levy receipts are paid into the Fund from which payments are made to emergency services agencies and to meet the costs of collection and administration.

The transactions outlined below represent the activities of the Fund for the full financial year combining the portions of the year administered by the Attorney-General's Department and SAFECOM.

Levies and other income for 2005-06 totalled $176.1 million ($172 million) comprising:

	2006 $'million	2005 $'million
Fixed property collections	**68.4**	63.9
Fixed property remissions	**62.3**	62.5
Mobile property collections	**27.7**	27.5
Mobile property remissions	**8.8**	8.9
Pensions concessions	**6.2**	6.2
Other	**2.7**	3.0
	176.1	172.0

Payments totalling $183.3 million ($168.0 million) were made from the Fund as follows:		
Emergency Services Administration Unit	**0.1**	0.5
SAFECOM	**8.2**	-
South Australian Country Fire Service	**50.9**	48.6
South Australian Metropolitan Fire Service	**82.3**	75.8
South Australian State Emergency Service	**11.9**	12.2
South Australian Police	**16.1**	16.1
Department for Environment and Heritage	**2.2**	2.1
SA Ambulance Service	**0.9**	1.1
Surf Lifesaving	**1.2**	1.1
Volunteer Marine Rescue	**0.8**	0.9
State Helicopter Rescue	**0.5**	0.5
Other	**1.1**	1.9
Levy Collection and Administration Fees:		
RevenueSA	**6.1**	6.1
Department of Transport, Energy and Infrastructure	**0.6**	0.7
Attorney-General's Department	**0.1**	0.4
SAFECOM	**0.3**	-
	183.3	168.0

The balance in the Fund (a Special Deposit Account) at 30 June 2006 was $10.4 million.

FURTHER COMMENTARY ON OPERATIONS

Former Emergency Services Administrative Unit

Pursuant to the arrangements surrounding the establishment of SAFECOM, ESAU was dissolved on 31 December 2005.

An audit was undertaken of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and Notes to the Accounts prepared for the period to 31 December 2005 and an unqualified Independent Audit Report was issued.

The following is an abridged Income Statement and Balance Sheet in relation to the operations of ESAU for the period to 31 December 2005.

Income Statement	01.07.05 to 31.12.05 $'000
Total Expenses	5 789
Total Income	2 704
Net cost of services	3 085
Revenues from SA Government	3 422
Net result before restructure	337
Net Revenue from Administrative Restructure	2 299
NET RESULT AFTER RESTRUCTURE	2 636

Balance Sheet	31.12.05
	$'000
Current assets	1 877
Non-current assets	15 953
Total Assets	17 830
Current liabilities	107
Total Liabilities	107
NET ASSETS	17 723
Accumulated Surplus	17 155
Asset Revaluation Reserve	568
TOTAL EQUITY	17 723

Income Statement
for the period ended 30 June 2006

	Note	Consolidated for the year ended 30.06.06 $'000	SAFECOM 1.10.2005 to 30.06.06 $'000
EXPENSES:			
Employee benefits costs	5	**79 472**	**6 082**
Supplies and services	6	**39 619**	**2 445**
Government Radio Network costs	8	**12 166**	**-**
Depreciation	9	**18 075**	**74**
Other expenses		**2 654**	**-**
Total Expenses		**151 986**	**8 601**
INCOME:			
Revenues from fees and charges	10	**3 198**	**126**
Net gain from disposal of assets	11	**194**	**-**
Interest	12	**2 179**	**55**
Other income	13	**5 741**	**100**
Total Income		**11 312**	**281**
NET COST OF PROVIDING SERVICES		**140 674**	**8 320**
REVENUES FROM SA GOVERNMENT:			
Contributions from Community Emergency Services Fund		**150 265**	**8 529**
Total Revenues from Government		**150 265**	**8 529**
NET RESULT BEFORE RESTRUCTURE		**9 591**	**209**
Net revenue from administrative restructure	22	**210 204**	**(852)**
NET RESULT AFTER RESTRUCTURE		**219 795**	**(643)**

THE NET RESULT AFTER RESTRUCTURE IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

Balance Sheet
as at 30 June 2006

	Note	Consolidated 2006 $'000	SAFECOM 2006 $'000
CURRENT ASSETS:			
Cash and cash equivalents	14	**34 058**	**2 026**
Receivables	15	**3 973**	**517**
Total Current Assets		**38 031**	**2 543**
NON-CURRENT ASSETS:			
Property, plant and equipment	16	**241 572**	**574**
Total Non-Current Assets		**241 572**	**574**
Total Assets		**279 603**	**3 117**
CURRENT LIABILITIES:			
Payables	17	**7 466**	**543**
Short-term and long-term employee benefits	18	**8 712**	**769**
Short-term provisions	19	**1 945**	**99**
Total Current Liabilities		**18 123**	**1 411**
NON-CURRENT LIABILITIES:			
Payables	17	**1 284**	**168**
Long-term employee benefits	18	**14 231**	**1 785**
Long-term provisions	19	**7 705**	**396**
Total Non-Current Liabilities		**23 220**	**2 349**
Total Liabilities		**41 343**	**3 760**
NET ASSETS (DEFICIENCY)		**238 260**	**(643)**
EQUITY:			
Asset revaluation reserve		**18 465**	**-**
Retained earnings		**219 795**	**(643)**
TOTAL EQUITY		**238 260**	**(643)**

THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

Commitments 20

Statement of Changes in Equity
for the period ended 30 June 2006

	Asset Revaluation Reserve	Retained Earnings	Total
Consolidated:	$'000	$'000	$'000
Balance at 1 July 2005	-	-	-
Gain on revaluation of property for the period ended 30 June 2006	18 465	-	18 465
Net result after restructure for 2005-06	-	219 795	219 795
Total recognised income and expense for the period ended 30 June 2006	18 465	219 795	238 260
Balance at 30 June 2006	**18 465**	**219 795**	**238 260**
SAFECOM:			
Balance at 1 October 2005	-	-	-
Net result after restructure for 2005-06	-	(643)	(643)
Total recognised income and expense for the period ended 30 June 2006	-	(643)	(643)
Balance at 30 June 2006	**-**	**(643)**	**(643)**

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the period ended 30 June 2006

	Note	Consolidated for the year ended 30.06.06 $'000	SAFECOM 01.10.05 to 30.06.06 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:			
Employee benefit payments		**(80 645)**	**(6 758)**
Supplies and services		**(39 205)**	**(1 238)**
Government Radio Network costs		**(11 662)**	**-**
GST payments on purchases		**(2 786)**	**(330)**
Emergency Services Administrative Unit recharges		**(2 435)**	**-**
Other payments		**(4 331)**	**(625)**
Cash used in Operating Activities		**(141 064)**	**(8 951)**
CASH INFLOWS:			
Contributions from Community Emergency Services Fund		**150 265**	**8 529**
Fees and charges		**3 198**	**126**
Interest received		**4 358**	**55**
GST receipts on receivables		**663**	**29**
GST input tax credits		**2 519**	**301**
Other receipts		**4 281**	**185**
Cash generated from Operating Activities		**165 284**	**9 225**
Net Cash provided by Operating Activities	21	**24 220**	**274**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(25 898)**	**(156)**
Proceeds from the sale of property, plant and equipment		**2 694**	**-**
Net Cash used in Investing Activities		**(23 204)**	**(156)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Transfer from Emergency Services Administrative Unit		**4 171**	**1 908**
Transfer of Emergency Services Sector		**34 097**	**-**
Repayment of loan		**(5 226)**	**-**
Net Cash provided by Financing Activities		**33 042**	**1 908**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**34 058**	**2 026**
CASH AND CASH EQUIVALENTS AT 1 JULY		**-**	**-**
CASH AND CASH EQUIVALENTS AT 30 JUNE	14	**34 058**	**2 026**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Establishment of SAFECOM and the Emergency Services Sector

The *Fire and Emergency Services Act 2005 (the Act)* was assented to on 14 July 2005. The Act establishes the South Australian Fire and Emergency Services Commission (SAFECOM) which came into operation on 1 October 2005 replacing the Emergency Services Administrative Unit (ESAU), which was dissolved from 31 December 2005.

The Act provides for the continuation of the South Australian Metropolitan Fire Service (SAMFS), the South Australian Country Fire Service (SACFS) and the South Australian State Emergency Service (SASES). SAMFS and SACFS were previously in existence as separate entities whereas the SASES was a division of ESAU. The SASES is now a separate body corporate. The *Country Fires Act 1989,* the *South Australian Metropolitan Fire Service Act 1936* and the *State Emergency Service Act 1987* were repealed upon the proclamation of the new Act.

1. Establishment of SAFECOM and the Emergency Services Sector (continued)

The Act also defines the Emergency Services Sector as consisting of the:

- South Australian Fire and Emergency Services Commission
- South Australian State Emergency Service
- South Australian Country Fire Service
- South Australian Metropolitan Fire Service.

The Act requires that a financial statement be prepared for the Emergency Services Sector.

2. Objectives and Funding

Objectives

SAFECOM has the following objectives:

- to develop and maintain a strategic and policy framework as well as sound corporate governance across the emergency services sector;
- to provide adequate support services to the emergency services organisations and to ensure the effective allocation of resources within the emergency service sector;
- to ensure relevant statutory compliance by the emergency services organisations;
- to build a safer community through integrated emergency service delivery; and
- to report regularly to the Minister about relevant issues.

Funding

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

3. Summary of 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 (AASB); and
- other mandatory professional reporting requirements in Australia.

These financial statements are the first statements to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these statements.

SAFECOM's Income Statement, Balance Sheet and Statement of Changes in Equity 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 Cash Flow Statement has been prepared on a cash basis.

The financial report has been prepared based on a 12 month operating cycle and is presented in Australian currency.

(b) Principles of Consolidation

The financial statements incorporate the assets and liabilities of all entities controlled by SAFECOM, and forming the Emergency Services Sector as at 30 June 2006 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.

(c) Administered Items

Administered items for SAFECOM consists of the Community Emergency Services Fund (refer to Note 23).

(d) Rounding

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

(e) Taxation

SAFECOM is not subject to income tax. SAFECOM is liable for payroll tax, fringe benefits tax and, Goods and Services Tax (GST).

In accordance with the requirements of Interpretation 1031 *Accounting for the Goods and Services Tax*, income, expenses and assets are recognised net of the amount of GST except:

- the amount of GST incurred by SAFECOM 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) Income and Expenses

Income and expenses are recognised in SAFECOM's Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured.

Income and expenses have been classified according to their nature in accordance with the Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5 and have not been offset unless required or permitted by a specific accounting standard.

In accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APSs 4.1 and 4.2 the financial report's notes disclose income, expenses, financial assets and financial liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Revenues from fees and charges are derived from the provision of goods and services to other SA government agencies and to the public. This revenue is recognised upon delivery of the service to the clients or by reference to the stage of completion.

Income from the disposal of assets is recognised when control of the asset has passed to the buyer and is determined by comparing proceeds with the carrying amount.

Resources received free of charge are recorded as income in the Income Statement at fair value in accordance with the Accounting Policy Framework III *Asset Accounting Framework* APS 2.12.

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

(g) Revenues from SA Government

Contributions from the Community Emergency Services Fund are recognised as income when SAFECOM obtains control over the funding. Control over funding is normally obtained upon receipt.

(h) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash includes cash on hand, cash at bank and investments that are readily converted to cash and are used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

(i) Receivables

Receivables include amounts receivable from debtors, prepayments and other accruals.
Receivables arise in the normal course of selling goods and services to other agencies and to the public. Receivables are receivable 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 debtors, SAFECOM is able to charge interest at commercial rates until the whole amount is paid.

SAFECOM determines an allowance 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.

(j) 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 Balance Sheet.

In accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 2.15, all non-current tangible assets with a value of $10 000 or greater are capitalised.

(k) 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 the 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 historic cost;

(ii) Independent valuations for land, buildings and vehicles were determined in 2005-06 by Liquid Pacific Holdings Pty Ltd on the basis of open market values for existing use; and

(iii) Capital works in progress represent costs accumulated during the construction or development of an asset and is valued at cost.

(l) Impairment

All non-current tangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

For revalued assets an impairment loss is offset against the asset revaluation reserve.

Impairment is generally limited to where an asset's depreciation is materially understated or where the replacement cost is falling.

(m) 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	5-10
Vehicles	5-25
Plant and equipment	5-10
Computer equipment	5-10
Buildings	30-45

(n) 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 SAFECOM.

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 of receipt of the invoice in accordance with TI 11 *Payment of Creditors' Accounts*.

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

(o) Employee Benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

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.

Liabilities for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. In the unusual event where salaries and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

The liability for long service leave is recognised after an employee has completed 10 years of service as advised in Accounting Policy Framework IV *Financial Asset and Liability Framework*. An actuarial assessment of long service leave undertaken by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector determined that the liability measured using the short hand method was not materially different from the liability measured using the present value of expected future payments. This calculation is consistent with SAFECOM's experience of employee retention and leave taken.

SAFECOM makes contributions to several SA 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 respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the superannuation funds.

(p) 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. SAFECOM's liability is an allocation of the Justice Portfolio's total assessment.

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

(q) 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 Income Statement on a basis which is representative of the pattern of benefits derived from the leased assets.

(r) Administrative Restructuring

(i) Pursuant to the Government Gazette (dated 29 September 2005) a number of employees of the former ESAU were transferred to the staff of SAFECOM, SAMFS, SACFS and SASES respectively. After the final financial statements of ESAU were audited, the remaining assets and liabilities were transferred to SAFECOM and SASES (refer to Note 22).

(ii) On 28 November 2005, Cabinet approved the transfer of the Community Emergency Services Fund (the Fund) from the Attorney-General's Department (AGD) to SAFECOM. Administration of the Fund in AGD ceased as of 31 March 2006. The Fund's closing cash balance, as at 31 March 2006, of $44.337 million was transferred from AGD to SAFECOM.

4. Financial Risk Management

SAFECOM has non-interest bearing assets (cash on hand and receivables) and liabilities (payables) and interest bearing assets (cash at bank). SAFECOM's exposure to market risk and cash flow interest risk in minimal.

SAFECOM has no significant concentration of credit risk. SAFECOM has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history.

In relation to liquidity/funding risk, the continued existence of SAFECOM in its present form, and with its present programs, is dependent on Government policy and on continuing grants from the Community Emergency Services Fund for SAFECOM's administration and programs.

5. Employee Benefits Costs	**Consolidated 2006 $'000**	**SAFECOM 1.10.05 to 30.06.06 $'000**
Employee benefits costs for the reporting period comprised:		
Salaries and wages	**66 085**	**4 888**
Payroll tax	**4 257**	**291**
Superannuation	**6 165**	**527**
Long service leave expenses	**2 463**	**272**
Targeted Voluntary Separation Package	**38**	**38**
Other employee related costs	**464**	**66**
	79 472	**6 082**

Average Number of Employees during the Reporting Period

On average, SAFECOM employed 100 people and the consolidated entity employed 1041 people, throughout the reporting period.

Targeted Voluntary Separation Package (TVSP)

In accordance with Government policy, there was one employee in SAFECOM that was paid a TVSP of $38 000 with an additional amount paid of $17 000 in accrued annual leave and long service leave entitlements.

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:	**2006 Consolidated Number of Employees**	**SAFECOM Number of Employees**
$100 000 - $109 999	**29**	-
$110 000 - $119 999	**10**	-
$120 000 - $129 999	**7**	-
$130 000 - $139 999	**1**	-
$160 000 - $169 999	**1**	-
$170 000 - $179 999	**1**	-
$230 000 - $239 999	**1**	-
$270 000 - $279 999	**1**	-
Total Number of Employees	**51**	**-**

The aggregate remuneration for all employees referred to above was $5 969 000 for the consolidated entity and there were no employees above $100 000 for SAFECOM.

6. Supplies and Services	**Consolidated 2006 $'000**	**SAFECOM 1.10.05 to 30.06.06 $'000**
Supplies and services provided by entities within the SA Government:		
Accommodation	**122**	**-**
Aerial support costs	**102**	**-**
Communication expenses	**239**	**56**
Computing costs	**395**	**240**

6. Supplies and Services (continued)

	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Consultancy, contractor and legal fees	313	119
Consumables and minor purchases	119	16
Energy	426	-
Operating lease costs	915	414
Operational costs	2	-
Other expenses	393	2
Repairs and maintenance	59	25
Travel and training	106	7
Total Supplies and Services - SA Government Entities	**3 191**	**879**
Supplies and services provided by entities external to the SA Government:		
Accommodation	103	-
Aerial support costs	2 838	-
Communication expenses	2 708	102
Computing costs	226	130
Consultancy, contractor and legal fees	3 030	821
Consumables and minor purchases	7 144	128
Energy	819	8
Operating lease costs	1 960	-
Operational costs	512	-
Other expenses	3 192	-
Repairs and maintenance	5 986	32
Travel and training	3 181	340
Uniforms and protective clothing	4 729	5
Total Supplies and Services - Non-SA Government Entities	**36 428**	**1 566**
Total Supplies and Services	**39 619**	**2 445**

Consultancies

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

	Number of Consultancies	Number of Consultancies
Less than $10 000	26	13
$10 000 - $50 000	8	4
	34	17

	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Less than $10 000	74	39
$10 000 - $50 000	184	76
	258	115

7. Remuneration of Auditors

Audit fees paid/payable to:		
Auditor-General's Department	124	66

The auditors provided no other services.

8. Government Radio Network (GRN) Costs

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

	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Contribution towards GRN - Paging	2 247	-
Contribution towards GRN - Voice	9 919	-
	12 166	-

9. Depreciation

Communications equipment	2 751	-
Vehicles	9 306	-
Plant and equipment	1 021	-
Buildings	4 145	6
Computer equipment	852	68
	18 075	74

10. Revenues from Fees and Charges

	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Fees and charges received/receivable from entities within the SA Government:		
Training and other recoveries	**63**	**-**
Incident cost recoveries	**271**	**-**
Fire alarm monitoring fees	**140**	**-**
Fire attendance fees	**144**	**-**
Fire safety fees	**7**	**-**
Salary recovery	**126**	**126**
Total Fees and Charges - SA Government Entities	**751**	**126**
Fees and charges received/receivable from entities external to the SA Government:		
Training and other recoveries	**240**	**-**
Fire alarm monitoring fees	**1 136**	**-**
Fire attendance fees	**598**	**-**
Fire safety fees	**213**	**-**
Other recoveries	**260**	**-**
Total Fees and Charges - Non-SA Government Entities	**2 447**	**-**
Total Fees and Charges	**3 198**	**126**

11. Net Gain from Disposal of Assets

Proceeds from disposal of assets	**2 688**	**-**
Written down value of assets	**(2 494)**	**-**
	194	**-**

12. Interest

Interest received/receivable for the reporting period from:		
Entities within the SA Government	**2 163**	**55**
Other	**16**	**-**
Total Interest	**2 179**	**55**

13. Other Income

Other income comprised:		
Assets received free of charge	**1 162**	**-**
Transfer of capital funding for GRN	**504**	**-**
Donations	**110**	**-**
Grants from Commonwealth Government	**2 000**	**-**
Fuel rebate	**106**	**-**
Groups/brigades fundraising revenue	**539**	**-**
Other	**1 256**	**62**
Rent received	**26**	**-**
TVSP recovered	**38**	**38**
Total Other Income	**5 741**	**100**

14. Cash and Cash Equivalents

Cash on hand	**13**	**1**
Cash at bank - Groups and brigades/units	**3 073**	**-**
Cash at bank	**28 959**	**2 025**
Investments	**2 013**	**-**
Total Cash and Cash Equivalents	**34 058**	**2 026**

Interest rate risk

Cash on hand is non-interest bearing. Cash at bank and investments are bearing a floating interest rate between 5.35 percent and 5.48 percent. The carrying amount of cash approximates fair value.

15. Receivables

Current:		
Receivables	**1 209**	165
GST receivables	**2 764**	352
Total Current Receivables	**3 973**	517

Government/Non-Government Receivables

Receivables from SA Government:		
Receivables	**603**	87
Total Receivables - SA Government Entities	**603**	87

15. Receivables (continued)

	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Receivables from Non-SA Government Entities:		
Receivables	**605**	78
GST receivables	**2 764**	352
Accrued revenue	**1**	-
Total Receivables - Non-SA Government Entities	**3 370**	430
Total Receivables	**3 973**	517

Interest rate and credit risk

Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 30 days. Receivables, prepayments and accrued revenues are non-interest bearing. Other than recognised in the allowance for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. In addition, there is no concentration of credit risk.

16. Non-Current Assets

Property, Plant and Equipment

Consolidated

	Cost/ Valuation $'000	Accumulated Depreciation $'000	2006 Written Down Value $'000
Land at independent valuation	**31 059**	**-**	**31 059**
Land at cost	**3 441**	**-**	**3 441**
Buildings at independent valuation	**85 369**	**2 051**	**83 318**
Buildings at cost	**3 703**	**475**	**3 228**
Vehicles at independent valuation	**80 819**	**1 273**	**79 546**
Vehicles at cost	**4 693**	**1 314**	**3 379**
Communications equipment at cost	**28 194**	**10 827**	**17 367**
Computer equipment at cost	**7 154**	**3 768**	**3 386**
Plant and equipment at cost	**14 187**	**7 967**	**6 220**
Work in progress	**10 628**	**-**	**10 628**
Total Property, Plant and Equipment	**269 247**	**27 675**	**241 572**

SAFECOM

	Cost/ Valuation $'000	Accumulated Depreciation $'000	2006 Written Down Value $'000
Buildings at cost	**287**	**54**	**233**
Computer equipment at cost	**688**	**354**	**334**
Plant and equipment at cost	**8**	**4**	**4**
Work in progress	**3**	**-**	**3**
Total Property, Plant and Equipment	**986**	**412**	**574**

Impairment

There were no indications of impairment for property, plant and equipment as at 30 June 2006.

Reconciliation of Non-Current Assets

The following table shows the movement of non-current assets during 2005-06.

Consolidated	Land and Buildings $'000	Vehicles $'000	Communi-cations Equipment $'000	Computer Equip-ment $'000	Plant and Equip-ment $'000	Work in Progress $'000	**Total $'000**
Carrying amount at 1 July 2005:	-	-	-	-	-	-	**-**
Additions	1 554	48	3	1 008	1 147	22 131	**25 891**
Disposals	(2 220)	(248)	(10)	(4)	(12)	-	**(2 494)**
Transfer of work in progress	6 576	9 238	1 682	383	369	(18 248)	**-**
Net adjustment on revaluation	17 026	1 439	-	-	-	-	**18 465**
Depreciation	(4 145)	(9 306)	(2 751)	(852)	(1 021)	-	**(18 075)**
Transfer from various parties	1 035	127	-	-	-	-	**1 162**
Acquisition through administrative restructuring	101 220	81 627	18 443	2 851	5 737	6 745	**216 623**
Carrying Amount at 30 June 2006	121 046	82 925	17 367	3 386	6 220	10 628	**241 572**

SAFECOM	Land and Buildings $'000	Vehicles $'000	Communi-cations Equipment $'000	Computer Equip-ment $'000	Plant and Equip-ment $'000	Work in Progress $'000	**Total $'000**
Carrying amount at 1 October 2005:	-	-	-	-	-	-	**-**
Additions	-	-	-	153	-	3	**156**
Depreciation	(6)	-	-	(68)	-	-	**(74)**
Acquisition through administrative restructuring	239	-	-	249	4	-	**492**
Carrying Amount at 30 June 2006	233	-	-	334	4	3	**574**

17. Payables

	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Current:		
Creditors	**3 995**	**199**
Accrued expenses	**1 961**	**211**
Employment on-costs	**1 510**	**133**
	7 466	**543**
Non-Current:		
Employment on-costs	**1 284**	**168**
Total Payables	**8 750**	**711**

Government/Non-Government Payables

Payables to SA Government Entities:		
Creditors	**2 418**	**47**
Accrued expenses	**718**	**63**
Employment on-costs	**1 375**	**150**
Total Payables - SA Government Entities	**4 511**	**260**
Payables to Non-SA Government Entities:		
Creditors	**1 576**	**152**
Accrued expenses	**1 244**	**148**
Employment on-costs	**1 419**	**151**
Total Payables - Non-SA Government Entities	**4 239**	**451**
Total Payables	**8 750**	**711**

Interest Rate and Credit Risk

Creditors and accruals are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables approximates net fair value due to the amounts being payable on demand.

18. Employee Benefits

	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Current:		
Annual leave	**7 021**	**668**
Long service leave	**1 691**	**101**
	8 712	**769**
Accrued salaries and wages (included in payables)	**970**	**75**
Employment on-costs (included in payables)	**1 510**	**133**
	11 192	**977**
Non-Current:		
Long service leave	**14 231**	**1 785**
Employment on-costs (included in payables)	**1 284**	**168**
	15 515	**1 953**
	26 707	**2 930**

19. Provisions

Current:		
Provisions for workers compensation	**1 945**	**99**
Non-Current:		
Provision for workers compensation	**7 705**	**396**
	9 650	**495**
Carrying amount at 1 July	**-**	**-**
Transfer from Emergency Services Sector	**11 912**	**-**
Additional provisions recognised	**269**	**501**
Payments	**(2 531)**	**(6)**
Carrying Amount at 30 June	**9 650**	**495**

20. Commitments

Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

Within one year	**10 383**	**-**
Later than one year but not later than five years	**273**	**-**
	10 656	**-**

These capital commitments are for vehicles, fire stations and other equipment.

20. Commitments (continued)

Operating Lease Commitments

Commitments under non-cancellable operating leases at the reporting date are payable as follows:	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Within one year	3 115	477
Later than one year but not later than five years	5 519	873
Later than five years	300	-
	8 934	1 350

These operating leases are not recognised in the Balance Sheet as liabilities.

The non-cancellable leases are 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. Options exist to renew the leases at the end of the term of the leases.

Contractual Commitments

At the end of the reporting period there were the following commitments on contracts payable as follows:	Consolidated 2006 $'000	SAFECOM 1.10.05 to 30.06.06 $'000
Within one year	2 484	41
Later than one year but not later than five years	2 509	160
Later than five years	85	85
	5 078	286

Contractual commitments relate to a range of services and supplies including building repairs and maintenance, aerial bombing, cleaning and occupational welfare services.

21. Cash Flow Reconciliation

Reconciliation of Cash

Cash at 30 June as per:		
Cash Flow Statement	34 058	2 026
Balance Sheet	34 058	2 026

Reconciliation of Net Cash provided by Operating Activities to Net Cost of Providing Services:		
Net cash provided by operating activities	24 220	274
Contributions from Community Emergency Services Fund	(150 265)	(8 529)
Add (Less): Non-cash items:		
Depreciation of property, plant and equipment	(18 075)	(74)
Net gain from disposal of assets	194	-
Assets received from Local Government and other sources	1 162	-
Changes in Assets and Liabilities:		
Increase in receivables	1 649	517
Increase in payables	(2 895)	(711)
Decrease in provision for employee benefits	1 074	698
Decrease (Increase) in other provisions	2 262	(495)
Net Cost of Providing Services	(140 674)	(8 320)

22. Administrative Restructure

(1) Net assets and liabilities were transferred to the Consolidated Emergency Services Sector from SACFS and SAMFS on 1 July 2005 and the former ESAU.

(2) Net assets and liabilities were transferred from the former ESAU to SAFECOM.

The total assets and liabilities transferred were:	(1) $'000	(2) $'000
Current assets - Cash	38 267	1 908
Current assets - Receivables	2 530	85
Non-current assets - Property, plant and equipment	216 623	492
Current liabilities - Payables	(23 097)	(107)
Current liabilities - Employee benefits	(9 447)	(962)
Non-current liabilities - Employee benefits	(14 672)	(2 268)
Total Net Result from Administrative Restructure	210 204	(852)

23. Administered Item

Community Emergency Services Fund

	1.04.06 to 30.06.06 $'000
Income Statement	
Administered Income:	
Emergency Services Levy collections and concessions	14 218
Emergency Services Levy remissions	7 535
Interest	810
Certificate sales and other	71
Total Administered Income	**22 634**
Administered Expenses:	
Payments for Emergency Services	54 393
Payments for levy collections	1 698
Other	559
Total Administered Expenses	**56 650**
Net Result before Restructure	**(34 016)**
Net income from administrative restructure	44 337
Net Result after Restructure	**10 321**
Balance Sheet	
Administered Current Assets:	
Cash	10 372
Receivables	386
Accrued interest	697
Total Current Assets	**11 455**
Administered Current Liabilities:	
Payables	1 134
Total Current Liabilities	**1 134**
Net Administered Assets	**10 321**
Administered Equity:	
Retained earnings	10 321
Total Administered Equity	**10 321**
Statement of Changes in Equity	
Administered Equity:	
Balance at 30 June 2005	-
Net result after restructure for 2005-06	10 321
Total recognised income and expense for 2005-06	**10 321**
Balance at 30 June 2006	**10 321**
Cash Flow Statement	
Cash Flows from Operating Activities:	
Cash Inflows:	
Income from administrative restructure	44 337
Community Emergency Services Fund revenue	21 437
Interest received	114
Total Cash Inflows	**65 888**
Cash Outflows:	
Community Emergency Services Fund payments	(55 516)
Total Cash Outflows	**(55 516)**
Net Cash Provided by Operating Activities	**10 372**
Net increase in cash held	**10 372**
Cash at 1 July 2005	**-**
Cash at 30 June 2006	**10 372**

(a) Administered Item

As of 1 April 2006, SAFECOM was responsible for administering the Community Emergency Services Fund (the Fund) when the Fund was transferred to SAFECOM from the Attorney-General's Department. The Fund is administered in accordance with the *Emergency Services Funding Act 1998*.

Transactions and balances relating to these administered resources are not recognised as income, expenses, assets or liabilities of SAFECOM.

(b) Administered Expenses and Administered Cash Outflows

Payments from the Fund are made in accordance with Section 28 *of the Emergency Services Funding Act 1998* for the provision of emergency services and for related prevention, education and research purposes, and for the administration of the Act.

(c) Administered Income and Administered Cash Inflows

The Fund consists of:

- the Emergency Services Levy contributed by fixed and mobile property owners (including both State and Local Government);
- contribution from Government in the form of remissions; and
- interest earned on the Fund's cash balances.

The Emergency Services Levy is collected by RevenueSA and the Department for Transport, Energy and Infrastructure and is credited to the Fund.

(d) Administered Assets and Administered Liabilities

The administered assets and liabilities relate to accrued levy collections, accrued interest and accrued payables for emergency services and the costs of collecting the levy.

(e) Administered Items - Cash Flow Reconciliation

Reconciliation of cash - cash at year end as per:	**1.04.06 to 30.06.06 $'000**
Cash Flow Statement	**10 372**
Balance Sheet	**10 372**
Reconciliation of Net Cash provided by Operating Activities to Net Result after Restructure	
Net result after restructure	**10 321**
Change in assets and liabilities:	
Decrease in receivables	**(386)**
Decrease in other assets	**(697)**
Decrease in payables	**1 134**
Net Cash Provided by Operating Activities	**10 372**

(f) Detailed Income and Expenses for the Community Emergency Services Fund

	Total in AGD between 1.07.05 to 30.03.06 $'000	Total in SAFECOM between 1.04.06 to 30.06.06 $'000	**Total for 2005-06 $'000**
Income:			
Collections and Concessions:			
Fixed property collections	67 464	902	**68 366**
Mobile collections	20 319	7 400	**27 719**
Pensioner concessions	256	5 916	**6 172**
	88 039	14 218	**102 257**
Remissions:			
Fixed property remissions	57 000	5 279	**62 279**
Mobile remissions	6 608	2 256	**8 864**
	63 608	7 535	**71 143**
Other:			
Certificate sales and other	291	71	**362**
Interest	1 481	810	**2 291**
	1 772	881	**2 653**
Total Income	153 419	22 634	**176 053**
Expenses:			
Payments for Emergency Services:			
Emergency Services Administrative Unit	126	-	**126**
SA Fire and Emergency Services Commission	6 244	1 935	**8 179**
State Emergency Service	9 621	2 200	**11 821**
Country Fire Service	37 961	12 895	**50 856**
Metropolitan Fire Service	65 584	16 709	**82 293**
South Australian Police	-	16 063	**16 063**
Department for Environment and Heritage	-	2 162	**2 162**
SA Ambulance	-	864	**864**
Surf Life Saving	1 239	-	**1 239**
Volunteer Marine Rescue	729	82	**811**
State Helicopter Rescue	-	512	**512**
Other	127	971	**1 098**
	121 631	54 393	**176 024**
Payments for Levy Collections:			
Department for Transport, Energy and Infrastructure	434	173	**607**
RevenueSA	4 575	1 525	**6 100**
	5 009	1 698	**6 707**
Other:			
AGD administration costs	-	109	**109**
SAFECOM administration costs	-	349	**349**
Other	-	101	**101**
	-	559	**559**
Total Expenses	126 640	56 650	**183 290**

SOUTH AUSTRALIAN FORESTRY CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Forestry Corporation (the Corporation) is a Public Corporation, established under the *South Australian Forestry Corporation Act 2000* (the Act).

Functions

The object of the Act was to establish a statutory corporation as a business enterprise with the principal responsibility of managing plantation forests for the benefit of the people and economy of the State. More specifically, the Act provides for the Corporation to:

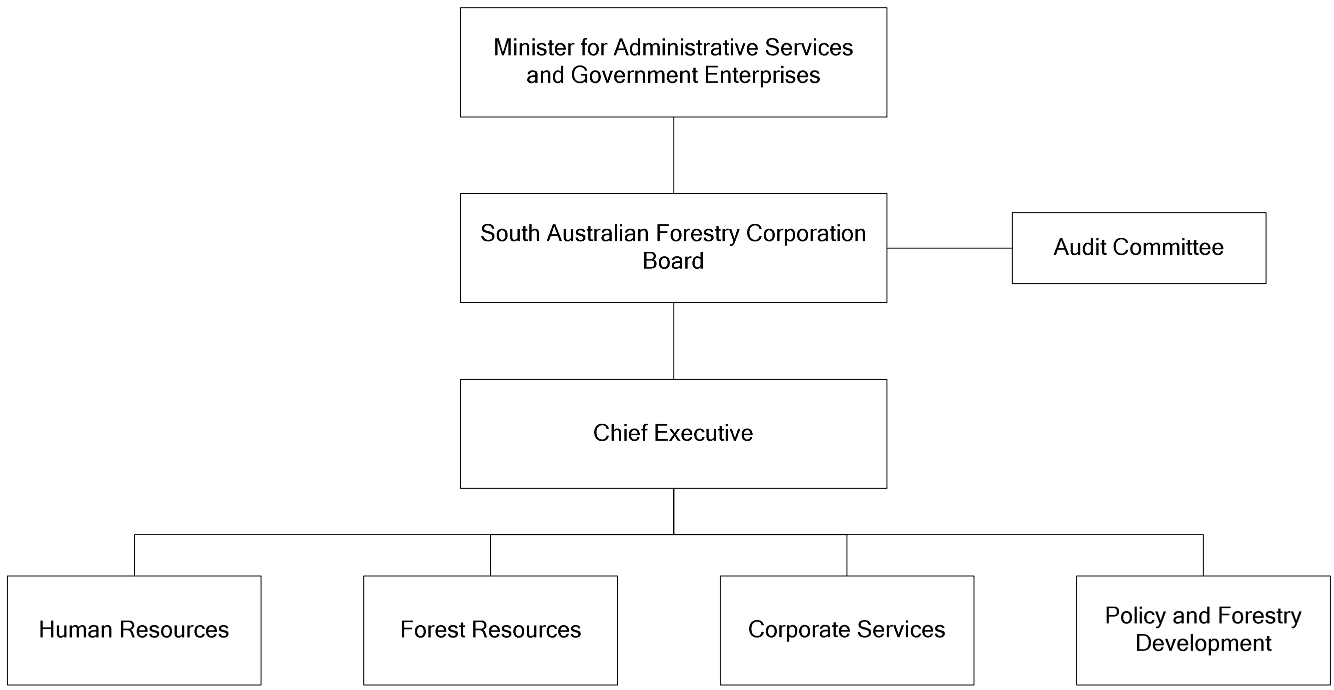
- manage plantation forests for commercial production;
- encourage and facilitate regionally based economic activities based on forestry and other industries;
- conduct research related to the growing of wood for commercial purposes;
- carry out any other function conferred on the Corporation by an Act or the Minister.

The Act specifies that the Corporation is a statutory corporation to which the provisions of the *Public Corporations Act 1993* apply.

Under the *Public Corporations Act 1993* the Minister and the Treasurer must prepare a charter and a performance statement for the Corporation after consultation with the Corporation. The charter outlines the nature and scope of the Corporation's operations and its reporting obligations, while the performance statement sets out the various performance targets for the Corporation over a defined period.

Structure

The structure of the Corporation is illustrated in the following organisation chart.



Audit Committee

The Corporation has an Audit Committee comprising members of the Board and is attended by Internal and External Auditors as observers. The Audit Committee meets on a quarterly basis and reports to the Board.

The broad functions of the Audit Committee are to regularly review the adequacy of the accounting, internal auditing, reporting and other financial management systems. The responsibilities extend to monitoring risk management practices, approving and evaluating the internal audit program, reviewing the annual financial statements prior to approval of the Board and communicating with the Auditor-General's Department.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Section 31 of the *Public Finance and Audit Act 1987* and subsection 32(4) of the *Public Corporations Act 1993* provides for the Auditor-General to audit the accounts and financial statements of the Corporation in respect of each financial year.

Assessment of Controls

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the South Australian Forestry Corporation included an assessment of the controls exercised 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 2005-06, specific areas of audit attention included:

- accounts payable
- accounts receivable
- general ledger
- payroll
- growing timber valuation
- Forestry Logging System revenue
- Forestry Logging System expenditure
- contract management
- information technology management including the Forestry Logging System and its computer processing environment.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

The following is an extract from the 2005-06 Independent Audit Report, which details the qualification to the Corporation's financial report.

> ***Qualification***
>
> *The Corporation manages South Australia's plantation forests. The Corporation has adopted a market based method of revaluation for the Asset - Growing Timber, consistent with the requirements of Australian Accounting Standard AASB 141 Agriculture. Under this method, the inventory 'growing timber' is valued at its 'net market value' at the reporting date.*

The Corporation utilises a comprehensive computer based model to estimate the actual volume of timber standing in the forests. That is, the existence of the asset 'growing timber' is estimated via a predictive growth model. Market prices for timber products are then applied to the volume estimates to establish a value for 'growing timber' for financial reporting purposes.

In recognition of the complexity of the estimation model and the need for Audit to attest to the existence of the asset, Audit has, several times over a number of years, engaged an independent consultant with expertise in Forestry to examine the systems and processes used in the estimation of growing timber and to report on their auditability. While these reviews noted that the systems and processes used in the estimation of growing timber were generally of a high technical standard a number of issues required resolution to enable the attestation of the estimates of the volume of standing timber. This precluded the independent verification of these estimates within an acceptable level of audit confidence. Audit review of the status of issues in 2005-06 confirmed that some matters relating to the auditability of the estimation process were still being addressed. Therefore, consistent with prior years, I am not in a position to form an opinion on the reasonableness of the estimation of the value of the asset growing timber.

Qualified Audit Opinion

In my opinion, except for the effect on the financial report of the matter referred to in the qualification paragraphs, 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 Forestry Corporation as at 30 June 2006, the results of its operations and its cash flows for the year then ended.*

Assessment of Controls

In my opinion, the controls exercised by the Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for matters raised on Information Technology Management and Systems Operations as outlined under 'Audit Communications to Management' are sufficient to provide reasonable assurance that the financial transactions of the 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 management letters to the Chief Executive. The responses to the management letters were generally considered to be satisfactory.

Information Technology Management and Systems Operations

During the year Audit reviewed the Corporation's information technology management and control, including the Forestry Logging System and its computer processing environment. The review identified matters relating to:

- finalisation and endorsement of the 2005-06 ICT Strategic Plan;
- updating of the business continuity plans/strategies and procedures, and a more frequent off-site backup regime;
- completion and approval of change management procedures, including aspects of segregation of duties associated with migration to production;
- improvements in user access security arrangements and monitoring of access, including database and remote network access.

In July 2006, Forestry SA formally advised of appropriate action to address the matters raised by Audit. Confirmation of the implementation of the advised action will form part of the 2006-07 annual audit.

Growing Timber Valuation

Introduction

The Corporation's Balance Sheet includes a value for growing timber and changes in the value of growing timber are reflected in the Income Statement. The impact of the value for Growing Timber reported in the financial statements is significant to the Corporation's financial position and operating result. The Independent Audit Report has qualified the growing timber valuation for many years. The passages below provide the background and reasons for the qualification.

Growing Timber Assets Valuation

Note 2(m) to the Corporation's financial statements provides a summary of the valuation methodology adopted by the Corporation in arriving at a value for growing timber. The value, in part, is based on volume estimates of growing timber. This is a matter of technical complexity and involves systems and databases to predict growing timber. That is, the existence of the asset 'growing timber' is estimated via a predictive growth model. Market prices for timber products are then applied to the volume estimates to establish a value for 'growing timber' for financial reporting purposes.

Audit of Growing Timber Valuation

Two important assertions that require attestation in the audit of growing timber are existence and valuation.

For valuation, Audit has noted that the Corporation has adopted a market based method consistent with the requirements of AASB 141 *Agriculture*. That is, the Corporation calculates the weighted average return for each log diameter class by sampling market prices over the 12 months preceding the balance date. As part of the financial statement review process Audit has been able to attest to the reasonableness of this calculation.

For the existence assertion, as noted above, a technically complex model is utilised to estimate the existence of the volume of growing timber at a point in time. In recognition of this complexity and the need to attest to the existence of the asset, Audit has, several times over a number of years, engaged an independent consultant with expertise in Forestry to examine the systems and processes used in the estimation of growing timber and to report on their auditability. The last review by an independent expert was during 2005-06.

2005-06 Review

In 2005-06 an independent expert was engaged to explore a cost effective approach to form an opinion on the valuation of growing timber and to assess the progress made on the recommendations from the previous audit reviews. The review determined that the appropriate audit approach was to test valuation parameters to confirm their reliability and to physically test (on a statistically sound sample basis) the inventory of standing forest. Most of this testing work should be performed by the Corporation and subject to audit verification.

The review concluded the methods used by the Corporation were generally appropriate, appear to be in control, and have the potential to provide a reasonable estimate of value. Notwithstanding the Corporation's existing practices, several areas were identified that required attention before an audit assessment could progress. These included:

- using a statistically verifiable random testing process to periodically check growing timber estimates for selected areas;
- testing whether inventory measurements are unbiased, and testing the total value of the forest based on a sample stratified by value;
- documenting each valuation run to a sufficient level to audit the process.

The review also provided recommendations for the ongoing reliability of the valuation and other observations not critical to the valuation.

Corporation Response

The Corporation provided comments on the review findings and indicated that it would make changes where appropriate to systems and processes. Further the Corporation advised that it had independently determined a need for and embarked on, a review of the timber estimation and management systems with a view to capturing additional commercial benefits including broader reporting facilities. This project is medium to long-term and will not have implications for forest valuation until after the 2006-07 year.

Qualification Basis

As detailed in the extract from the 2005-06 Independent Audit Report, the reviews of processes and information used to estimate the value of growing timber identified issues that require resolution to enable the attestation of the volume estimates of standing timber. These issues have precluded the independent verification of the volume estimates of standing timber within an acceptable level of audit confidence. Consequently, consistent with prior years, I am not in a position to form an opinion on the reasonableness of the estimation of the value of the asset growing timber.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

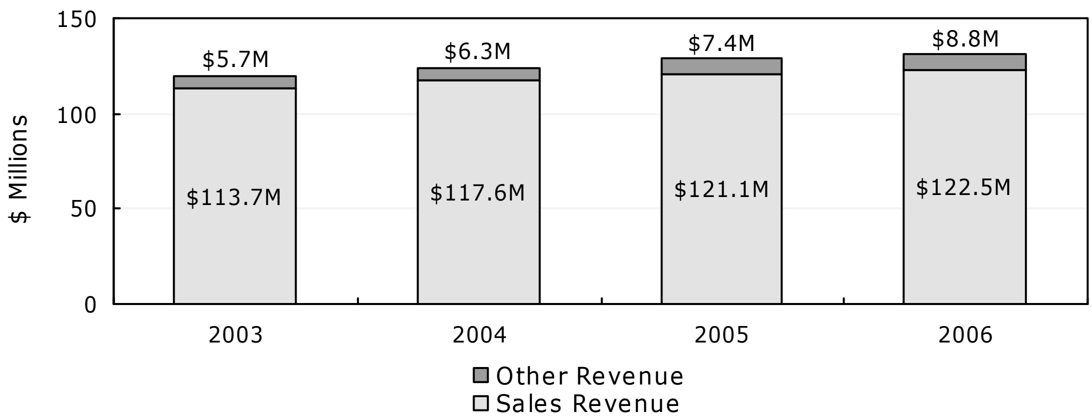
Highlights of Financial Report

	2006 $'million	2005 $'million	Percentage Change
REVENUE			
Sales revenue	**122.5**	121.1	1
Community service obligation funding	**4.8**	3.6	33
Other revenue	**4.0**	3.8	5
Total Revenue	**131.3**	128.5	2
EXPENDITURE			
Employee entitlements	**15.9**	14.1	13
Contractors	**53.4**	53.1	1
Other expenses	**16.6**	14.4	15
Total Expenses	**85.9**	81.6	5
Trading Profit before Revaluation of Growing Timber	**45.4**	46.9	(3)
Net Cash Flows from Operations	**32.4**	36.6	(11)
ASSETS			
Current assets	**124.4**	130.4	(5)
Non-current assets	**934.2**	904.3	3
Total Assets	**1 058.6**	1 034.7	2
LIABILITIES			
Current liabilities	**20.4**	28.0	(27)
Non-current liabilities	**12.2**	7.0	74
Total Liabilities	**32.6**	35.0	(7)
EQUITY	**1 026.0**	999.7	3

Income Statement

Income

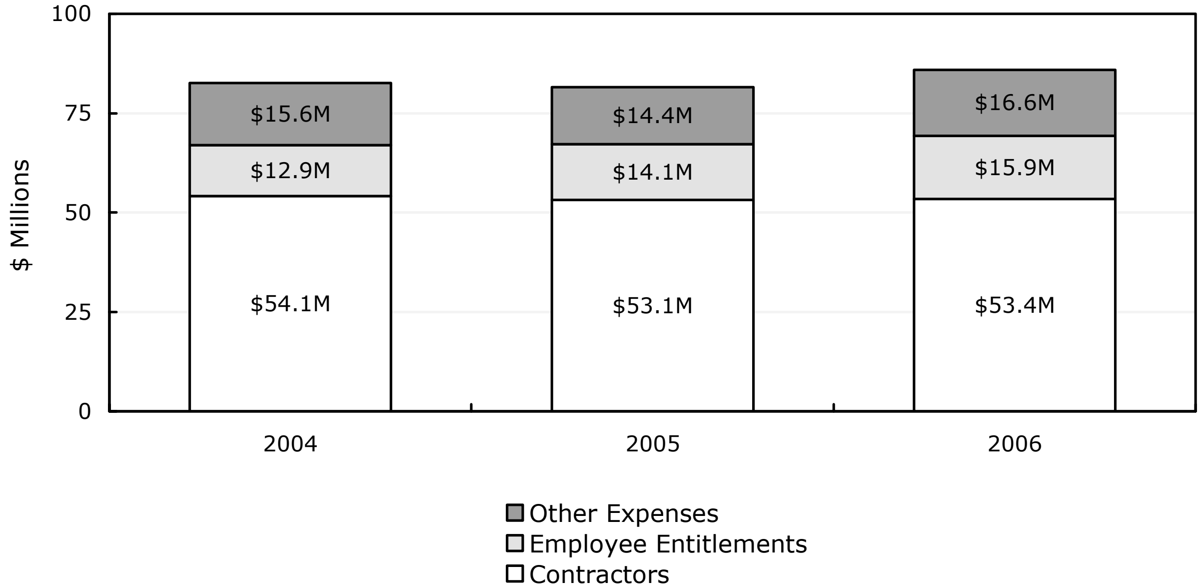
A structural analysis of revenues of the Corporation for the four years to 2006 is presented in the following chart.



Sales revenue has gradually increased over the period due to the strong demand in the housing industry over the last few years. The trend of the sales revenue over the last four years also reflects the stable nature of the Corporation's operations, due in part to the long-term supply sales agreements with the Corporation's customers.

Expenses

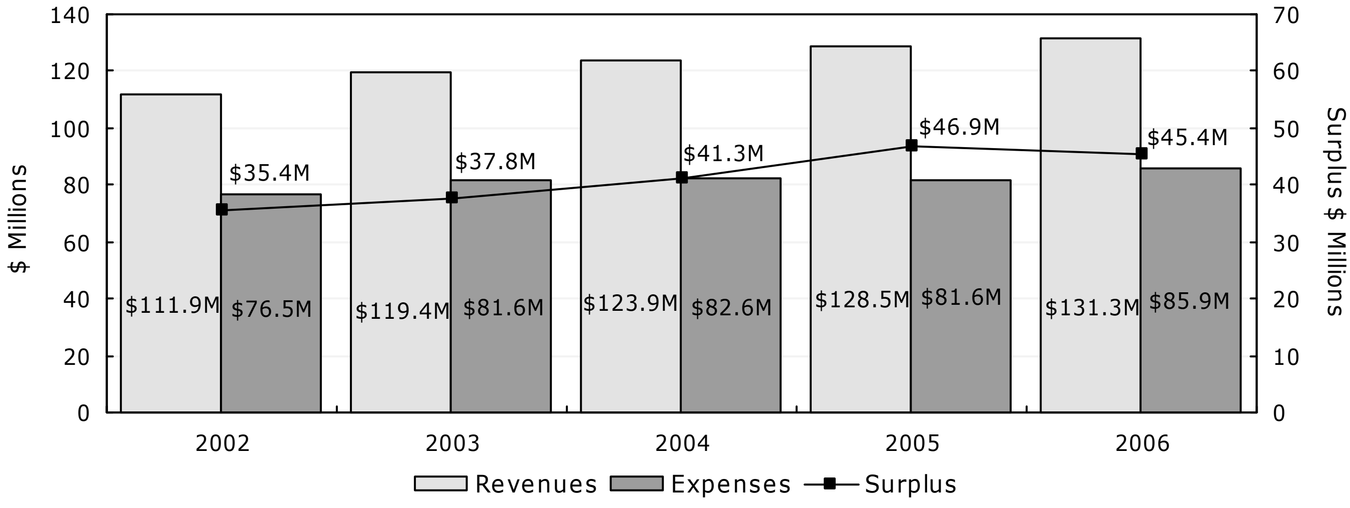
For the three years to 2006, a structural analysis of the main operating expense items for the Corporation is shown in the following chart.



Contractors are the main expenditure item for the Corporation representing approximately 62 percent of expenditure. Contractors predominantly include harvesting and transporting costs of $49.5 million ($50.0 million). The decrease in other expenses in 2005 is due in part to the Corporation self insuring for fire risks for the first time in 2004-05. The increase in other expenses in 2006 is due to revaluation decrements amounting to $1.6 million. The increase in employee entitlements is due to a combination of increases in salary and wage rates and an increase in the number of staff.

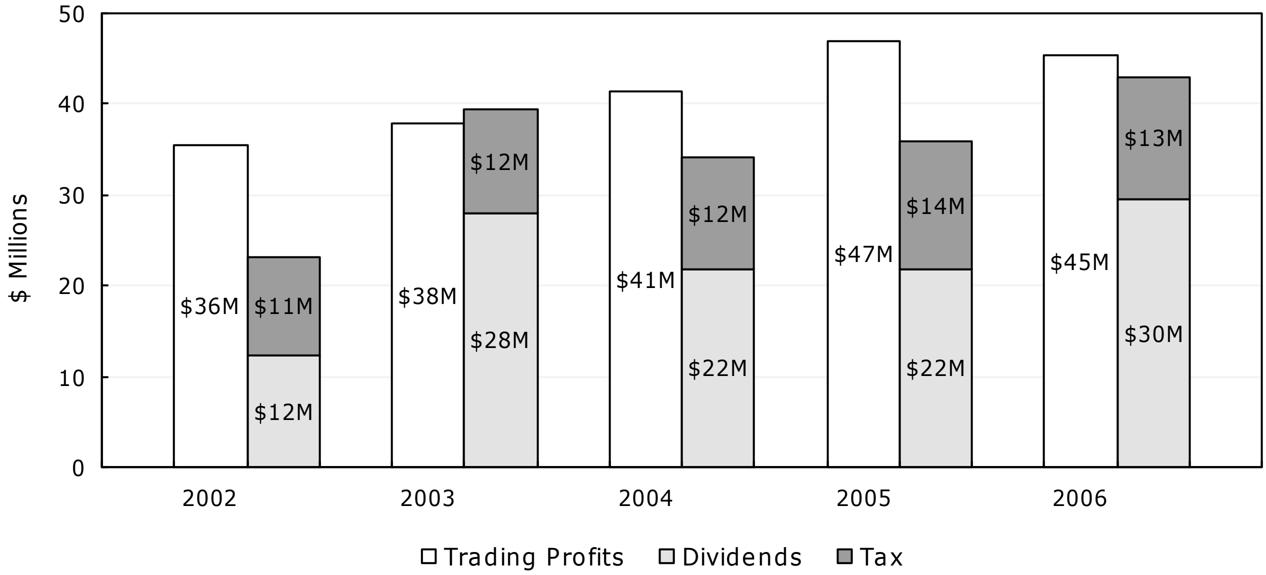
Operating Result

The Corporation's financial performance during the last few years has benefited from the strong demand for housing construction.



Distributions to Government

For the five years to 2006 an analysis of the Corporation's Trading Profits before revaluation of Growing Timber compared to returns to Government is shown in the following chart.



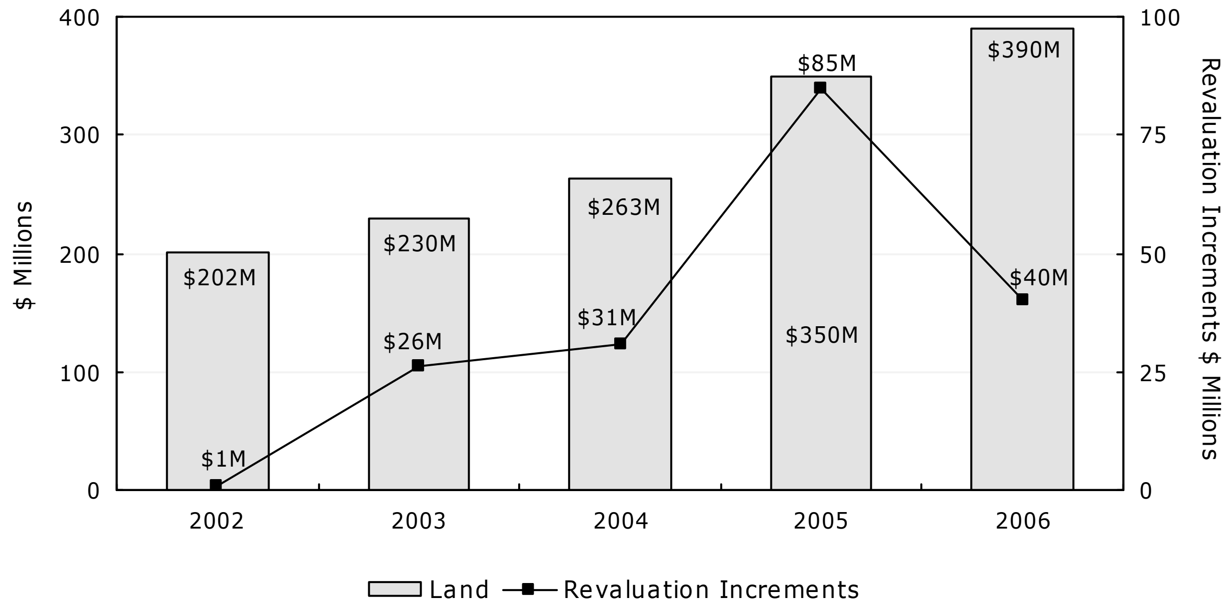
Returns to Government are provided by way of income tax equivalent payments and dividends. The above chart indicates that the majority of trading profit is returned to the Government. Over the past five years, 85 percent of the Corporation's trading profit has been returned to Government.

Balance Sheet

The two dominant items in the Balance Sheet are 'Growing Timber' and 'Land' represent approximately 95 percent of the total assets of the Corporation. These are analysed below.

Land

An analysis of land balance for the five years to 2006 is presented in the following chart.



The valuation of land is undertaken each year by the Valuer-General at the current market value of unimproved land. The value of land has risen significantly over the past four years due mainly to the strong real estate market. The main reasons for the significant increases in 2005 and 2006 were adjustments to increase the relativity of the Corporations land to adjoining/nearby properties and normal market movements due to the high demand for land in the south east region of South Australia.

Growing Timber

Note 2(m) 'Forestry Accounting' to the financial statements explains the basis and main features of the Corporation's valuation methodology for growing timber.

The following table summarises valuations of growing timber for the past five years by region and revaluation increments (decrements). The table also highlights the major influence on the valuation.

	2006	2005	2004	2003	2002
	$'million	$' million	$' million	$' million	$' million
Region					
South East Region:					
Young plantations	**38.1**	39.2	26.5	29.1	27.5
Old plantations	**473.7**	491.2	515.9	496.4	486.1
Central and Northern Regions:					
Young plantations	**5.2**	5.3	3.5	3.9	3.9
Old plantations	**73.3**	73.3	87.1	88.8	79.7
	590.3	609.0	633.0	618.2	597.2
Revaluations					
Increment (Decrement)	**(18.7)**	(24.5)	14.8	21.0	3.8
Net increase (decrease) in value of unrealised growing timber due to:					
Change in volume	**(6.1)**	(15.6)	2.9	20.0	(1.4)
Change in wood prices	**(11.5)**	(23.4)	14.8	(0.6)	3.6
Change in young plantations valued at replacement cost	**(1.1)**	14.5	(2.9)	1.6	1.6
	(18.7)	(24.5)	14.8	21.0	3.8

The net change in the valuation of growing timber is a combination of the change in the volume of growing timber and the change in price. The change in volume also reflects the changes in the product mix (eg log size) of growing timber. Change in price reflects the movement in the market value rates for timber.

The factors contributing to the change in the value of growing timber include: updating information used to estimate standing timber for the south eastern forests; revising the estimate of product mix that can be extracted (ie sold) from the forest; and revising the price (ie cost) for young plantations.

Cash Flow Statement

The following table summarises the net cash flows for the four years to 2006.

	2006	2005	2004	2003
	$'million	$'million	$'million	$'million
Net Cash Flows				
Operations	**32.4**	36.6	30.9	27.7
Investing	**(6.7)**	(10.3)	(2.6)	(4.4)
Financing	**(29.5)**	(8.5)	(22.0)	(25.9)
Change in Cash	**(3.8)**	17.8	6.3	(2.6)
Cash at 30 June	**33.7**	37.5	19.7	13.4

The Corporation's surplus cash generated through operating activities is applied to fund its financing activities, predominantly returns to government through dividends paid. Financing outflows changes between 2005 and 2006 are due to the timing of dividend payments.

Income Statement
for the year ended 30 June 2006

	Note	**2006**	2005
INCOME:		**$'000**	$'000
Sales - Timber products	5(i)	**122 466**	121 080
Revenues from SA Government	5(i)	**4 798**	3 600
Interest	5(i)	**2 281**	1 415
Other	5(i)	**1 618**	1 509
Government grants		**120**	134
Gain on sale of non-current assets		**31**	696
Total Income		**131 314**	128 434
EXPENSES:			
Employee entitlements	7	**(15 855)**	(14 117)
Contractors		**(53 417)**	(53 073)
Depreciation and amortisation	5(ii)	**(2 174)**	(2 028)
Borrowing costs	5(ii)	**(402)**	(161)
Other expenses		**(12 446)**	(12 199)
Revaluation decrement on non-current assets		**(1 560)**	-
Total Expenses		**(85 854)**	(81 578)
Trading Profit before Revaluation of Growing Timber		**45 460**	46 856
Net unrealised change in value of growing timber	13	**(18 724)**	(24 519)
Profit before Income Tax Equivalents		**26 736**	22 337
Income tax equivalents expense	2(f), 6	**(13 396)**	(14 105)
NET PROFIT ATTRIBUTABLE TO THE SA GOVERNMENT		**13 340**	8 232

Balance Sheet
as at 30 June 2006

	Note	2006 $'000	2005 $'000
CURRENT ASSETS:			
Cash and cash equivalents	9	**33 847**	37 530
Trade and other receivables	10	**16 444**	14 229
Inventories	11	**1 327**	944
Growing timber	13	**72 560**	77 057
Deferred income tax assets	16	**-**	696
Assets classified as held for sale	12	**295**	-
Total Current Assets		**124 473**	130 456
NON-CURRENT ASSETS:			
Trade and other receivables	10	**76**	-
Growing timber	13	**517 689**	531 917
Property, plant and equipment	14	**416 023**	371 282
Intangible assets	15	**377**	279
Deferred income tax assets	16	**-**	787
Total Non-Current Assets		**934 165**	904 265
Total Assets		**1 058 638**	1 034 721
CURRENT LIABILITIES:			
Trade and other payables	17	**14 155**	17 868
Employee benefits	18	**1 425**	1 032
Interest bearing loans	19	**915**	438
Tax liabilities	20	**3 814**	8 638
Other provisions	21	**94**	82
Total Current Liabilities		**20 403**	28 058
NON-CURRENT LIABILITIES:			
Payables	17	**584**	234
Employee benefits	18	**2 121**	2 074
Interest bearing loans	19	**9 223**	4 454
Other provisions	21	**245**	205
Total Non-Current Liabilities		**12 173**	6 967
Total Liabilities		**32 576**	35 025
NET ASSETS		**1 026 062**	999 696
EQUITY:			
Contributed equity		**4 984**	4 984
Other reserves		**939 395**	912 540
Retained profits		**81 683**	82 172
TOTAL EQUITY		**1 026 062**	999 696

THE TOTAL EQUITY IS ATTRIBUTED TO THE SA GOVERNMENT AS OWNER

Statement of Changes in Equity
for the year ended 30 June 2006

	Contributed Capital $'000	Asset Revaluation Reserve $'000	Growing Timber Reserve $'000	Fire Insurance Fund Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2004	4 984	247 598	602 301	-	73 571	928 454
Gain on revaluation	-	85 070	-	-	-	85 070
Impairment loss	-	(394)	-	-	-	(394)
Net income/expense recognised directly in equity	-	84 676	-	-	-	84 676
Net profit for the period	-	-	-	-	8 232	8 232
Total recognised income and expense for 2004-05	-	84 676	-	-	8 232	92 908
Dividend	-	-	-	-	(21 666)	(21 666)
Transfers to (from) retained earnings	-	-	(24 519)	2 484	22 035	-
Total change for the period	-	84 676	(24 519)	2 484	8 601	71 242
Balance at 30 June 2005	4 984	332 274	577 782	2 484	82 172	999 696
Gain on revaluation	-	43 036	-	-	-	43 036
Impairment loss	-	(360)	-	-	-	(360)
Net income/expense recognised directly in equity	-	42 676	-	-	-	42 676
Net profit for the period	-	-	-	-	13 340	13 340
Total recognised income and expense for 2005-06	-	42 676	-	-	13 340	56 016
Dividend	-	-	-	-	(29 650)	(29 650)
Transfers to (from) retained earnings	-	-	(18 724)	2 903	15 821	-
Total change for the period	-	42 676	(18 724)	2 903	(489)	(26 366)
Balance at 30 June 2006	**4 984**	**374 950**	**559 058**	**5 387**	**81 683**	**1 026 062**

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

		2006	2005
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	**$'000**	$'000
Receipts from customers		**122 106**	122 160
Payments to suppliers and employees		**(80 913)**	(78 596)
Borrowing costs		**(402)**	(161)
Interest received		**2 222**	1 386
Receipts from SA Government		**4 798**	3 600
GST receipts on sales		**12 470**	12 157
GST payments on purchases		**(7 018)**	(6 896)
GST remitted to Australian Taxation Authority		**(5 391)**	(5 108)
Income tax equivalents paid		**(15 515)**	(11 849)
Net Cash provided by Operating Activities	9(ii)	**32 357**	36 693
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment, including land		**(7 129)**	(10 715)
Purchase of growing timber		**-**	(467)
Proceeds from sale of fixed assets		**455**	696
Net Cash used in Investing Activities		**(6 674)**	(10 486)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		**5 860**	3 285
Repayment of borrowings		**(614)**	(259)
Dividend paid		**(34 665)**	(11 566)
Net Cash used in Financing Activities		**(29 419)**	(8 540)
NET (DECREASE) INCREASE IN CASH HELD		**(3 736)**	17 667
CASH AND CASH EQUIVALENTS AT 1 JULY		**37 371**	19 704
CASH AND CASH EQUIVALENTS AT 30 JUNE	9(i)	**33 635**	37 371

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Corporate Information

Role and Function of The South Australian Forestry Corporation (SAFC)

SAFC was established under the *South Australian Forestry Corporation Act 2000* on 1 January 2001. SAFC is subject to the provisions of the *Public Corporations Act 1993*. SAFC has the key responsibilities of:

- managing State–owned plantation forests including harvesting and delivery of forest products to customers;
- supporting and facilitating forestry industry development;
- providing recreational access to forest reserves;
- managing native forests for conservation purposes; and
- providing policy support and advice to Government, the industry and the community.

In addition to its business operations, SAFC is funded by the SA Government for the provision of certain community service obligations (CSOs). These are:

- forest industry development;
- forestry policy and legislative support;
- community use of forests;
- native forest management; and
- community protection (including fire protection).

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

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* and applicable Australian Accounting Standards.

Accounting Policy Statements issued pursuant to Treasurer's Instructions may modify or clarify accounting standards application, disclosure, format and wording to provide certainty and to ensure consistency and appropriate reporting across the public sector. For example AASB 116 *Property, Plant and Equipment* requires non-current tangible assets to be measured at cost or fair value, while Accounting Policy Statement mandates the fair value option. In addition, the application of AASB 112 *Income Taxes* has been modified (refer to Note 2(f)).

SAFC's Income Statement, Balance Sheet and Statement of Changes in Equity 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 applicable valuation policy. The Cash Flow Statement has been prepared on a cash basis.

The financial report has been prepared based on a 12 month operating cycle and presented in Australian currency.

(b) Comparative Information

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change.

Comparative figures have been restated on an Australian equivalents to International Financial Reporting Standards (AIFRS) basis except for financial instrument information as permitted by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

The comparatives have been restated to assist users' understanding of the current reporting period and do not replace the original financial report for the preceding period.

Note 2(d) provides a detailed analysis of comparative amounts that have been reclassified as a result of adopting AIFRS.

(c) Rounding

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

(d) Explanation of transition to Australian Equivalents to International Financial Reporting Standards

Australia has adopted AIFRS for reporting periods commencing on or after 1 January 2005. SAFC has adopted these standards for the first time in the financial report for the year ending 30 June 2006.

Impact of Adopting AIFRS

AASB 1 para 39(a),(b),(c)	At the Date of Transition - 01.07.04 Previous GAAP $'000	Adjustments $'000	AIFRS $'000	Last Reporting Period under Previous GAAP - 30.06.05 Previous GAAP $'000	Adjustments $'000	AIFRS $'000
ASSETS AND LIABILITIES:						
Current assets	108 003	-	108 003	130 456	-	130 456
Non-current assets	837 288	(i) 2 641	839 929	902 018	(i) 2 247	904 265
Current liabilities	(13 907)	(ii) (11)	(13 918)	(28 041)	(ii) (17)	(28 058)
Non-current liabilities	(5 560)	-	(5 560)	(6 967)	-	(6 967)
NET ASSETS	925 824	2 630	928 454	997 466	2 230	999 696
EQUITY:						
Contributed capital	(4 984)	-	(4 984)	(4 984)	-	(4 984)
Retained earnings	(73 582)	(ii) 11	(73 571)	(82 189)	(ii) 17	(82 172)
Asset revaluation reserve	(244 957)	(i) (2 641)	(247 598)	(330 027)	(i) (2 247)	(332 274)
Growing timber reserve	(602 301)	-	(602 301)	(577 782)	-	(577 782)
Fire insurance fund reserve	-	-	-	(2 484)	-	(2 484)
TOTAL EQUITY	(925 824)	(2 630)	(928 454)	(997 466)	(2 230)	(999 696)
Profit after Income Tax Equivalents				8 238	6	8 232
Total Cash Flows				19 704	-	19 704

The adoption of AIFRS has not resulted in any material adjustments to the Income Statement or Cash Flow Statement.

Impact of Adopting AIFRS (continued)

(i) In accordance with AASB 1 SAFC has elected to use a previous GAAP revaluation of its Victorian land holdings, at or before, the date of transition to Australian equivalents to IFRS as deemed cost at the date of the revaluation, as the revaluation was, at the date of the revaluation, broadly comparable to fair value. Under Australian Generally Accepted Accounting Policies (AGAAP) the Victorian land holdings were accounted for at cost. SAFC has recognised the adjustments of $1 797 000 directly in the Asset Revaluation Reserve at the date of transition.

Except for the Corporate Head Office, Jubilee Highway East, Mount Gambier, all the assets in Buildings and Structures have a historical value of less than $1 million and SAFC has applied the assumption under Accounting Policy Framework III *Asset Accounting Framework* that as at the date of transition the written down value is an appropriate proxy for the fair value for these assets. As at the reporting date all Buildings and Structures have been revalued (refer to Note 2(n)iv).

The recoverable amount for the Corporate Head Office at the date of transition to AIFRS, defined in AASB 136 *Impairment of Assets* as the higher of the asset's fair value less cost to sell and its value in use, has been based on an estimation of the value in use, taking into account that SAFC expect to vacate and demolish this building once the new Corporate Head Office has been completed in 2007. Therefore, in accordance with AASB 1 and AASB 136, SAFC has recognised the adjustments of $844 000 directly in the Asset Revaluation Reserve at the date of transition and accounted for an impairment loss of $394 000 over the 2004-05 financial year.

(ii) In accordance with AASB 117 *Leases* SAFC is required to recognise lease payments under an operating lease as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefits. Under AGAAP, AASB 1008 *Leases* outlined to account for lease payments as they were incurred. This different methodology has caused an increase in liabilities of $11 000 at the date of transition and of $17 000 as at 30 June 2005 and a reduction of reported profit after income tax equivalents of $6 000.

(iii) As AASB 112 does not apply to SAFC (refer to Note 2(f) and Note 6) and SAFC had not applied the AASB 1020 *Income Taxes* standard for the financial year ending 30 June 2005, the adoption of AIFRS has only impacted on SAFC to the extent of derecognition of the provision for deferred income tax and the future income tax benefit through the Income Statement in the current financial year. Under GAAP, income tax assets and liabilities were determined using the Income Statement method. In accordance with Treasurer's Instruction 22 *Tax Equivalent Payments*, SAFC will now calculate income tax equivalents under the State Tax Equivalent Regime (STER) (Accounting Profits Model) rather than under the National Tax Equivalent Regime (NTER) (refer to Note 2(f)).

(iv) In accordance with AASB 138 *Intangible Assets*, SAFC no longer capitalises research costs in relation to research and development projects as this is prohibited by the standard.

SAFC currently recognises internally developed software on an at cost basis, as the software has been specifically developed for SAFC and is not traded (ie no active market).

Other Impacts of Adopting AIFRS

A major change is the treatment of accounting policy changes under AIFRS. These now apply retrospectively except for specific exemptions in accordance with another standard. The resulting adjustments arising from events and transactions before the date of transition to AIFRS have been recognised directly in retained earnings at the date of transition to AIFRS.

(e) After Balance Date Events/Discontinuing Operations

As part of the SA Government reorganisation of the ministerial portfolios SAFC's operations in the areas of Policy, Legislative Support & Forestry Development, Forest Health & Development and some Community Forestry operations have moved from SAFC to the Department of Primary Industries and Resources (PIRSA), as at 1 July 2006. As a consequence of the reallocation of these functions, 16 positions have moved from SAFC to PIRSA, some minor equipment has been transferred and SAFC is expected to report a reduced Community Service Obligations (CSO) income in the 2006-07 financial year of $2 673 000 compared to an income of $4 704 000 in the 2005-06 financial year. Total income related to the CSO operations discontinued within SAFC was $2 097 000 for the 2005-06 financial year and $1 644 000 for the 2004-05 financial year. As the CSO income is offsetting CSO related expenditure there will be no profit impact from this reallocation.

SAFC and PIRSA will continue to work closely together in the area of Community Forestry.

(f) Taxes

SAFC is liable for income tax equivalents, payroll tax, fringe benefit tax, goods and services tax (GST), emergency services levy, land tax equivalents and local government rate equivalents.

Income Tax Equivalent
SAFC is an income tax exempt body. As SAFC engages in trading activities in competition with private sector enterprises, a payment in lieu of income tax is paid to the South Australian Government Consolidated Account. The tax calculation method is prescribed by Treasurer's Instruction 22.

For the 2004-05 tax year, income tax was administered through the NTER in accordance with the *Income Tax Assessment Act 1997*. An amended Treasurer's Instruction 22 was approved in September 2005 requiring SAFC, as at 1 July 2005, to use the STER. Under the STER the tax equivalent payment is calculated on the Accounting Profit Model. Therefore, AASB 112 does not apply to SAFC. The Department of Treasury and Finance provided a ruling that excludes the treatment of unrealised gains and losses as part of the accounting profit. The Capital Gains Tax (CGT) division of the *Income Tax Assessment Act 1997* applied to SAFC under the NTER but not under the STER.

Under AIFRS AASB 112 would apply to SAFC for the comparative financial year. However, due to the impact of the above amendment of Treasurer's Instruction 22, AASB 112 does not apply to SAFC for the reporting period. Due to the aforementioned changes, SAFC has not adopted AASB 112 for the reporting nor the comparative period.

Under the Accounting Profits Model no future tax assets or future tax liabilities are recognised apart from tax assets or tax liabilities in relation to timing differences in the payment of tax equivalent payments.

Goods and Services Tax (GST)
In accordance with the requirements of Australian Accounting Standards Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*, revenue, liabilities and assets are recognised net of the amount of GST except where the amount of GST incurred by SAFC 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 Balance Sheet.

(g) Income and Expenses
Income and Expenses are recognised in SAFC's Income Statement when and only when the flow or consumption or loss of economic benefit(s) has occurred and can be reliably measured.

Income and Expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5 and have not been offset unless required or permitted by a specific Accounting Standard.

Revenue from Sales – Timber Products is derived from the provision of goods and services to customers. This revenue is driven by consumer demand.

Grants and funding for Community Service Obligations received from SA Government are recognised as income when the SAFC obtains control over the assets.

Interest revenue is recorded on an accrual basis. Interest is calculated on the average daily balance of the account.

The gain or loss on disposal of assets, including revalued assets, is determined as the difference between the book value of the asset at the time of disposal and the proceeds of disposal, and is included in the results in the year of disposal. When revalued assets are sold, the revaluation increments are transferred to retained earnings in accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 3.11.

Borrowing costs are recognised as an expense.

(h) Current and Non-Current Items
Assets and liabilities are characterised as either current or non-current in nature. SAFC has a regular operating cycle of 12 months. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the reporting date, or held primarily for the purpose of being traded, have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

(i) Cash and Cash Equivalents
For the purposes of the Cash Flow Statement, 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 the Balance Sheet includes cash administered on behalf of other organisations (refer Notes 9 and 24).

Cash is measured at nominal value.

(j) Financial Assets

In accordance with the Accounting Policy Framework IV *Financial Asset and Liability Framework*, SAFC measures financial assets and debt at historical cost.

(k) Trade and Other Receivables

Receivables include trade receivables, prepayments and other revenue accruals.

Receivables are recorded at amounts due to SAFC less a provision for doubtful debts. They are recorded as the debts fall due.

Trade receivables arise in the normal course of selling goods and services to other agencies and to the public. Trade receivables are due within one month after the issue of an invoice or the goods/services have been provided under contractual arrangements. Other debtors arise outside the normal course of selling goods and services to the public and other agencies.

If payment has not been received within the terms and conditions of the contractual arrangement, SAFC is able to charge interest at commercial rates as specified until the whole amount of the debt has been paid.

SAFC determines the provision for doubtful debts based on a review of balances within trade receivables that are unlikely to be collected. No provision for doubtful debts has been raised in 2006.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value in accordance with AASB 102 *Inventories*. Harvested log stocks represent timber harvested for sale and are disclosed as a current asset.

(m) Forestry Accounting

Growing timber of a marketable size is valued at its fair value and disclosed as a current asset for the portion expected to be realised within 12 months after the reporting date and as a non-current asset for the portion expected to be realised more than 12 months after the reporting date. The growing timber is valued at its net market value. The net market value is defined as the amount which could be expected to be received from the disposal of the existing mix of forest products in an active and liquid market. SAFC has determined the fair value by sampling market conditions over the 12 months preceding balance date and has calculated the weighted average return for each diameter class, after deducting direct costs incurred in realising those returns. This policy is in accordance with the requirements of AASB 141 *Agriculture*. All amounts are calculated in pre-tax dollars in accordance with the Treasurer's Instructions.

Growing timber below a marketable size (classified as young forest in Note 13) is valued at fair value by a reasonable proxy by annually compounding the current replacement cost, from the date of preparation of the site for planting, at the current one year bond rate.

The difference between the fair value of the inventory of growing timber held at the reporting date and the fair value at the previous reporting date is recognised in the Income Statement as the net change in value of growing timber. The value of growing timber realised during the period is reported under sales revenue. All non-capital forest expenditure is recognised as an expense in the year the expenditure takes place.

The net change in the value of growing timber is unrealised and is therefore not available for distribution. This amount is accounted for in the movement in the Growing Timber Reserve.

The volume of growing timber is estimated using a model that simulates forest growth. Actual growth will invariably differ to some extent from growth predicted by the model resulting in periodic adjustments to net market value for these growth variations. The model uses sample inventory data as the base line from which to start growth simulations. Inventory data is continuously being collected from sample inventory plots with the complete forest estate being covered in about five yearly intervals. The inventory master database is updated every three to five years and on these occasions the model simulations are repeated. For the South Eastern forests the master database was last updated as at June 2004, affecting the growing timber valuation as at 30 June 2005. For the Central forests and the Northern forests the master database was last updated in 2006, affecting the growing timber valuation as at 30 June 2006.

The method used to determine the volume of timber contained in the radiata and non-radiata plantations is 'standing volume' (the volume of wood in the stem of trees which is potentially useable) less an allowance for residues incurred under current harvesting practice. This ensures that the net market value is based upon realisable volumes.

Due to the significant estimation and modelling used, there is inherent uncertainty in the standing volume estimate and resultant growing timber valuation and profit determination. This inherent uncertainty is endemic to all forest valuations.

(n) Property, Plant and Equipment

(i) Recognition and Measurement

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental costs involved with the acquisition. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Balance Sheet.

SAFC capitalises all non-current physical assets with a value of $1 000 or greater in accordance with Accounting Policy Framework III *Asset Accounting Framework*; and componentisation of complex assets is performed when the complex asset's fair value at the time of acquisition is greater than $1 million. These benchmarks are within the limits prescribed in Accounting Policy Framework III *Asset Accounting Framework* APSs 2.15 and 2.17.

(i) *Recognition and Measurement (continued)*
Plant and Equipment and Roads and Land Improvements are stated at cost less accumulated depreciation and impairment losses.

Land and Buildings and Structures are measured at fair value less accumulated depreciation on Buildings and Structures and impairment losses recognised after the date of the revaluation. Fair value represents the value that is able to be achieved in an active and liquid market. Where an active and liquid market does not exist then the asset will be brought to account at its written down current cost.

(ii) *Impairment*
The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstance indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use.

An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

For property, plant and equipment, impairment losses are recognised in the income statement except for revalued assets where impairment losses are treated as a revaluation decrement to the extent that a revaluation amount exists for the impaired asset.

(iii) *Non-Current Assets held for Sale*
Assets held for sale are separately disclosed and measured at the lower of carrying amount and fair value less cost to sell.

(iv) *Revaluation*
In accordance with Accounting Policy Framework III *Asset Accounting Framework* and AASB 1, SAFC has elected for land holdings to use the previous GAAP revaluation at the date of transition to AIFRS.

To derive the fair value for all other assets at the transition date and for the comparatives SAFC has applied the assumption provided under Accounting Policy Framework III *Asset Accounting Framework* that the written down value is an appropriate proxy for fair value for these assets for all non-land assets, with the exception of the Corporate Head Office, Jubilee Highway East, Mount Gambier, being the only asset with a historical cost of more than $1 million.

All assets in the asset classes Land and Buildings and Structures have been revalued as at 30 June 2006. In accordance with Accounting Policy Framework III *Asset Accounting Framework*, SAFC has no requirement to revalue any of the assets but applies the assumption that the written down value is an appropriate proxy for fair value. Assets in the other asset classes are deemed to have been revalued to their fair values immediately following recognition at cost.

The basis of the revaluation of Land is the current site value of the unimproved land. In accordance with this policy, Land was revalued in 2005 and 2006 using valuations provided by the Valuer-General and/or local Councils. SAFC undertakes an annual revaluation of Land to fair value at the end of June. In accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 3.10 SAFC has elected to take revaluation adjustments to the non-current assets on an individual asset basis.

At least every five years, an independent valuation appraisal of SAFC's Buildings and Structures will be performed. However, if at any time management considers that the carrying amount of an asset class materially differs from its fair value then the asset class will be revalued regardless of when the last valuation took place. SAFC undertook an independent valuation appraisal of its Buildings and Structures during 2005-06.

Non-current physical assets that are acquired between revaluations and are below the revaluation threshold (fair value at the time of acquisition greater than $1 million and useful life greater than three years) as per Accounting Policy Framework III *Asset Accounting Framework* will be deemed to have been revalued to their fair values immediately following recognition at cost, until revaluation will take place, when they are revalued to fair value.

(v) *Depreciation and Amortisation of Non-Current Assets*
All non-current assets, having a limited useful life, are systematically depreciated or amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets, while depreciation is applied to physical assets such as property, plant and equipment.

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

(v) *Depreciation and Amortisation of Non-Current Assets (continued)*
The value of leasehold improvements, included in plant and equipment, is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Land and assets held for sale are not depreciated.

Depreciation/amortisation for non-current assets is determined as follows:

Class of Asset	*Depreciation Method*	*Useful Life (Years)*
Buildings and structures	Straight line	25-40
Leasehold improvements	Straight line	Life of lease
Roads and land improvements	Straight line	20-25
Plant and equipment	Straight line	5-10

(vi) *Crown Land*
The value of Crown Land amounts to $337 million ($290 million). SAFC is entitled to the value of the Crown Land and has the use of the Crown Land for forestry purposes. Generally, the issue of title over Crown Land is required before the land can be disposed of, however, SAFC is exempt from some policies and procedures related to the purchase and disposal of Crown Land, as per the Premier and Cabinet Circular 114 *Purchase and Disposal of Government Real Property (including Crown Lands)*.

(o) Intangible Assets
Intangible assets include purchased software and development costs for software tools. An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at fair value. Intangible assets below the revaluation threshold (refer to Note 2(n)) are deemed to have been revalued to their fair values immediately following recognition at cost.

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an asset outlined in AASB 138 and when the amount of expenditure is greater than or equal to $1 000.

All research and development costs that do not meet the capitalisation criteria outlined in AASB 138 are expensed.

Capitalised software is amortised over the useful life of the asset, with a maximum time limit for amortisation of five years, using the straight line method. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(p) Trade and Other Payables
Payables include creditors, accrued expenses and employment on-costs.

Payables are recorded at the agreed amounts at which the liabilities are to be settled. They are recorded when the goods and services have been provided.

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

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 after the end of the month.

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

SAFC makes contributions to several superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as the schemes have assumed these. The only liability outstanding at the end of the reporting period relates to any contributions due but not yet paid.

(q) Employee Benefits
Employee benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

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.

(q) Employee Benefits (continued)

Liability for salary and wages are measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date. The liability for annual leave reflects the value of total annual leave entitlements of all employees as at 30 June 2006 and is measured at the undiscounted amount expected to be paid.

The liability for long service leave is recognised and measured using data from the actuarial assessment by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector. In accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework* APS 5.10, SAFC applies seven years of service by an employee as the benchmark at which a liability for long service leave is recognised. This calculation is consistent with SAFC experience of employee retention and leave taken.

(r) Interest Bearing Loans

In accordance with Accounting Policy Framework IV *Financial Asset and Liability Framework* APS 6.1, SAFC uses the historical cost measurement for interest bearing loans.

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues.

(s) Leases

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

(t) Insurance

SAFC has arranged, through SA Government Captive Insurance Corporation (SAICORP), to insure all major property and liability risks of SAFC. The excess payable under this arrangement is $250 000 from an event or occurrence covered by the agreement.

The risk associated with major fire losses of forest is self-insured (refer to Note 2(w)). In addition, SAFC is self insured for workers compensation.

(u) Provisions

SAFC self-insures its workers compensation obligations. The workers compensation liability is based on an actuarial assessment provided by the Department for Administrative and Information Services of the estimated unsettled workers compensation claims.

(v) Contributed Equity

Contributions made by the SA Government through its role as owner of SAFC, which increase the net assets of the entity, are treated as contributions of equity.

(w) Fire Insurance Fund and Reserve

Cabinet approved SAFC to self-insure for the risk associated with major fire losses of forest from 1 October 2004 and set up a fund for this purpose at that date. The Fire Insurance Fund has been created as part of SAFC's self-insurance policy. The use of the Fire Insurance Fund available cash balance is restricted to fund annual fire losses to the plantation of greater than $250 000. These funds will provide cash for clearing, re-establishment and necessary cash flow. Monies in the Fire Insurance Fund are restricted and are therefore not available for distribution. The movement in the Fire Insurance Fund is transferred between Retained Earnings and the Fire Insurance Fund Reserve.

3. Financial Risk Management

SAFC has significant non-interest bearing assets (receivables) and liabilities (payables) and interest bearing assets (deposits) and liabilities (borrowings from the SA Government). SAFC’s exposure to market risk and cash flow interest rate risk is in accordance with the risk management policies and procedures approved by the Board.

The nature and location of SAFC’s forestry operations cause concentration of credit risk in relation to trade receivables as 84 percent of transactions for the financial year were transactions with the six largest of SAFC’s customers.

As part of its financial risk management policies, SAFC manages and monitors log supply commitments to ensure the commitments are within the long term forest yield forecasts, thereby maintaining SAFC's long term viability and profitability.

4. Segment Information

SAFC has no separately identifiable geographic or business segments which grant separate preparation and disclosure of segment information.

5. Income and Expenses

Profit from Ordinary Activities before income tax has been determined after:

	Note	2006 $'000	2005 $'000
(i) Crediting as Revenue			
Sales - Timber Products:			
Net revenue realised from the sale of timber products		**73 051**	71 080
Recoup of harvesting and transport costs		**49 415**	50 000
		122 466	121 080
Revenues from SA Government:			
Community service obligation funding[1]	1	**4 798**	3 600
Interest received or receivable:			
Interest received or receivable related to cash balances[1]		**2 219**	1 415
Interest received or receivable related to trade receivables		**62**	-
		2 281	1 415
Other Operating Revenue:			
Government Radio Network funding received[1]		**-**	350
Other Revenue from SA Government entities[1]		**59**	51
Other Revenue from Non-SA Government entities		**1 559**	1 108
		1 618	1 509

(1) To/From SA Government entities.

In 2005 the Government Grants received included a grant for the Government Radio Network, which is supported by SAFC. In 2005 SAFC received a grant for the development of the Mount Crawford Airstrip, which is recognised as revenue over the life of the asset.

(ii) Charging as Expenses	Note	2006 $'000	2005 $'000
Interest paid or payable[1]	19	**402**	161
Depreciation of non-current assets	14	**2 075**	1 975
Amortisation	15	**99**	51
Rental expense on property operating leases[1]		**122**	133
Rental of plant and equipment		**1 059**	1 051
Consultants		**246**	82
Total Other Expenses related to SA Government Entities[1]		**2 833**	2 804

(1) To/From SA Government entities.

6. Income Tax Equivalents

As at 1 July 2005, as per South Australia's Department of Treasury and Finance determination, SAFC has become subject to the State Tax Equivalent Regime (STER). Under the STER SAFC uses the Accounting Profits Model to calculate the income tax equivalent payment, in accordance with Treasurer's Instruction 22. Under the Accounting Profits Model, the rate of company income tax is applied to the audited accounting profit. The accounting profit is the net profit/result from ordinary activities determined in accordance with AASB 101 *Presentation of Financial Statements*.

The National Tax Equivalent Regime (NTER) was applicable to the 2005 financial year (refer to Note 2(f)).

(i) The prima facie tax on operating profit is reconciled to the income tax equivalent payment provided in the accounts as follows:

2006 Income Tax Equivalents

Accounting for income tax for the 2006 Financial Year is based on the tax equivalent calculations under the Accounting Profits Model prescribed in the STER and the applicable accounting standards (refer to Note 2(f)).

	2006 $'000
Prima facie tax equivalent at 30 percent on trading profit before revaluation of growing timber[1]	**13 638**
Income tax adjustment for prior year in current year	**(242)**
Income Tax Expense	**13 396**

(1) The Under Treasurer has provided SAFC with written approval to exclude unrealised gains and losses relating to growing timber revaluations from the accounting profit before SAFC calculates its income tax equivalent payment.

2005 Income Tax Equivalents

Accounting for income tax for the comparative 2005 Financial Year is based on the tax equivalent calculations under the NTER and the 2005 AGAAP.

	2005
	$'000
Prima facie tax equivalent at 30 percent on trading profit before revaluation of growing timber[1]	14 059
Tax effect of permanent differences[2]	46
Income tax attributable to Operating Profit before Income Tax	14 105

(2) Refer to Notes 16 and 20. Applicable as per the NTER position as at 30 June 2005 under applied accounting method.

(ii) The income tax expense comprises amounts set aside as:

	Note	2006 $'000	2005 $'000
Income tax attributable to current year:			
Income tax payable		**13 396**	13 820
Income tax attributable to future years:			
Provision for deferred income tax[3]		**-**	466
Future Income Tax Benefit[3]		**-**	(181)
		13 396	14 105
Paid during financial year related to financial year		**(9 582)**	(8 172)
Income Tax Equivalent Payable as at 30 June	20	**3 814**	5 933
Net Provision for Deferred Income Tax/ Future Income Tax Benefit			(1 222)

(3) Derecognised as at 1 July 2005. Refer to Notes 16 and 20.

7. Employee Benefits

	2006	2005
Salaries and wages	**11 756**	10 307
Long service leave	**337**	538
Annual Leave	**879**	849
Employment on-costs - Superannuation	**1 626**	1 235
Employment on-costs - Other	**1 082**	1 017
Directors' remuneration	**175**	171
Total Employee Benefit Costs	**15 855**	14 117

	2006	2005
Targeted Voluntary Separation Packages (TVSPs):		
Amount paid to these employees	**83**	-
Annual leave and long service leave paid during the reporting period to employees who received a TVSP	**40**	-
	123	-

Number of employees who were paid TVSPs during the reporting period was 2 (nil).

8. Auditors' Remuneration

	2006	2005
Amount received, or due and receivable, by the auditors for auditing the accounts	**129**	104

9. Cash and Cash Equivalents

	Note	2006	2005
Cash		**1**	1
Deposit Account - SAFC		**28 485**	35 046
Fire Insurance Fund	2(w)	**5 361**	2 483
		33 847	37 530

Included in the Deposit Account is $212 000 held on behalf of the National Sirex Fund ($148 000 and on behalf of the IPS Fund $11 000) (refer to Note 24).

Cash Flows

(i) Components of Cash

For the purpose of the Cash Flow Statement, cash includes cash on hand and deposit account. Cash as shown in the Cash Flow Statement is reconciled to the beginning and end of period Balance Sheet as follows:

	2006 $'000	2005 $'000
Cash excluding administered items	**33 635**	37 371
Cash related to administered items	**212**	159
Total Cash	**33 847**	37 530

(ii) Reconciliation of Operating Profit after Income Tax Equivalent Payments to Net Cash Inflow from Operations	**2006 $'000**	2005 $'000
Operating profit	**13 340**	8 232
Other reconciling movements:		
Net change in value of growing timber	**18 724**	24 519
Loss on revaluation of land	**1 444**	-
Loss on property, plant and equipment Valuation (not land)	**116**	-
Depreciation and amortisation	**2 174**	2 028
(Gain) Loss on sale of assets	**(31)**	(696)
	22 427	25 851
Changes in operating assets and liabilities:		
(Increase) Decrease in debtors	**(2 565)**	1 133
(Increase) Decrease in GST receivable	**(51)**	162
(Increase) Decrease in interest receivable	**(59)**	(29)
(Increase) Decrease in other debtors and prepayments	**334**	(786)
(Increase) Decrease in inventories	**(383)**	519
(Increase) Decrease in FITB	**1 483**	(1 405)
(Decrease) Increase in trade creditors	**1 468**	(1 214)
(Decrease) Increase in GST payable	**113**	(9)
(Decrease) Increase in employee provisions	**599**	179
(Decrease) Increase in revenue received in advance	**-**	(41)
(Decrease) Increase in PDIT, Deferred tax and income tax payable	**(5 377)**	4 214
(Decrease) Increase in other creditors	**1 028**	(113)
	(3 410)	2 610
Net Cash provided by Changes in Operating Activities	**32 357**	36 693

10. Trade and Other Receivables

Current:		
Trade receivables	**14 885**	12 395
Less doubtful debts	**-**	(1)
Other receivables	**488**	830
Accrued revenue	**1 028**	932
Prepayments	**43**	73
	16 444	14 229

Receivables are raised for all goods and services provided for which payment has not been received.

Receivables are normally settled within 30 days. Trade receivables, prepayments and accrued revenues are non-interest bearing until after 30 days. It is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand.

	2006 $'000	2005 $'000
SA Government receivables:		
Trade debtors	**6**	25
Other debtors	**200**	142
	206	167
Non-SA Government receivables:		
Trade debtors	**14 879**	12 370
Other debtors	**288**	688
	15 167	13 058
Non-Current:		
Trade receivables	**76**	-

11. Inventories

Current:		
Harvested log stocks	**316**	66
Chip stocks	**481**	387
Materials and stores	**530**	491
	1 327	944

The fair value less estimated point of sales cost of the harvested log stocks is $1 033 000 ($328 000).

12. Assets Classified as Held for Sale

Non-current assets classified as held for sale:		
Land for sale	**175**	-
Plant and equipment for sale	**120**	-
	295	-

The non-current asset held for sale includes a parcel of land valued at $175 000 ($nil) and various plant and equipment at written down value of $120 000 ($nil). Settlement of the sales is expected in the 2006-07 financial year.

13. Growing Timber

	2006 $'000	2005 $'000
Opening balance	**608 974**	633 026
New plantings	**3 722**	3 267
New forest acquisitions	**-**	467
Harvesting	**(77 470)**	(69 021)
Physical changes (ie growth)	**66 567**	50 581
Price changes	**(11 544)**	(9 346)
Closing Balance	**590 249**	608 974

The growing timber comprises the following:

	2006	2005
Fair Value:		
Mature forest	**546 960**	564 451
Young forest	**43 289**	44 523
Total Fair Value	**590 249**	608 974
	2006	2005
Volume:	**'000 m^3**	'000 m^3
Mature forest	**17 890**	18 039
Young forest	**960**	920
Total Volume	**18 850**	18 959
	2006	2005
Area:	**ha**	ha
Mature forest	**54 096**	53 834
Young forest	**23 112**	22 479
Total Area	**77 208**	76 313

	2006 $'000	2005 $'000
Current Portion of Growing Timber	**72 560**	77 057
Non-Current Portion of Growing Timber	**517 689**	531 917
Total Growing Timber	**590 249**	608 974

The current portion of the Growing Timber has been determined based on the budgeted volumes applied to the net log revenue per product group as at year end.

14. Property, Plant and Equipment

Year ended 30 June 2006:	Land $'000	Buildings and Structures $'000	Roads and Land Improvmts $'000	Plant and Equipment $'000	**Total Property Plant and Equipment $'000**
As at 1 July 2005, net of accumulated depreciation and impairment	350 697	2 425	3 860	14 300	**371 282**
Additions	1 348	2 006	497	2 763	**6 614**
Disposals	-	(219)	-	(205)	**(424)**
Assets reclassified to assets held for sale	(175)	-	-	(120)	**(295)**
Revaluations increments	40 000	2 481	-	-	**42 481**
Revaluations decrements	(1 444)	(116)	-	-	**(1 560)**
Depreciation charge for the year	-	(168)	(261)	(1 646)	**(2 075)**
Net of Accumulated Depreciation and Impairment	390 426	6 409	4 096	15 092	**416 023**
At 1 July 2005:					
Cost or fair value	350 697	4 713	6 390	23 732	**385 532**
Accumulated depreciation and impairment	-	(2 288)	(2 530)	(9 432)	**(14 250)**
Net Carrying Amount	350 697	2 425	3 860	14 300	**371 282**
At 30 June 2006:					
Cost or fair value	390 426	6 409	6 402	25 697	**428 934**
Accumulated depreciation and impairment	-	-	(2 306)	(10 605)	**(12 911)**
Net Carrying Amount	390 426	6 409	4 096	15 092	**416 023**

14. Property, Plant and Equipment (continued)

Year ended 30 June 2005:	Land $'000	Buildings and Structures $'000	Roads and Land Improvmts $'000	Plant and Equipment $'000	Total Property Plant and Equipment $'000
As at 1 July 2004, net of accumulated depreciation and impairment	262 828	2 485	3 562	10 207	279 082
Additions	2 925	648	645	5 520	9 738
Disposals	(126)	-	(12)	(101)	(239)
Revaluations increments	85 070	-	-	-	85 070
Revaluations decrements	-	(394)	-	-	(394)
Depreciation charge for the year	-	(314)	(335)	(1 326)	(1 975)
Net of Accumulated Depreciation and Impairment	350 697	2 425	3 860	14 300	371 282
At 1 July 2004:					
Cost or fair value	262 828	4 458	5 765	19 920	292 971
Accumulated depreciation and impairment	-	(1 973)	(2 203)	(9 713)	(13 889)
Net Carrying Amount	262 828	2 485	3 562	10 207	279 082
At 30 June 2005:					
Cost or fair value	350 697	4 713	6 390	23 732	385 532
Accumulated depreciation and impairment	-	(2 288)	(2 530)	(9 432)	(14 250)
Net Carrying Amount	350 697	2 425	3 860	14 300	371 282

Revaluation of Land and Buildings and Structures

SAFC engaged Maloney Field Services, an accredited independent valuer, to determine the fair value of its Buildings and Structures. SAFC uses the services of the Valuer-General to determine the fair value of its land. Fair value is determined by reference to market-based evidence, which is the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The effective date of the revaluations was 30 June 2006.

Fair Value of Roads and Land Improvements and Plant and Equipment

The Roads, Land Improvements and Plant and Equipment asset classes contain no single asset with a purchase price (regarded as the fair value at the time of acquisition) of over $1 million. In accordance with Accounting Policy Framework III *Asset Accounting Framework*, SAFC has no requirement to revalue any of the assets but applies the assumption that the written down value is an appropriate proxy for fair value.

If land and buildings were measured using the cost model the carrying amounts would be as follows:

Property, Plant and Equipment

At 30 June 2006:	Land(1) $'000	Buildings and Structures $'000	Roads and Land Improvmts $'000	Plant and Equipment $'000	**Total Property Plant and Equipment $'000**
Cost	20 022	6 183	6 402	25 697	**58 304**
Accumulated depreciation and impairment	-	(2 455)	(2 306)	(10 605)	**(15 366)**
Net Carrying Amount	20 022	3 728	4 096	15 092	**42 938**
At 30 June 2005:					
Cost	18 874	4 262	6 390	23 732	53 258
Accumulated depreciation and impairment	-	(2 287)	(2 530)	(9 432)	(14 249)
Net Carrying Amount	18 874	1 975	3 860	14 300	39 009

(1) The cost of Land is the variance between the fair value of the Land and the Asset Revaluation related to Land.

The carrying value of plant and equipment held under finance leases at 30 June 2006 is $nil ($8 000). Leasehold improvements are included in Plant and Equipment.

Included in plant and equipment at 30 June 2006 is an amount of $2 677 000 ($1 343 000) relating to expenditures for a new corporate office and some plant and improvements in the course of construction.

Impairment

There were no indications of impairment of Roads and Land Improvements and Plant and Equipment assets at 30 June 2006.

15. Intangible Assets

	2006 $'000	2005 $'000
As at 1 July, net of accumulated amortisation and impairment	**279**	295
Additions	**209**	35
Disposals	**(12)**	-
Amortisation charge for the year	**(99)**	(51)
Net of Accumulated Amortisation and Impairment	**377**	279

	2006 $'000	2005 $'000	2004 $'000
Cost or fair value	**1 109**	955	919
Accumulated amortisation and impairment	**(732)**	(676)	(624)
Net Carrying Amount	**377**	279	295

16. Tax Assets

	2006 $'000	2005 $'000
Current:		
Future income tax benefit	**-**	696
	-	696
Non-Current:		
Future income tax benefit	**-**	787
	-	787

Refer to Note 2(f) on the tax equivalent regime applicable to SAFC. Refer also to Note 20.

17. Trade and Other Payables

Current:		
Trade Payables	**6 952**	5 960
Accrued expenses	**1 663**	1 455
Dividend payable	**5 085**	10 101
Other payables	**212**	159
Other payables - Employee benefit on-costs	**237**	193
Other payables - Deferred income	**6**	-
	14 155	17 868
Non-Current:		
Other Payables - Employee benefit on-costs	**443**	234
Other Payables - Deferred income	**141**	-
	584	234
SA Government Payables:		
Trade creditors	**213**	252
Accrued expenses	**245**	95
Dividend payable	**5 085**	10 101
	5 543	10 448

18. Employee Benefits

Current:		
Accrued salaries and wages	**283**	151
Long service leave	**496**	338
Annual leave	**595**	543
Other payables - Superannuation**	**51**	-
	1 425	1 032
Employee benefit on-costs *	**237**	193
	1 662	1 225
Non-Current:		
Long service leave	**2 121**	2 074
Employee benefit on-costs*	**443**	234
	2 564	2 308
Aggregate Employee Benefits and On-costs	**4 226**	3 533

* Employee benefit related on-costs are disclosed as payables.

** *Other Payables - Superannuation*
SAFC was notified by the SA Superannuation Board of a $3 639 000 payment requirement over a 15 year period to fund a deficit in their funding of the SAFC related superannuation liability. A new actuarial assessment of the potential liability is expected in September 2006. Based on external advice, SAFC has accounted for an expense of $304 000 for the 2005-06 financial year.

19. Interest Bearing Loans

	2006	2005
Current:	**$'000**	$'000
Unsecured [(1)]	**915**	438
	915	438
Non-Current:		
Unsecured [(1)]	**9 223**	4 454
	9 223	4 454

(1) To/From SA Government entities.

Details of the fair value of SAFC's interest bearing liabilities are set out in Note 27. Repayments of principal and interest are due monthly with the final payment due on the latest loan by 30 June 2016 (20 May 2015).

20. Tax Liabilities

	2006	2005
Current:	**$'000**	$'000
Income tax payable	**3 814**	5 933
Provision for deferred income tax	**-**	2 705
	3 814	8 638

SAFC has not adopted AASB 112 for the reporting or the comparative period. The Future Income Tax Benefit and Deferred Tax Liability balances have been derecognised in the reporting period through the Income Statement. Refer to Note 2(f) on the tax equivalent regime applicable to SAFC. Refer also to Note 16.

21. Other Provisions

	2006	2005
Current:	**$'000**	$'000
Workers compensation	**94**	82
	94	82
Non-Current:		
Workers compensation	**245**	205
	245	205

22. Equity

In 2006 the requirement of the ownership framework for SAFC indicates that SAFC shall pay an annual contribution to Government consisting of a dividend calculated as 90 percent of after tax profit, adjusted for non-cash movements in forest asset valuation and for savings in the fire insurance premiums, plus an income tax equivalent payment. SAFC declared a dividend of $24 564 000 for the 2005-06 financial year. Based on the above agreement SAFC proposes to declare an extra dividend for the 2005-06 financial year of $1 680 000. In accordance with AASB 110 *Events After the Balance Sheet Date* no liability has been accounted for this amount. In 2005 dividends to the SA Government were determined using a free-cash model.

In 2006 SAFC paid an extra dividend of $10 101 000 in relation to the 2003-04 financial year. In addition, SAFC declared an extra dividend of $5 085 000 for the 2004-05 financial year.

23. Commitments and Contingencies

(a) Leases

	2006	2005
	$'000	$'000
(i) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the accounts:		
Due not later than one year	**839**	861
Due later than one year but not later than five years	**1 074**	684
Total Operating Lease Commitments	**1 913**	1 545

These operating lease commitments are not recognised in the financial report as liabilities.

The property lease is to 2010 and is non-cancellable, with rental payable monthly in advance. Rental provisions within the lease agreement require the minimum lease payments to be increased by 3 percent per annum. An option exists for the property to be leased for a further period of 5 + 5 years at the end of the rental agreement.

	2006	2005
(ii) Financial Lease Commitments		
Non-cancellable financial leases contracted for but not capitalised in the accounts:	**$'000**	$'000
Due not later than one year	**-**	8
Total Financial Lease Commitments	**-**	8

These financial lease commitments have been recognised in the financial report as liabilities and the related assets have been recognised within the fixed assets.

The financial lease represented a non-cancellable three year lease for IT hardware. The option for the hardware to be purchased at the closure of the lease period, being October and December 2005, has been exercised.

(b) Capital Expenditure Commitments

During 2004-05 the SAFC Board and the SA Cabinet approved the construction of a new Head Office in Mount Gambier. The total expected cost of the building is estimated at $8.81 million, of which $2.23 million ($677 000) has been spent.

(c) Other Commitments

Legal Proceedings

SAFC is a defendant in proceedings in regard to a matter pertaining to the sale of log. SAFC is confident of a successful outcome with regards to this matter.

Superannuation Board Payments

SAFC and the SA Superannuation Board entered into an arrangement at the time of incorporation of SAFC to allow officers and employees of SAFC, who were immediately before incorporation of SAFC, contributors to the State Superannuation Scheme, to remain contributors under the *Superannuation Act 1988*. The arrangement was primarily entered into to facilitate the transfer to ForestrySA of the potential financial liability related to SAFC's ability under corporatisation to agree upon higher than SA Government salaries with their employees, potentially creating additional superannuation liabilities as the higher salaries would impact on the superannuation liability related to these employees.

SAFC was notified by the SA Superannuation Board of a $3 639 000 payment requirement over a 15 year period to fund a deficit in their funding of the SAFC related superannuation liability. A new actuarial assessment of the potential liability is expected in September 2006. Based on external advice, SAFC has accounted for an expense of $304 000 for the 2005-06 financial year.

24. Schedule of Administered Items

Sirex Fund

SAFC administers a fund on behalf of a collective group interested in the effective control of Sirex. The fund is for the research into Sirex. The only asset of the fund is cash and there are no liabilities at 30 June 2006 ($nil).

	2006	2005
Summary of Cash Flows:	**$'000**	$'000
Cash at 1 July	**148**	-
Net funds received	**52**	147
Interest received	**12**	1
Cash at 30 June	**212**	148

IPS Fund

SAFC administered a fund on behalf of a collective group interested in the effective control of the IPS beetle. The fund was for the publication of research findings. The only asset of the fund was cash and there are no liabilities at 30 June 2006 ($nil). The Fund was closed during the financial year.

	2006	2005
Summary of Cash Flows:	**$'000**	$'000
Cash at 1 July	**11**	11
Net funds received	**(11)**	-
Cash at 30 June	**-**	11

25. Directors and Executive Disclosures

(a) Details of Key Management Personnel

Executive

B F Farmer	Chief Executive
P Fuss	Executive – appointed November 2005
P Johnston	Executive – resigned April 2006
G Kensington	Executive
I Robertson	Executive – appointed October 2005
P Stevens	Executive – resigned October 2005
S West	Executive – appointed April 2006

As part of the SA Government reorganisation of the ministerial portfolios SAFC's operations in the areas of Policy & Forestry Development, Forest Health & Development and some Community Forestry operations have moved from SAFC to the Department of Primary Industries and Resources (PIRSA) as at 1 July 2006. As a consequence of this reallocation, S West has ceased to be an executive of SAFC as at 1 July 2006.

(b) Compensation of Key Management Personnel

Remuneration Committee

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and all other key management personnel.

Compensation of Key Management Personnel	**2006**	2005
	$'000	$'000
Short-term employee benefits paid or due and payable to or on behalf of key management personnel	**747**	604
Superannuation benefits paid or due and payable to or on behalf of key management personnel	**71**	59
Total	**818**	663

(c) Compensation of Employees whose Income was over $100 000

The number of employees whose income was within the following bands:	**2006 Number of Employees**	2005 Number of Employees
$100 000 - $109 999	**6**	2
$110 000 - $119 999	**1**	2
$120 000 - $129 999	**1**	2
$140 000 - $149 999	**1**	-
$170 000 - $179 999	**-**	1
$210 000 - $219 999	**1**	-
$340 000 - $349 999*	**-**	1

* Includes lump sum payments as a result of leaving SAFC.

Employee Remuneration	**2006 $'000**	2005 $'000
Income paid or due and payable to or on behalf of employees whose income was $100 000 or more, including superannuation benefits	**1 215**	1 194

26. Related Party Disclosures

The following persons held the position of director of the Corporation during the financial year:

S Blencowe - Chairperson until resignation 31 December 2005
S Duncan
G Foreman – appointed 1 January 2006
D Lloyd
J Meeking
J Ross - Chairperson from 1 January 2006

Transactions between SAFC and its directors are made at arm's length.

Directors' Remuneration	**2006 $'000**	2005 $'000
Income paid or due and payable to or on behalf of directors, excluding superannuation benefits	**163**	159
Superannuation benefits paid or due and payable to or on behalf of directors	**12**	12
	175	171

The number of directors whose income was within the following bands:	**2006 Number of Directors**	2005 Number of Directors
$10 000 - $19 999	**1**	-
$20 000 - $29 999	**2**	1
$30 000 - $39 999	**2**	3
$40 000 - $49 999	**1**	1

27. Financial Instruments

(i) Credit Risk Exposures

The credit risk on financial assets of the economic entity which have been recognised in the Balance Sheet, is generally the carrying amount, net of any doubtful debts.

Credit risk in trade receivables is managed in the following ways:

- payment terms are 30 days unless otherwise agreed in the terms and conditions of individual contracts;
- a risk assessment process is used for customers with balances over $10 000;
- bank guarantees are obtained for specific customers.

(ii) Foreign Currency Risk Exposures

The Trade Receivables include receivables in US dollars (USD 1 063 000).

(iii) Interest Rate Risk Exposures

The economic entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table.

	Floating Rate	Non-Interest Bearing	Fixed Interest Maturing 1 year or less	Fixed Interest Maturing Over 1 to 5 years	Fixed Interest Maturing Over 5 years	**2006 Total**	2005 Total
Financial Assets:	$'000	$'000	$'000	$'000	$'000	**$'000**	$'000
Cash	33 635	-	-	-	-	**33 635**	37 530
Receivables	-	16 444	-	-	-	**16 444**	14 229
	33 635	16 444	-	-	-	**50 079**	51 759
Weighted average interest rate (percent)	5.35	-	-	-	-		

(iii) Interest Rate Risk Exposures (continued)

	Floating Rate	Non-Interest Bearing	Fixed Interest Maturing 1 year or less	Over 1 to 5 years	Over 5 years	**2006 Total**	2005 Total
Financial Liabilities:	$'000	$'000	$'000	$'000	$'000	**$'000**	$'000
Interest bearing loan	-	-	915	5 467	3 756	**10 138**	4 892
Payables	-	14 739	-	-	-	**14 739**	18 102
Tax Liabilities (net)	-	3 814	-	-	-	**3 814**	7 156
	-	18 553	915	5 467	3 756	**28 691**	30 150
Weighted average interest rate (percent)	-	-	6.50	6.37	6.44		
Net Financial Assets (Liabilities)	33 635	(2 109)	(915)	(5 467)	(3 756)	**21 388**	21 609

All financial assets and liabilities have been recognised at the balance date at their net fair value, except for the following:

	Carrying Amount **2006**	Carrying Amount 2005	Net Fair Value **2006**	Net Fair Value 2005
Financial Assets:	**$'000**	$'000	**$'000**	$'000
Other Receivables – Long-term Debtors	**76**	-	**71**	-
Financial Liabilities:				
Long-term Borrowings	**9 223**	4 454	**8 521**	4 200

(iv) Financial Assets carried at an Amount in Excess of Net Fair Value

Other Receivables – Long-term Debtors with a carrying value of $76 000 are carried in excess of their net fair value of $71 000.

(v) Financial Liabilities carried at an Amount in Excess of Net Fair Value

Non-Current Interest Bearing Loans with a carrying value of $9 223 000 ($4 454 000) are recorded at the nominal principal amount to be settled. This is in excess of their net fair value of $8 521 000 ($4 200 000).

The resultant net fair value represents the best estimate of replacement cost. The cost of realising fair value is considered immaterial, however, SAFC is limited in its ability to do so.

(vi) Net Fair Value of Financial Assets and Liabilities

The net fair value of Cash, Trade Receivables (excluding Accrued Revenue) and Trade Creditors approximates their carrying amount.

Short-term Accrued Revenue: The carrying amount approximates fair value because of their short-term to maturity.

Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.

Long-term borrowings: The fair values of long-term borrowings are estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowings.

(vii) Hedging Instruments

Hedges of Specific Instruments

SAFC has not entered into any hedges during the financial year or the previous financial year.

SOUTH AUSTRALIAN GOVERNMENT CAPTIVE INSURANCE CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Government Captive Insurance Corporation (SAICORP) is a subsidiary corporation of the Treasurer, established pursuant to Regulations under the *Public Corporations Act 1993*, and provides a formal structure for administration of the Government's insurance and risk management arrangements. SAICORP is governed by a Board, which comprises of five members, who are appointed by the Treasurer, as responsible Minister.

All government departments and statutory authorities, unless exempted by the Treasurer, are insured with SAICORP, with an Agency Agreement setting out the cover provided and the level of excess (deductible) required to be met by the agencies. A premium is charged to agencies based on risk factors and risk management practices in place.

Functions

The main functions of SAICORP are:

- Undertake and carry on in South Australia and elsewhere the business of insurers, re-insurers and co-insurers of all or any risks of the Crown.
- Provide advice on issues relating to the insurance and risk management of the Government.
- Manage the Government's insurance and risk management arrangements.
- Carry out any other function conferred on the subsidiary by the Treasurer.

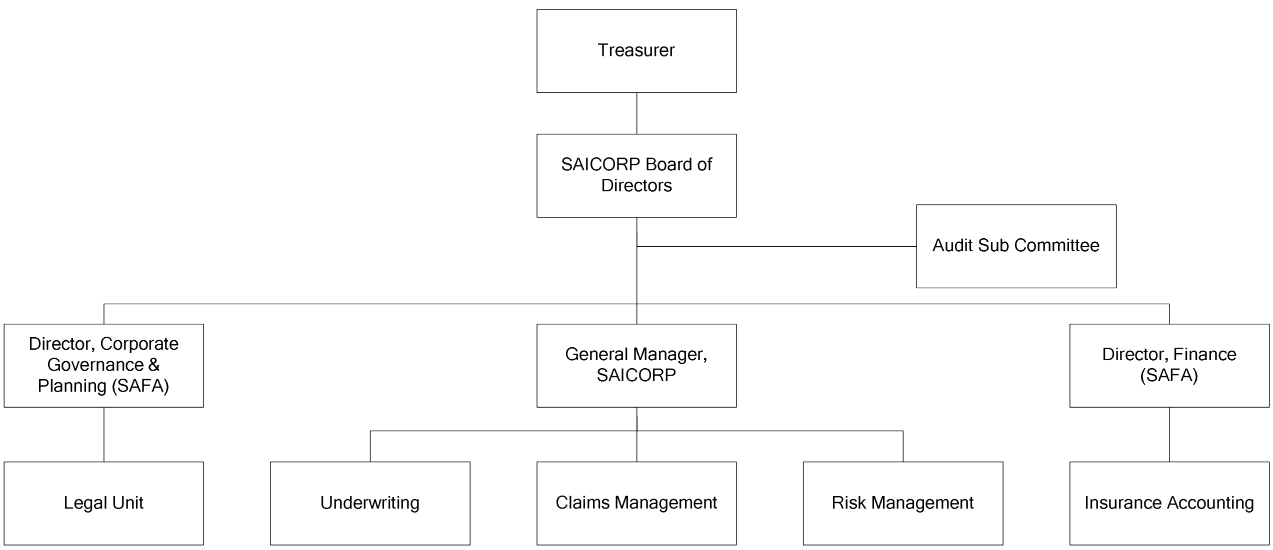
The Corporation is subject to the control and direction of the Treasurer, as its Minister.

Structure

As stated in Note 32, the *Government Financing Authority (Insurance) Amendment Act 2006*, which expands the functions of the South Australian Government Financing Authority (SAFA) to act as a captive insurer of the Crown came into operation on 1 July 2006. As a consequence of the Public Corporations (Dissolution of South Australian Government Captive Insurance Corporation) Regulations 2006 promulgated under the *Public Corporations Act 1993*, SAICORP was dissolved on 1 July 2006 and its assets, rights and liabilities transferred to SAFA.

An administrative amalgamation of the SAFA and SAICORP branches of the Department of Treasury and Finance was approved by the Under Treasurer in December 2005. The new SAFA/SAICORP branch was responsible for supporting both the SAFA Advisory Board and the SAICORP Board until the dissolution of SAICORP occurred on 1 July 2006.

The structure of SAICORP at 30 June 2006 is illustrated in the following organisation chart.



The Legal Unit, comprising officers out-posted from the Crown Solicitor's Office, enables the in-house management of large medical malpractice and other litigious claims.

South Australian Government Insurance and Risk Management Fund

The South Australian Government Insurance and Risk Management (SAGIRM) Fund is a Special Deposit Account operated by SAICORP to record all activities associated with the operation of the Government's insurance and risk management arrangements.

The SAGIRM Fund has two sections:

> *Section 1* — records transactions associated with the operation of SAICORP since its inception. Costs such as premiums for reinsurance; insurable losses and claims arising since 1 July 1994; and administration expenses are met from the premium contributions from agencies and other income derived from activities, for example, investment earnings.
>
> *Section 2* — records the payment of losses and claims arising before 1 July 1994 and the cost of activities which fall outside the insurance covers provided under Section 1. This section is administered by SAICORP and is funded by appropriation from the Consolidated Account to cover the cost of payments made. As a result Section 2 has a substantial unfunded liability ($69 million) as at balance date.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 13(3) of the Schedule to the *Public Corporations Act 1993* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987*, provide that the Auditor-General may, at any time, and must in respect of each financial year, audit the accounts and financial statements of SAICORP.

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 SAICORP 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 2005-06, specific areas of audit attention included:

- corporate governance arrangements
- premium revenue - premium setting, invoicing, receipting and receivables
- outstanding claims management and settlement
- investment monitoring
- financial accounting
- information technology.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 SAICORP as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by SAICORP 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 Policy and Procedure Manual, as outlined under 'Audit Communications to Management', are sufficient to provide reasonable assurance that the financial transactions of SAICORP 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, SAICORP. Response to the management letter was generally considered to be satisfactory. The major matter raised with SAICORP and the related response is contained herein.

Policy and Procedure Manual

For a number of years I have reported that SAICORP has been preparing a single Policy and Procedure Manual. In 2004-05 the manual was still to be finalised.

A follow-up of this matter in 2005-06 revealed that, given the proposed amalgamation of SAICORP and SAFA, a decision had been made that SAICORP's policies and procedures should form part of SAFA Policy and Procedure Manuals.

Response

In a response dated 21 July 2006, SAFA advised that interim policies and delegations have been established for the insurance function of SAFA and approved by the Acting Treasurer. These will be integrated into SAFA's Policy Manual, which is reviewed on an annual basis and submitted to the Treasurer for approval.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT (SECTION 1)

The implementation of Australian equivalents to International Financial Report Standards (AIFRS) occurred in 2005-06. Data for both 2005-06 and 2004-05 has been prepared using AIFRS. Earlier data has not. Note 3 to the financial statements sets out adjustments arising from the adoption of AIFRS.

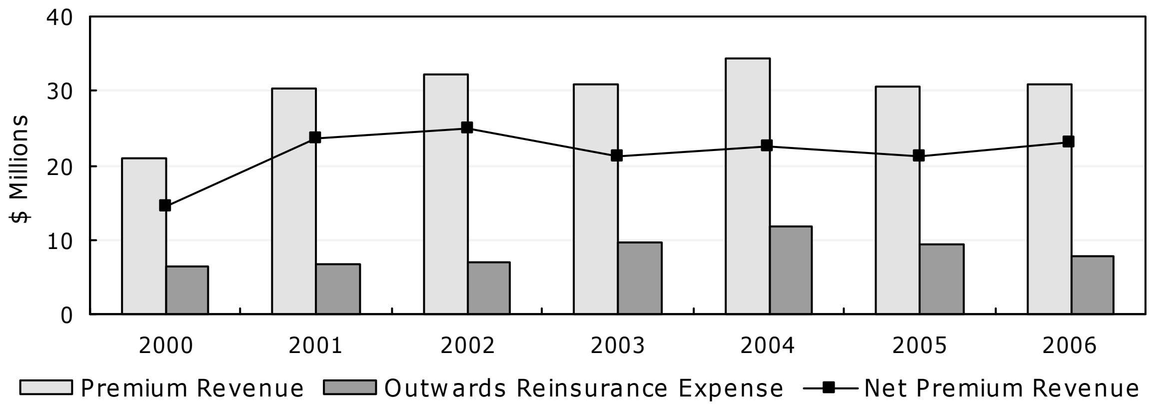
Highlights of Financial Report

	2006	2005	Percentage
	$'million	$'million	Change
UNDERWRITING RESULT			
Premium revenue	**31.0**	30.6	1
Outwards reinsurance expense	**(7.9)**	(9.4)	(16)
Net claims incurred	**(29.7)**	(30.9)	(4)
Net underwriting expenses	**(0.2)**	(0.3)	(33)
Underwriting Result	**(6.8)**	(10.0)	(32)
INVESTMENT RESULT			
Interest and distributions	**13.5**	10.8	25
Unrealised gains	**19.3**	13.5	43
Investment Revenue	**32.8**	24.3	35
General and administration expense	**(1.0)**	(0.9)	11
Operating Profit Before Income Tax Equivalents	**25.0**	13.4	87
Income tax equivalent expense	**(7.5)**	(3.9)	92
Operating Profit After Income Tax Equivalents	**17.5**	9.5	84
ASSETS			
Current assets	**101.9**	81.7	25
Non-current assets	**155.3**	133.1	17
Total Assets	**257.2**	214.8	20
LIABILITIES			
Current liabilities	**26.8**	20.6	30
Non-current liabilities	**140.3**	121.6	15
Total Liabilities	**167.1**	142.2	18
EQUITY	**90.2**	72.6	24

Income Statement

Net Premium Revenue

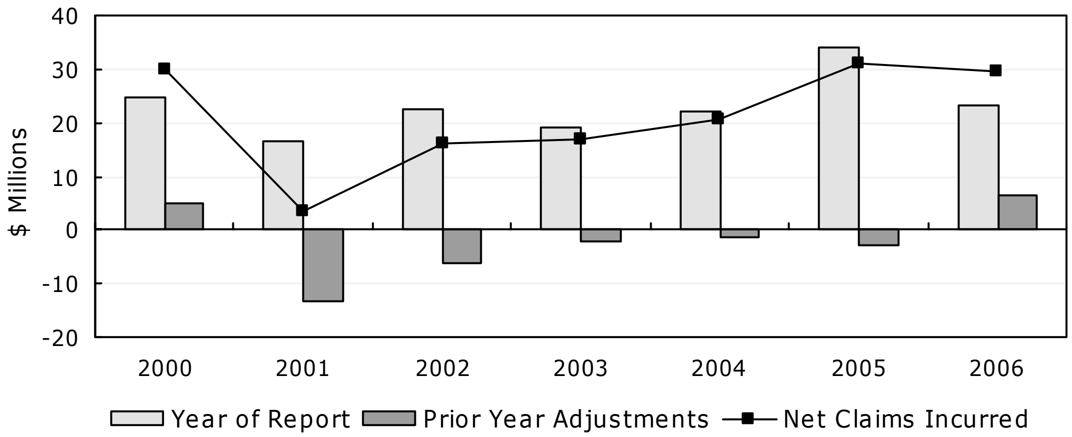
Net premium revenue is premium revenue less the cost of the outwards reinsurance program (catastrophe reinsurance program). A structural analysis of premium revenues for the seven years to 2006 is presented in the following chart. The decline in Outwards reinsurance expense since 2004 is in line with the cost of reinsurance in the global market and reinsurance of Forestry SA standing timber no longer being required.



Net Claims Incurred

The claims expense amount reflects the movement of the outstanding claims liabilities and cash payments made during the year.

The net claims incurred is made up of a combination of an estimate of claim costs relating to risks borne in the year of report, and an adjustment relating to the reassessment of claim costs for risks borne in previous years. The following chart shows that net claims incurred decreased slightly in 2006. This is discussed below in 'Outstanding Claims'.

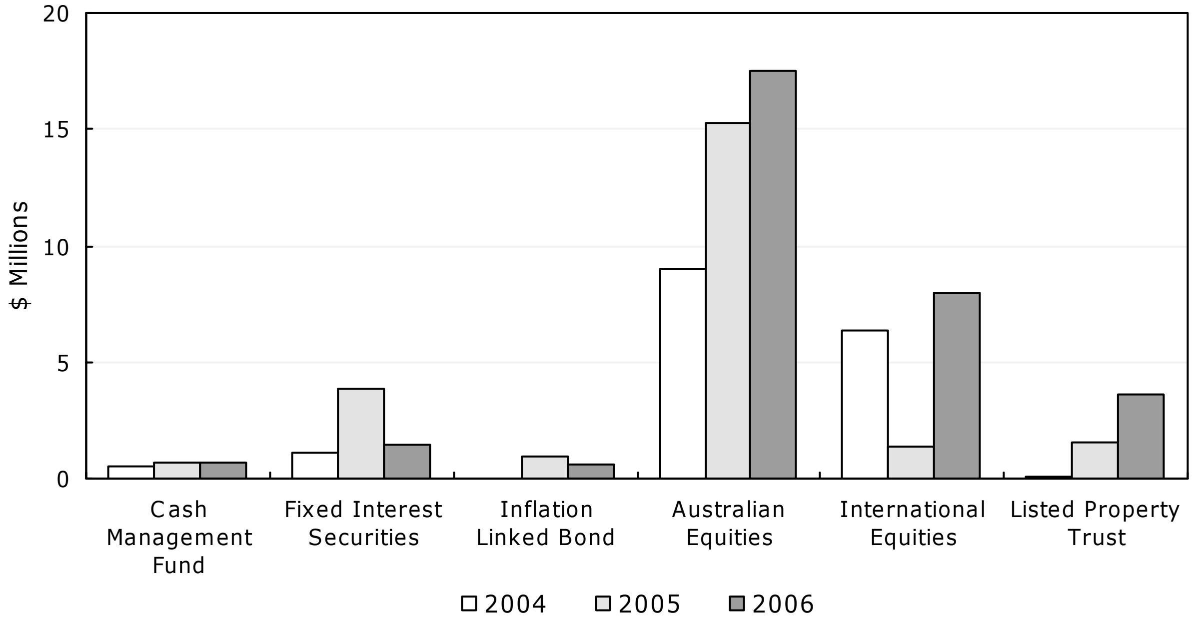


Investment Revenue

The performance on investments by SAICORP's external fund managers over the past two years is as follows:

Investment Class	**2006** **Balance at 30.06.06 $'000**	**Investment Performance Percent p.a.**	2005 Balance at 30.06.05 $'000	Investment Performance Percent p.a.
Cash Management Fund	**1 460**	**5.8**	11 741	5.7
Fixed Interest Securities	**58 339**	**2.9**	51 841	8.0
Inflation Linked Bond	**11 894**	**6.9**	9 256	11.8
Australian Equities	**78 233**	**20.4**	71 593	27.0
International Equities - Hedged	**15 669**	**17.6**	10 753	13.2
International Equities - Unhedged	**37 166**	**20.2**	30 016	0.3
Listed Property Trust	**24 065**	**17.9**	20 362	18.9

As a consequence of the above investment results, SAICORP reported investment revenue of $32.7 million in 2005-06 of which unrealised market value movements contributed $19.3 million. The impact that returns on individual investment classes have had on investment revenues over the previous three years are as follows:



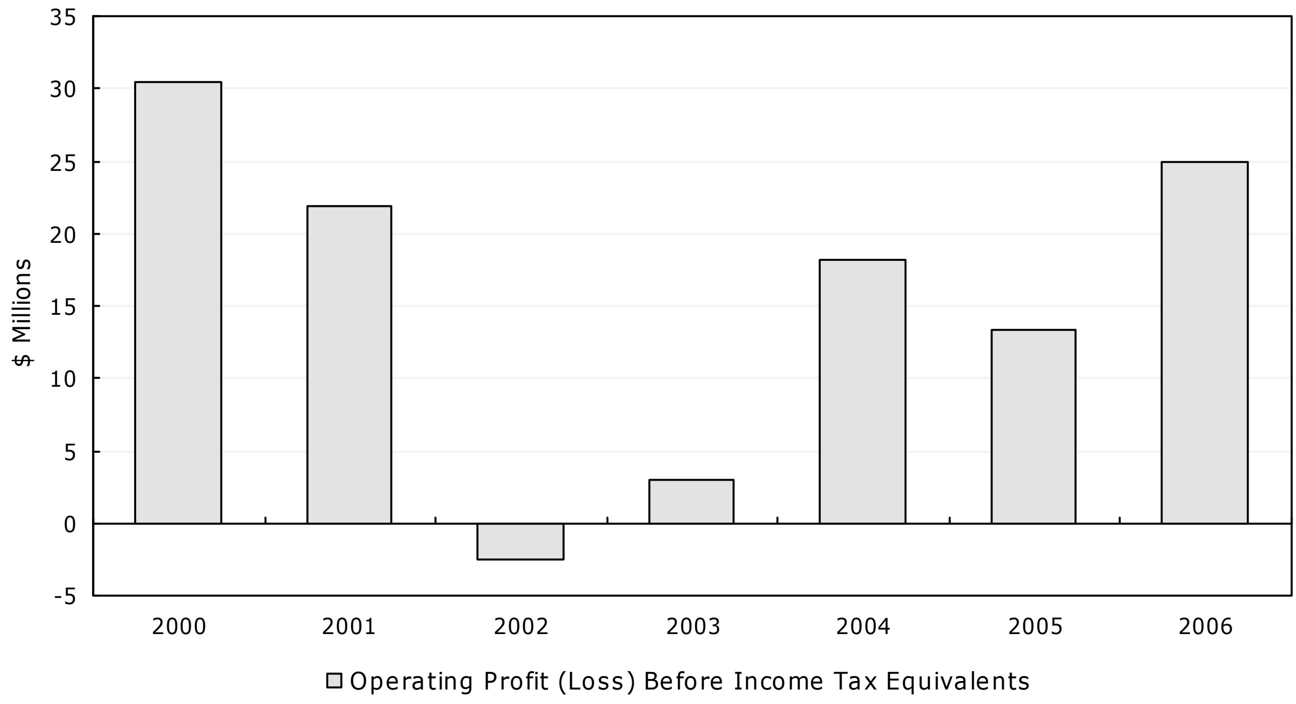
The chart shows that investment revenues were significantly influenced by the performance of Australian and international equity markets.

Further discussion on investments can be found later under the heading 'Investments'.

Operating Profit Before Income Tax Equivalents

SAICORP's operating profit before income tax equivalents was $25 million, an increase of $11.6 million over the previous year. This increase is due to increased revenue from investments (primarily the result of investment market value movements) and an improved underwriting result (primarily the result of an increase in Net Premium Revenue).

The operating profit before income tax equivalents of SAICORP has fluctuated over the past seven years as demonstrated in the following chart. This has been heavily influenced by the claims expense and investment revenues in any given year.



Segment Reporting

Note 4 to the financial statements describes the types of general insurance underwritten by SAICORP. The note also reports the underwriting result by the major lines of insurance business.

Balance Sheet

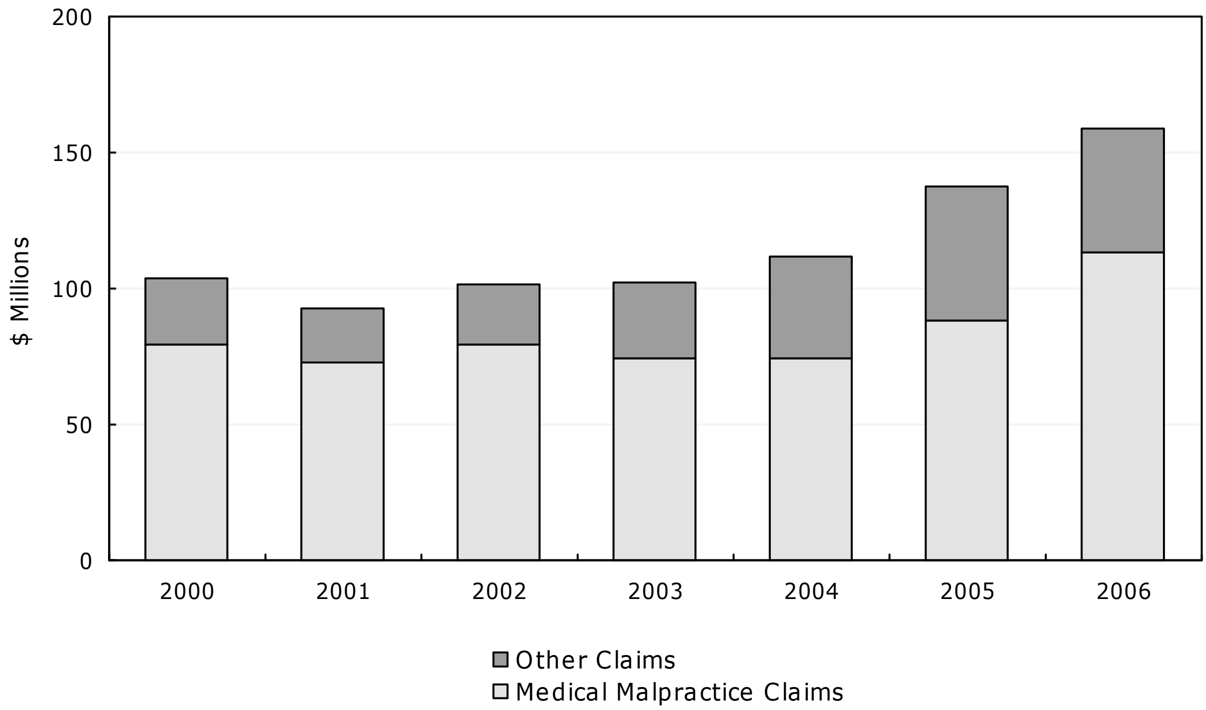
Outstanding Claims

SAICORP's liabilities as recorded in the Balance Sheet are dominated by the provision for outstanding claims. SAICORP uses case estimation for calculating the liability for reported claims because of the variability inherent in claims for all classes of business. Independent actuaries are engaged to review the overall methodology used to calculate the outstanding claims liability in accordance with Accounting Standards, as it is an inherently subjective number. The recommendations of the actuary were used in the preparation of the financial statements.

The outstanding claims liability of $158.5 million as at 30 June 2006 was made up as follows:

	2006	2005
	$'000	$'000
Reported claims by case estimation	**78 917**	68 801
IBNR claims (including IBNER claims)	**40 220**	32 411
Adjustment for present value allowing for inflation and discounting	**5 083**	7 886
Provision for administration expenses	**6 119**	5 389
Prudential margin	**28 196**	23 256
	158 535	137 743

A structural analysis of outstanding claim liabilities for medical malpractice and other claims for the current year and the six preceding years is shown in the following chart. The increase in outstanding claims in 2006 is due to the net effect of increases in case estimates for reported and IBNR claims and changes in the assumed discount rates (increase of 0.7 percent for medical malpractice claims, short tail and long tail classes) used for calculating the value of the liabilities. Medical malpractice claims continue to dominate the claims liabilities.



Investments

Investments increased by $21.3 million to $227 million ($206 million). This increase is due mainly to the purchase of additional investments and appreciation in value of SAICORP's Australian and overseas equity investments.

Cash Flow Statement

The following table summarises the net cash flows for the four years to 2006.

	2006	2005	2004	2003
	$'million	$'million	$'million	$'million
Net Cash Flows				
Operations	**9.3**	11.1	11.3	4.9
Investing	**-**	(10.0)	(9.2)	(7.0)
Change in Cash	**9.3**	1.1	2.1	(2.1)
Cash at 30 June	**15.0**	5.7	4.6	2.5

This analysis shows that SAICORP has made consistent net cash flows on its operations over the periods reviewed. Cash also forms part of the investment portfolio. At 30 June 2006 the balance of the Cash Management Fund was $1.5 million. This indicates that sufficient cash reserves are available to be accessed should large claim payments need to be made.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT (SECTION 2)

Highlights of Financial Report

	2006	2005	Percentage
	$'million	$'million	Change
NET COST OF PROVIDING SERVICES			
Total Expenses	**15.6**	25.2	(38)
Total Income	**2.1**	0.6	n/a
Net Cost of Providing Services	**(13.5)**	(24.6)	(45)
REVENUES FROM SA GOVERNMENT			
Revenues from SA Government	**7.0**	7.0	-
Net Result	**(6.5)**	(17.6)	63
ASSETS			
Current assets	**13.1**	13.2	(1)
Non-current assets	**3.1**	2.0	55
Total Assets	**16.2**	15.2	7
LIABILITIES			
Current liabilities	**30.8**	21.4	44
Non-current liabilities	**54.8**	56.7	(3)
Total Liabilities	**85.6**	78.1	10
EQUITY (DEFICIENCY)	**(69.4)**	(62.9)	10

Balance Sheet

Change in Net Assets

The $6.5 million increase in Net Asset Deficiency reported in the Section 2 financial statements is due mainly to an upward revision to the outstanding claims liability of $7.5 million, $3.4 million increase in claim payments, offset by a $1.2 million upward revision to the recoveries receivable asset. This increase in the outstanding claims liability was due to revisions to past claims expenses, as discussed below in 'Outstanding Claims'.

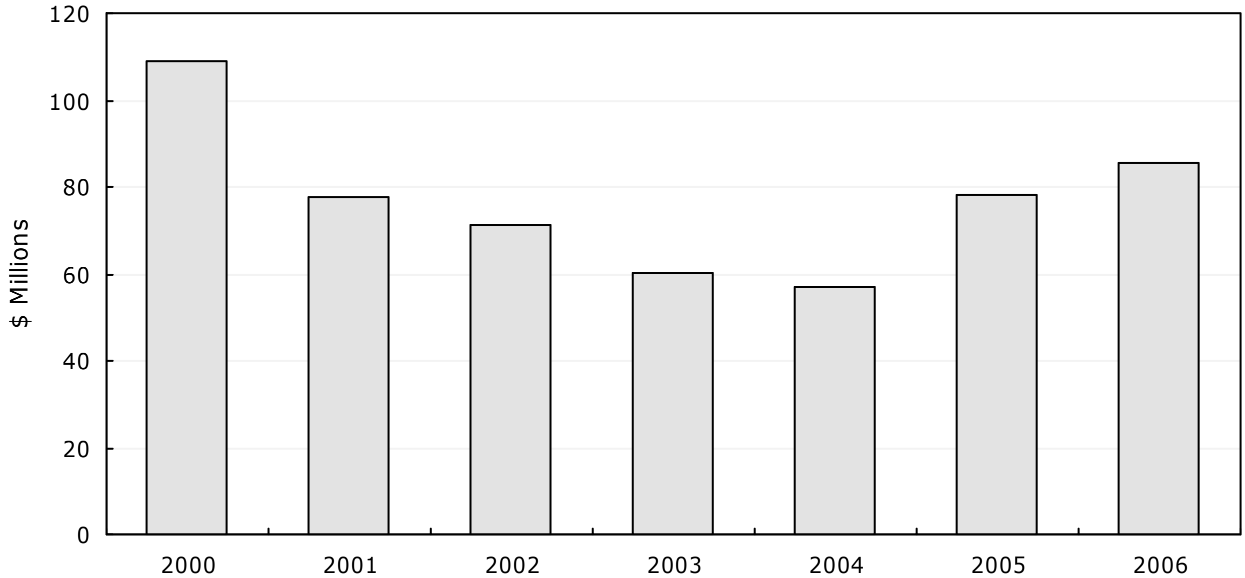
Outstanding Claims

The calculation of outstanding claims liability for Section 2 of the SAGIRM Fund was undertaken on the same basis as for Section 1 except that no IBNR or IBNER claim allowance was made (refer to Note 2.13 to the financial statements for details of the methodology and assumptions used).

The outstanding claim liability of $85.6 million is made up as follows:

	2006	2005
	$'000	$'000
Reported claims by case estimation	**65 078**	58 235
IBNR claims (including IBNER claims)	**-**	-
Builders warranty inwards reinsurance	**71**	26
Adjustment for present value allowing for inflation and discounting	**3 175**	3 199
Provision for administration expenses	**3 234**	2 954
Prudential margin	**14 038**	13 653
	85 596	78 067

The trend for the outstanding claims estimates for the current and six preceding years is shown in the following chart.



The majority of Section 2 claims relate to incidents which occurred before 1 July 1994. During 2006 significant new Section 2 claims were reported and outweighed the settlement of existing claims, resulting in an overall increase in the outstanding claims liability.

Claims expense of $15.3 million shown in the Income Statement is mainly a result of this increase ($7.5 million) in the liability and claim disbursements ($7.6 million) made throughout the year.

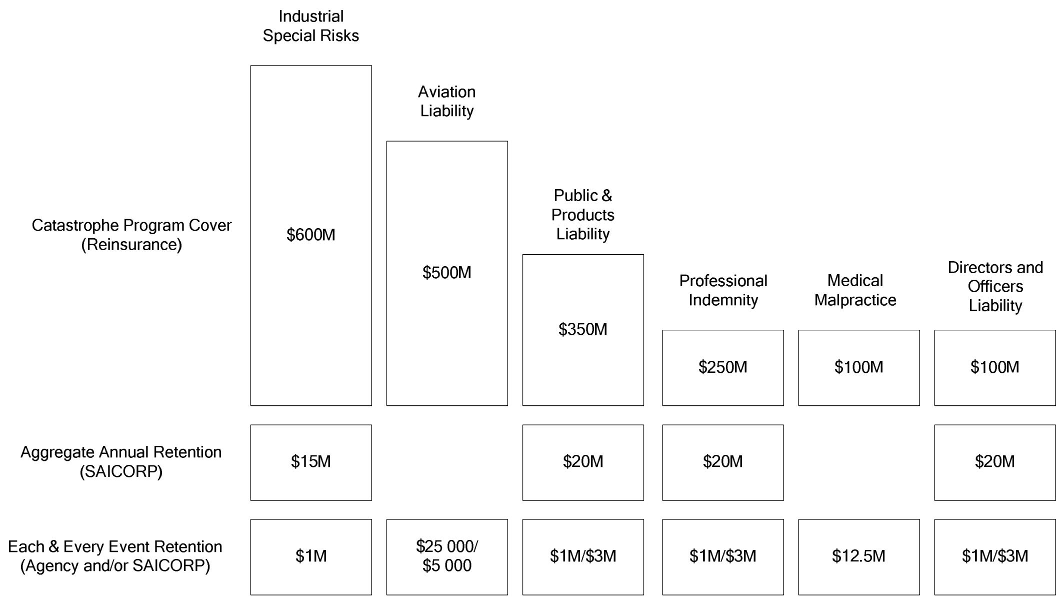
FURTHER COMMENTARY ON OPERATIONS

Catastrophe Reinsurance Program

The State Government is fundamentally a self-insurer. However, to protect the State's finances against a very large loss or claim or a series of large losses or claims in a year, a catastrophe reinsurance program is placed in the international insurance market through SAICORP.

While the level of reinsurance cover that SAICORP effected under these arrangements remained relatively constant, reinsurance premium expense decreased from $9.4 million to $7.9 million. This is a reflection of the state of the global insurance market as insurers reassess their risk profiles and their willingness to accept risk.

The structure of the Government's catastrophe reinsurance program is depicted as follows:



Risk Management Activity Across the Public Sector

Throughout the year, SAICORP provided a range of insurance and risk management services to government agencies to assist in raising risk management awareness.

The audit for 2005-06 observed that clinical risk management within public hospitals has remained an issue that requires further focus and evaluation in the future as a result of the impact that this area has on SAICORP's medical malpractice claim liabilities.

SOUTH AUSTRALIAN GOVERNMENT CAPTIVE INSURANCE CORPORATION — SECTION 1

Income Statement for the year ended 30 June 2006

	Note	**2006** **$'000**	2005 $'000
Premium revenue	5	**31 017**	30 619
Outwards reinsurance expense	6	**(7 902)**	(9 442)
Net Premium Revenue		**23 115**	21 177
Claims expense	7	**(30 252)**	(31 412)
Recoveries	8	**580**	530
Doubtful debts		**-**	(25)
Net Claims Incurred	9	**(29 672)**	(30 907)
Brokerage and lead reinsurer fee revenue	10	**766**	532
Underwriting expense	11	**(1 003)**	(815)
Underwriting Result		**(6 794)**	(10 013)
Investment revenue	12	**32 770**	24 295
General and administration expense	13	**(952)**	(868)
OPERATING PROFIT BEFORE INCOME TAX EQUIVALENTS		**25 024**	13 414
Income tax equivalent expense	14	**(7 507)**	(3 916)
OPERATING PROFIT AFTER INCOME TAX EQUIVALENTS		**17 517**	9 498
THE OPERATING PROFIT AFTER INCOME TAX EQUIVALENTS IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			

Balance Sheet
as at 30 June 2006

	Note	**2006**	2005
		$'000	$'000
CURRENT ASSETS:			
Cash	15	**14 992**	5 746
Receivables	16	**11 761**	183
Recoveries receivable	17	**1 154**	807
Other financial assets	18	**71 693**	72 852
Prepayments	19	**2 305**	2 127
Total Current Assets		**101 905**	81 715
NON-CURRENT ASSETS:			
Recoveries receivable	17	**194**	7
Other financial assets	18	**155 133**	133 087
Total Non-Current Assets		**155 327**	133 094
Total Assets		**257 232**	214 809
CURRENT LIABILITIES:			
Payables	20	**699**	281
Unearned premium		**11**	9
Outstanding claims	21	**18 274**	16 192
Income tax equivalent liability	22	**7 507**	3 916
Other current liabilities	23	**326**	224
Total Current Liabilities		**26 817**	20 622
NON-CURRENT LIABILITIES:			
Outstanding claims	21	**140 262**	121 551
Total Non-Current Liabilities		**140 262**	121 551
Total Liabilities		**167 079**	142 173
NET ASSETS		**90 153**	72 636
EQUITY:			
Retained earnings		**90 153**	72 636
TOTAL EQUITY		**90 153**	72 636
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Contingent Liabilities	30		

Statement of Changes in Equity for the year ended 30 June 2006

	Retained Earnings $'000
Balance at 30 June 2004	63 121
Changes in accounting policy	17
Restated Balance at 30 June 2004	63 138
Operating profit after income tax equivalents for 2004-05	9 498
Total Recognised Income and Expenses for 2004-05	9 498
Balance at 30 June 2005	72 636
Operating profit after income tax equivalents for 2005-06	17 517
Total Recognised Income and Expenses for 2005-06	17 517
Balance at 30 June 2006	**90 153**

All changes in Equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

		2006	2005
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	**(Outflows)**	(Outflows)
CASH INFLOWS:		**$'000**	$'000
Premiums		**30 684**	29 844
Stamp Duty from agencies		**3 711**	3 609
Direct insurance placements		**3 071**	2 709
Claim recoveries		**46**	6
Brokerage and lead reinsurer fee revenue		**848**	570
Interest received		**828**	630
Other underwriting and general administration receipts		**326**	-
GST received on sales		**3 379**	3 268
GST input tax credits		**785**	767
Cash generated from Operations		**43 678**	41 403
CASH OUTFLOWS:			
Outwards reinsurance payments		**(7 966)**	(8 435)
Direct insurance placements		**(2 770)**	(2 714)
Claims paid		**(9 515)**	(4 625)
Other underwriting and general administration expenses paid		**(2 251)**	(1 510)
Income tax equivalents paid to the Consolidated Account		**(3 916)**	(5 459)
Stamp Duty paid to RevenueSA		**(3 806)**	(3 535)
GST paid on purchases		**(785)**	(767)
GST payments to ATO		**(3 423)**	(3 257)
Cash used in Operations		**(34 432)**	(30 302)
Net Cash provided by Operating Activities	31.2	**9 246**	11 101
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Net payments for investments		**-**	(10 000)
Cash used in Investing Activities		**-**	(10 000)
Net Cash used in Investing Activities		**-**	(10 000)
NET INCREASE IN CASH HELD		**9 246**	1 101
CASH AT 1 JULY		**5 746**	4 645
CASH AT 30 JUNE	31.1	**14 992**	5 746

NOTES TO AND FORMING PART OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

1. Objectives

The South Australian Government Captive Insurance Corporation ('SAICORP' or 'the Corporation') is established as a subsidiary of the Treasurer by the Public Corporations (Treasurer) Regulations 1994, which were gazetted and came into effect on 29 September 1994.

The Corporation has been proclaimed a semi-government authority for the purposes of the *Public Finance and Audit Act 1987* and the Treasurer has indemnified the Corporation 'to the extent necessary to satisfy all the liabilities which arise out of the carrying out of its functions in accordance with the Public Corporations (Treasurer) Regulations 1994'.

SAICORP's objectives are to:

- efficiently and effectively administer the Government's insurance and risk management arrangements;
- insure, co-insure and reinsure the risks of the Crown;
- provide advice on the management of risks of the Crown.

The purpose of the South Australian Government Insurance and Risk Management Fund ('the SAGIRM Fund' or 'the Fund') is to record receipts and payments associated with the operations of the Government's insurance and risk management program. Section 1 of the SAGIRM Fund reflects the normal commercial insurance activities of SAICORP. This financial report encompasses all activities transacted through Section 1 of the Fund. Activities transacted through Section 2 of the SAGIRM Fund are separately reported.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

This financial report is a general purpose financial report which, has been prepared in accordance with:

- applicable Accounting Standards;
- relevant Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*;
- other mandatory professional requirements.

These financial statements are the first statements to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these statements. Previous financial statements were prepared in accordance with Australian Generally Accepted Accounting Principles (AGAAP).

Reconciliations explaining the transition to AIFRS as at 1 July 2004 and 30 June 2005 are at Note 3.

SAICORP's Income Statement, Balance Sheet and Statement of Changes in Equity 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 financial report has been prepared based on a 12 month operating cycle and presented in Australian currency.

The Cash Flow Statement has been prepared on a cash basis.

2.2 Reporting Entity

SAICORP's financial statements include the use of assets, liabilities, revenues and expenses controlled or incurred by SAICORP in its own right.

Given the different funding and governance arrangements of Section 1 and Section 2 of the SAGIRM Fund, the principles of AASB 127 *Consolidated and Separate Financial Statements* cannot be applied. Therefore two separate financial reports are prepared to discharge SAICORP's legislative disclosure obligations.

2.3 Comparative Information

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change.

Note 3 provides a detailed analysis of comparative amounts that have been reclassified as a result of adoption of AIFRS.

2.4 Rounding

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

2.5 Taxation

Pursuant to Treasurer's Instruction 22 *Tax Equivalent Payments*, a tax equivalent regime applies to the normal commercial activities of SAICORP, which requires the Corporation to apply the Accounting Profits method for the calculation of income tax equivalent. Future income tax benefits relating to tax losses are not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

SAICORP is also liable for Goods and Services Tax (GST).

2.5 Taxation (continued)

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

- where the amount of GST incurred by SAICORP as a purchaser that is not recoverable from the Australian Taxation Office, and
- receivables and payables, which are stated with the amount of GST included.

2.6 General Insurance Contracts

As the Government's Captive Insurer, SAICORP issues General Insurance Contracts, as defined in AASB 1023 *General Insurance Contracts*, to agencies. SAICORP accepts significant insurance risk from agencies and agrees to compensate agencies if a specified uncertain future event adversely affects agencies. SAICORP does not issue any non-insurance contracts that would be regulated under the *Insurance Act 1973*.

2.6.1 Income and Expenses

Incomes and Expenses are recognised in the Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured.

Income and Expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5 and have not been offset unless required or permitted by a specific accounting standard.

Premium Revenue

The earned portion of premiums received and receivable is recognised as premium revenue excluding amounts collected for Stamp Duties. Premium is treated as earned from the date of attachment of risk and is recognised evenly over the policy or indemnity period, which is considered to closely approximate the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written prior to year end on a daily pro-rata basis.

All South Australian Government agencies are required to insure with SAICORP unless exempted by the Treasurer. In those circumstances where SAICORP considers it more appropriate for some of the risks of a government agency to be insured directly with a commercial insurance organisation, SAICORP will arrange for such insurance and will recover the insurance premium from the agency concerned. For the purposes of the financial statements, these arrangements are referred to as Direct Insurance Placements.

Investment Revenue

Investment Revenue is recognised on an accrual basis and includes interest earnings on bond and cash products and market value gains (losses) on investments.

Outwards Reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance services received. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

An amount of $7.902 million ($9.442 million) was expensed for cover provided under the Government's catastrophe reinsurance program. This program has been effected to safeguard the State finances against a very large loss or claim, or a series of large losses or claims in any year under the Government's insurance and risk management arrangements.

Claims

Claims Expense is comprised of claim payments, deductible receipts and movements in underlying claim estimates.

Acquisition Costs

The acquisition costs relating to underwriting expenses have been brought to account during the financial year, as they do not represent a future benefit. Most covers provided by SAICORP are on a financial year basis.

Stamp Duty

Amounts collected for Stamp Duty are excluded from premiums and on-paid monthly to RevenueSA.

SAICORP ceased treating Stamp Duty as income and expenditure from 1 July 2005 and adopted a balance sheet approach for reporting Stamp Duty in the 2005-06 financial year. The comparative information in Note 11 ‘Underwriting Expense’ has been restated to reflect the change in accounting policy.

2.6.2 Assets and Liabilities

Cash

For the purposes of the Cash Flow Statement, cash comprises cash at bank (also referred to as Deposits with the Treasurer) and is used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

Receivables
Receivables include amounts receivable from trade and interest accruals.

Trade receivables arise in the normal course of providing insurance services to agencies.

Trade receivables are payable within 30 days after the issue of an invoice.

Interest debtors arise as a result of interest accrued as at the reporting date on the balance of Section 1 of the SAGIRM Fund. Interest is calculated in quarters ending with the months of May, August, November and February and is paid in the following month.

Claim Recoveries Receivable
Recoveries receivable on claims paid and for claims reported but not yet paid are recognised as income and assets where they can be reliably measured.

Recoveries receivable are measured as the present values of the expected future recovery receipts. An inflation rate (normal and superimposed) of 7.25 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 5.9 percent per annum for medical malpractice, 5.9 percent per annum for short tail classes and 5.9 percent per annum for long tail classes (5.2 percent per annum for medical malpractice and 5.2 percent per annum for short tail and 5.2 percent per annum for long tail classes) have been assumed.

Investments
In accordance with AASB 1023 SAICORP's investments in fixed interest, inflation linked bonds, equity funds and listed property trusts are measured at fair value, as advised by the fund managers.

Payables
Payables include creditors and accrued expenses.

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 Section 1 of the SAGIRM Fund.

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 payables are measured at their nominal amount and are normally settled within 30 days of receipt of an invoice, in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

Outstanding Claims
Liabilities for outstanding claims are recognised in respect of occurred incidents. The liabilities include claims incurred but not paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and the anticipated costs of settling those claims. In addition, SAICORP has recognised a prudential margin of 10 percent of its outstanding claims liabilities for short tail business, 25 percent for medical malpractice and 20 percent for all other classes (same percentages applied in 2005).

The claims liabilities are measured as the present values of the expected future claims payments. An inflation rate (normal and superimposed) of 7.25 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 5.9 percent per annum for medical malpractice, 5.9 percent per annum for short tail classes and 5.9 percent per annum for long tail classes (5.2 percent per annum for medical malpractice, 5.2 percent per annum for short tail and 5.2 percent per annum for long tail classes) have been assumed.

Claims incurred but not paid and claim settlement costs that can be directly attributed to particular claims are assessed by reviewing individual claim files. In respect of incurred but not reported claims, SAICORP has employed the 'Net Written Premium' method modified to allow for claims incurred but not enough reported.

Indirect claim settlement costs are those claim settlement costs that cannot be directly allocated to a specific claim and have been estimated at 5 percent (5 percent) of the outstanding claims liabilities.

The above methodologies were originally adopted by SAICORP because there was insufficient historical data to perform a portfolio analysis to derive a statistical methodology for the calculation of claims liabilities. For several years Brett & Watson Pty Ltd - Consulting Actuaries have been engaged to consider the continued appropriateness of the above methodologies and to recommend appropriate discount and inflation rates, prudential margins and indirect claim settlement costs percentages to be used for annual financial reporting. Their recommendations were adopted for the preparation of these financial statements.

2.7 Current and Non-Current Classification
Assets and liabilities are characterised as either current or non-current in nature. SAICORP has a clearly identifiable operating cycle of 12 months. Assets and liabilities that are realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

2.8 Relationship with the Department of Treasury and Finance

The SAICORP Board has entered into an arrangement with the Department of Treasury and Finance to cover the use of staff, assets and accommodation to provide the services required by the Board.

The Board reimburses the Department for any payments made by the Department on behalf of the Board relating to the provision of the services to the Board, including payments for the salaries and on costs of all employees of the SAICORP Branch of the Department. These payments also include Auditor-General's fees (see Note 26). These are apportioned between Section 1 and Section 2 of the SAGIRM Fund. The amount expended during the year for Section 1 was $1.521 million ($1.560 million).

3. Changes in Accounting Policies

3.1 Explanation of Transition to AIFRS

SAICORP has adopted the AIFRS for the first time for the year ended 30 June 2006.

The adoption of AIFRS has not resulted in any material adjustments to the Income Statement or Cash Flow Statement.

For SAICORP the only impact arising from the adoption of AIFRS is the requirement under AASB 1023 to value investments backing insurance liabilities at fair value (previously valued at net market value).

The effect on the financial report is as follows:

	At 01.07.04			At 30.06.05		
	Previous AGAAP $'000	Adjustments $'000	AIFRS $'000	Previous AGAAP $'000	Adjustments $'000	AIFRS $'000
Current Assets	78 285	17	78 302	81 701	14	81 715
Non-Current Assets	104 482	-	104 482	132 731	363	133 094
Current Liabilities	(23 947)	-	(23 947)	(20 622)	-	(20 622)
Non-Current Liabilities	(95 699)	-	(95 699)	(121 551)	-	(121 551)
Net Assets	63 121	17	63 138	72 259	377	72 636
Retained earnings	63 121	17	63 138	72 259	377	72 636
Total Equity	63 121	17	63 138	72 259	377	72 636
Operating Profit after Income Tax Equivalents				**9 138**	**360**	**9 498**
Net Change in Cash Held				**1 101**	**-**	**1 101**

Other Impacts of Adopting AIFRS

A major change is the treatment of accounting policy changes under AIFRS. These now apply retrospectively except for specific exemptions in accordance with another standard. The resulting adjustments arising from events and transactions before the date of transition to AIFRS have been recognised directly in retained earnings at the date of transition to AIFRS.

The estimates applied by SAICORP under AIFRS are consistent with the estimates applied under previous AGAAP, after adjustments to reflect any differences in accounting policies.

4. Segment Reporting

The Corporation's predominant operation is that of underwriting the following types of general insurance for South Australian Government agencies:

- Aviation Liability
- Aviation Property
- Consequential Loss
- Fidelity Guarantee
- General Property
- Machinery Breakdown
- Marine Property
- Marine Liability
- Motor Vehicle Property
- Industrial Special Risks and Business Interruption
- Public and Products Liability
- Medical Malpractice
- Professional Indemnity and Directors and Officers Liability
- Standing Timber
- Volunteers
- Personal Accident
- Motor Vehicle Liability

The majority of risks that the Corporation insures will arise within the one geographic segment, namely, the State of South Australia.

4. Segment Reporting (continued)

Analysis of the underwriting result by the major lines of insurance business are:

	Industrial Special Risks and Business Interruption		Public and Products Liability		Medical Malpractice	
	2006	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Premium revenue	**7 742**	7 747	**6 134**	5 594	**12 780**	12 781
Outwards reinsurance expense	**(4 743)**	(5 337)	**(1 862)**	(1 845)	**(925)**	(1 386)
Net premium revenue	**2 999**	2 410	**4 272**	3 749	**11 855**	11 395
Claims expense	**10 491**	(12 416)	**(5 609)**	(3 494)	**(27 270)**	(14 374)
Reinsurance and other recoveries	**150**	-	**28**	(5)	**-**	26
Doubtful debts	**-**	-	**-**	-	**-**	(25)
Net claims incurred	**10 641**	(12 416)	**(5 581)**	(3 499)	**(27 270)**	(14 373)
Brokerage and lead reinsurer fee revenue	**60**	46	**349**	325	**245**	-
Underwriting expenses	**-**	937	**-**	677	**(159)**	1 494
Underwriting Result	**13 700**	(9 023)	**(960)**	1 252	**(15 329)**	(1 484)
Outstanding claims	**6 441**	18 095	**21 264**	20 099	**113 285**	88 202

	Professional Indemnity and Directors and Officers Liability		Other		Total	
	2006	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Premium revenue	**1 921**	2 127	**2 440**	2 370	**31 017**	30 619
Outwards reinsurance expense	**-**	-	**(372)**	(874)	**(7 902)**	(9 442)
Net premium revenue	**1 921**	2 127	**2 068**	1 496	**23 115**	21 177
Claims expense	**(7 140)**	1 673	**(724)**	(2 801)	**(30 252)**	(31 412)
Reinsurance and other recoveries	**5**	-	**397**	509	**580**	530
Doubtful debts	**-**	-	**-**	-	**-**	(25)
Net claims incurred	**(7 135)**	1 673	**(327)**	(2 292)	**(29 672)**	(30 907)
Brokerage and lead reinsurer fee revenue	**-**	-	**112**	161	**766**	532
Underwriting expenses	**-**	257	**(844)**	(4 180)	**(1 003)**	(815)
Underwriting Result	**(5 214)**	4 057	**1 009**	(4 815)	**(6 794)**	(10 013)
Outstanding claims	**13 821**	7 582	**3 725**	3 765	**158 536**	137 743

5. Premium Revenue

	2006	2005
	$'000	$'000
Premium revenue from entities within the SA Government	**29 081**	27 903
Premium revenue from entities external to the SA Government	**1 936**	2 716
Total Premium Revenue	**31 017**	30 619

6. Outwards Reinsurance Expense

Outwards Reinsurance Expense paid/payable to entities external to the SA Government	**7 902**	9 442
Total Outwards Reinsurance Expense	**7 902**	9 442

7. Claims Expense

Claim payments	**10 697**	4 487
Deductibles	**(1 869)**	(654)
Fleet expenses	**-**	1 229
Other	**631**	665
Movement in outstanding claim liabilities	**20 793**	25 685
Total Claims Expense	**30 252**	31 412
Liability:		
Medical malpractice	**27 269**	14 372
Other liability	**12 714**	2 780
Property	**(10 065)**	13 954
Other	**334**	306
Total Claims Expense	**30 252**	31 412
Claims expense paid/payable to entities within the SA Government	**(9 197)**	16 104
Claims expense paid/payable to entities external to the SA Government	**39 449**	15 308
Total Claims Expense	**30 252**	31 412

8. Reinsurance and Other Recoveries

	2006	2005
	$'000	$'000
Other recoveries received	**46**	6
Movement in reinsurance and other recoveries asset	**534**	524
Total Reinsurance and Other Recoveries	**580**	530
Other recoveries from entities within the SA Government	**1**	505
Other recoveries from entities external to the SA Government	**579**	25
Total Reinsurance and Other Recoveries	**580**	530

9. Net Claims Incurred

The following table provides further information in relation to the net claims incurred cost. Current year claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in all previous reporting periods.

	In respect of Current Year	In respect of Prior Years	2006 Total
	$'000	**$'000**	**$'000**
Gross claims incurred and related expenses undiscounted	**39 647**	**12 783**	**52 430**
Other recoveries undiscounted	**(4)**	**(631)**	**(635)**
Net Claims Incurred - Undiscounted	**39 643**	**12 152**	**51 795**
Discount and discount movement - Gross claims incurred	**(16 275)**	**(5 903)**	**(22 178)**
Discount and discount movement - Other recoveries	**1**	**54**	**55**
Net Discount Movement	**(16 274)**	**(5 849)**	**(22 123)**
Net Claims Incurred	**23 369**	**6 303**	**29 672**

	In respect of Current Year	In respect of Prior Years	2005 Total
	$'000	$'000	$'000
Gross claims incurred and related expenses undiscounted	48 304	(14 115)	34 189
Reinsurance and other recoveries undiscounted	-	(574)	(574)
Net Claims Incurred - Undiscounted	48 304	(14 689)	33 615
Discount and discount movement - Gross claims incurred	(14 364)	11 586	(2 778)
Discount and discount movement - Other recoveries	-	70	70
Net Discount Movement	(14 364)	11 656	(2 708)
Net Claims Incurred	33 940	(3 033)	30 907

The net claims incurred during 2005-06 in respect of claims incurred prior to 30 June 2005 was $6.303 million. This is equivalent to 4.7 percent of the outstanding liability as at 30 June 2006 in respect of claims incurred prior to 30 June 2005. The net claims incurred of $6.303 million is a result of:

	2006
	$'000
Interest on the 30 June 2005 provision less payments during 2005-06	**6 900**
Release of administration allowance and risk margin in respect of payments during 2005-06	**(2 300)**
Change in actuarial assumptions	**703**
Experience deviation from expected	**1 000**
	6 303

10. Brokerage and Lead Reinsurer Fee Revenue

	2006	2005
Brokerage and lead reinsurer fee revenue from entities external to the SA Government:	**$'000**	$'000
Catastrophe Program	**511**	275
Direct insurance placements	**255**	257
Total Brokerage and Lead Reinsurer Fee Revenue	**766**	532

11. Underwriting Expense

	2006	2005
Underwriting expense paid/payable to entities within the SA Government:		
Risk management grants	**23**	73
Acquisition costs	**262**	280
Direct insurance placement revenue	**(2 923)**	(2 219)
Total Underwriting Expense paid/payable to entities within the SA Government	**(2 638)**	(1 866)
Underwriting Expense paid/payable to entities external to the SA Government:		
Risk management grants	**167**	6
Consultants and brokers expenses	**378**	351
Direct Insurance Placement revenue	**(237)**	(202)
Direct Insurance Placement expense	**3 333**	2 526
Total Underwriting Expense paid/payable to entities external to the SA Government	**3 641**	2 681
Total Underwriting Expense	**1 003**	815

12. Investment Revenue

	Interest $'000	Dividends & Distributions $'000	Unrealised Gains (Losses) $'000	**2006 Total $'000**
Investment Revenue from entities within the SA Government:				
Deposits with the Treasurer	866	-	-	**866**
Cash Management Fund	684	-	-	**684**
Australian Fixed Interest (Composite Bond)	-	-	1 497	**1 497**
Total Investment Revenue from Entities within the SA Government	1 550	-	1 497	**3 047**
Investment Revenue from entities external to the SA Government:				
Inflation Linked Bond	613	-	18	**631**
Australian Equities	-	5 620	11 888	**17 508**
Overseas Equities	-	4 122	3 820	**7 942**
Listed Property Trust	-	1 604	2 038	**3 642**
Total Investment Revenue from Entities External to the SA Government	613	11 346	17 764	**29 723**
Total Investment Revenue	2 163	11 346	19 261	**32 770**

	Interest $'000	Dividends & Distributions $'000	Unrealised Gains (Losses) $'000	2005 Total $'000
Investment Revenue from entities within the SA Government:				
Deposits with the Treasurer	637	-	-	637
Cash Management Fund	695	-	-	695
Australian Fixed Interest (Composite Bond)	-	-	3 858	3 858
Total Investment Revenue from Entities within the SA Government	1 332	-	3 858	5 190
Investment Revenue from entities external to the SA Government:				
Inflation Linked Bond	470	1	479	950
Australian Equities	-	6 229	9 047	15 276
Overseas Equities	-	1 841	(509)	1 332
Listed Property Trust	-	920	627	1 547
Total Investment Revenue from Entities External to the SA Government	470	8 991	9 644	19 105
Total Investment Revenue	1 802	8 991	13 502	24 295

13. General and Administration Expense

	2006 $'000	2005 $'000
General and administration expenses paid/payable to entities within the SA Government:		
Administration expenses	**627**	616
Investment management fees	**53**	65
Total General Administration Expense paid/payable to entities within the SA Government	**680**	681
General and administration expenses paid/payable to entities external to the SA Government:		
Investment management fees	**258**	176
Software	**14**	11
Total General and Administration Expense paid/payable to entities external to the SA Government	**272**	187
Total General and Administration Expense	**952**	868

14. Income Tax Equivalent Expense

Operating profit before income tax equivalents (1)	**25 024**	13 054
Income Tax Equivalent Expense (calculated at 30 percent) (1)	**7 507**	3 916

(1) The Income Tax Equivalent Expense for 2005 is based on the AGAAP Operating Profit Before Income Tax Equivalents.

15. Cash

Cash held with entities within the SA Government:		
Deposits with the Treasurer	**14 992**	5 746
Total Cash	**14 992**	5 746

Interest Rate Risk
Deposits with the Treasurer are bearing a floating interest rate between 5.35 percent and 5.43 percent. The carrying amount of cash approximates net fair value.

16. Receivables

Receivables	2006	2005
Receivables from entities within the SA Government:	**$'000**	$'000
Debtors:		
Direct insurance placement premiums	**133**	24
Deductibles receivable	**97**	40
	230	64
Accrued interest revenue	**121**	119
Total Receivables from Entities within the SA Government	**351**	183
Receivables from entities external to the SA Government:		
Debtors - Agency Agreement premiums:	**410**	-
Investment monies receivable	**11 000**	-
Total Receivables from Entities External to the SA Government	**11 410**	-
Total Receivables	**11 761**	183

Interest Rate and Credit Risk
Receivables are raised for all goods and services provided for which payment has not been received.

Receivables are normally settled within 30 days. Trade receivables and accrued revenues are non-interest bearing. Other than recognised in the provision for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. In addition, there is no concentration of credit risk.

Bad and Doubtful Debts
SAICORP has recognised $nil bad and doubtful debt expense in the Income Statement.

17. Recoveries Receivable

Recoveries Receivable	2006	2005
Total discounted recoveries receivable before provision for doubtful debts:	**$'000**	$'000
Expected future recoveries (inflated/undiscounted)	**2 118**	1 529
Discount to present value	**(274)**	(219)
Total Discounted Recoveries Receivable before provision for Doubtful Debts	**1 844**	1 310
Provision for doubtful debts	**(496)**	(496)
Total Discounted Reinsurance Receivable after Provision for Doubtful Debts	**1 348**	814
Current:		
Recoveries receivable	**1 195**	871
Provision for doubtful debts	**(41)**	(64)
Total Current Recoveries Receivable after Provision for Doubtful Debts	**1 154**	807
Non-Current:		
Recoveries receivable	**649**	439
Provision for doubtful debts	**(455)**	(432)
Total Non-Current Recoveries Receivable after Provision for Doubtful Debts	**194**	7
Total Recoveries Receivable after Provision for Doubtful Debts	**1 348**	814
Current recoveries from entities external to SA Government	**1 154**	807
Non-current recoveries from entities external to SA Government	**194**	7
Total Recoveries Receivable from Entities External to the SA Government	**1 348**	814
Total Recoveries Receivable	**1 348**	814

During some preceding years, the lead reinsurer for Modbury Hospital medical malpractice claims was HIH Insurance Ltd, with a co-reinsurer liable for 30 percent of these claims. It has been deemed prudent in the past to provide a doubtful debt for the HIH Insurance Ltd expected recoveries in relation to this reinsurance. A significant part of the Provision for Doubtful Debts has been written off along with the corresponding recovery asset to more appropriately reflect the amount that might reasonably be expected to be received from the liquidators of HIH if a payout was to occur.

		2006	2005
18.	**Other Financial Assets**	**2006**	2005
18.1	***Investments***	**$'000**	$'000
	Current:		
	Cash Management Fund	**1 460**	11 741
	Australian Fixed Interest (Composite Bond)	**58 339**	51 841
	Inflation Linked Bond	**11 894**	9 270
	Total Current Investments	**71 693**	72 852
	Non-Current:		
	Australian Equities	**78 233**	71 773
	Overseas Equities - Unhedged	**37 166**	30 106
	Overseas Equities - Hedged	**15 669**	10 785
	Listed Property Trust	**24 065**	20 423
	Total Non-Current Investments	**155 133**	133 087
	Total Investments	**226 826**	205 939
	Investments held with entities within the SA Government:		
	Cash Management Fund	**1 460**	11 741
	Australian Fixed Interest (Composite Bond)	**58 339**	51 841
	Total Investments Held with Entities within the SA Government	**59 799**	63 582
	Investments held with entities external to the SA Government:		
	Australian Equities	**78 233**	71 773
	Overseas Equities - Unhedged	**37 166**	30 106
	Overseas Equities - Hedged	**15 669**	10 785
	Listed Property Trust	**24 065**	20 423
	Inflation Linked Bond	**11 894**	9 270
	Total Investments Held with Entities External to the SA Government	**167 027**	142 357
	Total Investments	**226 826**	205 939

18.2 As the Government's Captive insurer, SAICORP issues general insurance contracts to agencies and holds investments declared in Note 18.1 above to back liabilities arising from those contracts. SAICORP does not issue any non-insurance contracts that would be regulated under the *Insurance Act 1973* and as such does not hold any assets which back financial liabilities that may arise as a consequence of non-insurance contracts.

18.3 Assets comprising SAICORP's investment portfolio are either cash or indexed based equity trust type investments. The results are market driven and no assumptions are made in the measurement of their values as at reporting date.

18.4 Terms and Conditions

Deposits held with SAFA are able to be withdrawn upon request.

In accordance with AASB 1023 SAICORP's investments in fixed interest, inflation linked bonds, equity funds and the listed property trust are measured at fair value, as advised by the fund managers.

18.5 Interest Rate Risk

Cash Management Fund investments are bearing a floating interest rate between 5.66 percent and 5.83 percent.

Inflation Linked Bond investments are bearing a fixed interest rate of 6.24 percent (5.66 percent) and have an average maturity of 10 years.

All other investments are non-interest bearing.

18.6 Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

On-Balance-Sheet Financial Instruments

The credit risk on financial assets, excluding investments, of the Corporation, which has been recognised on the Balance Sheet, is the carrying amount, net of any provision for doubtful debts.

The Cash Management Fund and Australian fixed interest investments are with SAFA, which are guaranteed by the Treasurer of South Australia. The Inflation Linked Bond investment is in the Credit Suisse CSAM Inflation Linked Bond Fund which benchmarks itself against the UBSA Government Inflation Index (All Maturities). The Australian equities investment is in the Macquarie Australian Enhanced Equities Fund which benchmarks against the S&P/ASX300, while both the unhedged and hedged overseas equities investments are in Barclays Global Investors World ex-Australia Equity Fund which mirrors the MSCI World ex-Australia Equity Index. The Listed Property Trust is managed by Barclays Global Investors and benchmarks itself against the S&P/ASX300 Property Accumulation Index. The credit risk exposures on equity investments, Inflation Linked Bond and Listed Property Trust are equivalent to their market values.

The Corporation is the captive insurer for government agencies of the State of South Australia. Consequently, operational credit risk is minimised as the Corporation principally transacts with government agencies that are guaranteed by the Government of South Australia.

Off-Balance-Sheet Financial Instruments
There were no off-Balance-Sheet financial instruments in existence at the reporting date.

18.7 Currency Risk
The overseas equities fund manager, Barclays Global Investors invests in equities which mirror the MSCI World ex-Australia Equity Index. These equities are held in the currency of the equities' country of origin. The following table summarises SAICORP's risk associated with these equities:

	2006 $'000	2005 $'000
Canadian Dollar	**1 923**	1 243
Euro	**8 263**	6 220
Japanese Yen	**6 203**	3 958
Swiss Franc	**1 733**	1 227
United Kingdom Pound	**6 145**	4 547
United States Dollar	**26 914**	22 469
Other	**1 654**	1 227
	52 835	40 891

19. Prepayments

	2006	2005
Prepayments held with entities external to the SA Government:		
Catastrophe reinsurance program	**1 980**	2 127
Service provider (Insurance and reinsurance broking services)	**325**	-
Total Prepayments held with Entities external to the SA Government	**2 305**	2 127
Total Prepayments	**2 305**	2 127

20. Payables

	2006	2005
Creditors and accruals	**602**	130
Stamp Duty payable	**97**	151
Total Payables	**699**	281
Payables to entities within the SA Government:		
Creditors and accruals	**13**	13
Stamp Duty payable	**97**	151
Total Payables to entities within the SA Government	**110**	164
Payables to entities external to the SA Government:		
Creditors and accruals	**589**	117
Total Payables to entities external to the SA Government	**589**	117
Total Payables	**699**	281

Interest Rate and Credit Risk
Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days. All payables are non-interest bearing. The carrying amount of payables approximates net fair value due to the amounts being payable on demand. In addition, there is no concentration of credit risk.

21. Outstanding Claims

21.1 Total Outstanding Claims

	Central Estimate 2006 $'000	Risk Margin 2006 $'000	Indirect Claim Settlements Margin 2006 $'000	2006 $'000	2005 $'000
Expected future claims payments (inflated/undiscounted)	187 112	43 432	9 250	**239 794**	196 825
Discount to present value	(62 892)	(15 235)	(3 131)	**(81 258)**	(59 082)
Total Outstanding Claims	124 220	28 197	6 119	**158 536**	137 743

	2006 $'000	2005 $'000
Current:		
Liability:		
Medical malpractice	**6 609**	4 434
Other liability	**8 354**	5 667
Property	**3 303**	6 084
Other	**8**	7
Total Current Outstanding Claims	**18 274**	16 192
Non-Current:		
Liability:		
Medical malpractice	**106 675**	83 768
Other liability	**28 332**	23 670
Property	**5 110**	13 988
Other	**145**	125
Total Non-Current Outstanding Claims	**140 262**	121 551
Total Outstanding Claims	**158 536**	137 743
Outstanding claims payable to entities within the SA Government	**8 396**	20 056
Outstanding claims payable to entities external to the SA Government	**150 140**	117 687
Total Outstanding Claims	**158 536**	137 743

21.2 The impact of the revision of the inflation and discount assumptions is detailed below:

Outstanding Claims	(1)Balance under 2005 Assumptions $'000	**Balance under 2006 Assumptions $'000**	Change due to Revision of Assumptions $'000
Medical Malpractice	113 121	**113 284**	163
Liability	36 665	**36 686**	21
Property	8 411	**8 413**	2
Other	152	**153**	1
Total Outstanding Claims	158 349	**158 536**	187

(1) The outstanding claims position, both current and non-current, as at 30 June 2006 and the economic assumptions as at 30 June 2005 have been used to identify the impact due to revision of those assumptions.

21.3 Reconciliation of Movements in Outstanding Claims

	2005 Balance $'000	Paid $'000	Reported Claims $'000	IBNR/ IBNER Reserve $'000	Risk Margin $'000	Indirect Claims Settle-ment Reserve $'000	**2006 Balance $'000**
Medical Malpractice	88 202	(2 183)	17 761	3 716	4 824	964	**113 284**
Liability	29 337	(5 563)	11 120	326	1 173	293	**36 686**
Property	20 072	(1 325)	(8 714)	(33)	(1 059)	(529)	**8 412**
Other	132	(388)	388	17	3	2	**154**
	137 743	(9 459)	20 555	4 026	4 941	730	**158 536**

21.4 Table of Classes

Property (Short Tail)	*Liability (Long Tail)*	*Medical Malpractice*	*Other (Long Tail)*
Aviation Property	Aviation Liability		
Buildings and Contents	General Liability		
Consequential Loss	Marine Liability		
Fidelity Guarantee	Volunteers		
General Property	Other		
Machinery Breakdown	Professional Indemnity		
Marine Property	Personal Accident/ Corporate Travel		
Standing Timber			
Motor Vehicle			

21.5 Percentage Risk Margin Adopted

The percentage risk margin adopted to reflect the inherent uncertainty of the central estimate is illustrated in Note 21.1 above and was applied at the following rates by broad class:

	2006 Percent	2005 Percent
Liability:		
Medical malpractice	**25**	25
Other	**20**	20
Property	**10**	10
Other	**20**	20

The process used to determine the risk margin took into account the stochastic nature of insurance, uncertainty regarding the central estimate and environmental uncertainty including:

- random variation in the claim process;
- case estimates subject to movement up or down;
- uncertainty regarding economic and other assumptions used for the central estimate;
- impact of adverse changes in future rates of inflation and interest;
- court precedents for liability claims;
- and social attitudes.

AASB 1023 does not prescribe a fixed risk margin or probability of sufficiency, however, it is a requirement of Australian Prudential Regulation Authority (APRA) guidelines for private sector insurers that a minimum of 75 percent probability of sufficiency be satisfied through the application of the risk margin. Taking into account the nature of the risks underwritten by SAICORP and distributions regarded as relevant by the industry for those risks, the application of the above risk margins by class result in a 75 percent probability that the provision for outstanding claims will be sufficient.

21.6 Discount/Inflation Rates

SAICORP used the following discount and inflation assumptions in the measurement of its outstanding claims.

	2006 Percent	2005 Percent
For the succeeding year:		
Inflation rate (which includes superimposed inflation)	**7.25**	6.5
Discount rate - Medical malpractice	**5.9**	5.2
Discount rate - Short tail classes	**5.9**	5.2
Discount rate - Long tail classes	**5.9**	5.2
For subsequent years:		
Inflation rate (which includes superimposed inflation)	**7.25**	6.5
Discount rate - Medical malpractice	**5.9**	5.2
Discount rate - Short tail classes	**5.9**	5.2
Discount rate - Long tail classes	**5.9**	5.2

21.7 Weighted Average Expected Term to Settlement of Outstanding Claims from the Balance Date	2006 Years	2005 Years
Medical malpractice	**9.4**	9.7
Liability (other than medical malpractice)	**3.4**	3.5
Property	**1.9**	2.3
Other	**3.4**	3.5

22. Income Tax Equivalent Liability

	2006 $'000	2005 $'000
Balance at 1 July	**3 916**	5 459
Income tax equivalent paid	**(3 916)**	(5 459)
Current year's provisional income tax equivalent expense	**7 507**	3 916
Balance at 30 June	**7 507**	3 916

23. Other Current Liabilities

	2006	2005
Other Current Liabilities to entities external to the SA Government:		
Lead reinsurer liability	**223**	157
Unearned brokerage revenue	**103**	67
Total Other Current Liabilities to Entities external to the SA Government	**326**	224
Total Other Current Liabilities	**326**	224

24. Nature and Extent of Risks Arising from Insurance Contracts

24.1 Objectives, Policies and Processes for Managing Risks

Consistent with its designated functions and its Mission Statement, SAICORP's principal objectives are:

- protection of the State of South Australia's finances from a very large property loss or liability claim or a series of large losses or claims in a year;
- comprehensive insurance protection for Government portfolio groups, agencies and authorities at competitive and stable premiums;
- reduction in the overall cost of risk to Government portfolio groups, agencies and authorities and the State of South Australia.

SAICORP uses a variety of objectives, policies and processes for managing the risks associated with its activities. The most relevant methods include:

- the continual monitoring of the experience and development of claims;
- premium setting methodologies that reflect the latest development in the risks SAICORP is insuring;
- placing reinsurance to protect the capital base against a severe adverse event or a series of severe adverse events;
- regular review of the investment strategy for assets backing insurance liabilities.

24.2 Sensitivity Analysis

The sensitivity analysis tests the sensitivity to key assumptions used in the valuation of outstanding claims liabilities. For this purpose, the case estimates, IBNR percentages, the discount rate and the inflation rate have been considered. The effect of varying the assumed payment pattern has not been considered as the results are not materially sensitive to this assumption. A large variation in the implied average terms to payment would be required to have a significant effect.

24.2 Sensitivity Analysis (continued)

	Present Value of Outstanding Liability Net of Recoveries	Present Value of Outstanding Liability Net of Recoveries after Analysis	Dollar Change from Central Estimate	Percentage Change from Central Estimate
Case Estimates:	$'000	$'000	$'000	Percent
10 percent increase	122 376	130 592	8 216	6.7
10 percent decrease	122 376	114 160	(8 216)	(6.7)
IBNR/IBNER:				
10 percent increase	122 376	126 398	4 022	3.3
10 percent decrease	122 376	118 354	(4 022)	(3.3)
Discount Rate:				
Decrease by 1 percent to 4.9 percent	122 376	130 275	7 899	6.5
Inflation Rate:				
Decrease by 1 percent to 6.25 percent	122 376	115 289	(7 087)	(5.8)

24.3 Claims Development

The following tables show the development of incurred cost on net undiscounted outstanding claims relative to the ultimate expected central estimate over the five most recent financial years.

Liability

Loss Year Ending 30 June	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June 2002	2003	2004	2005	2006	Paid to Date	2006 Undiscounted Liability	Discount to Present Value
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Prior	2 172	2 221	2 956	3 100	4 149	2 233	1 916	1 784
1997	1 323	1 881	1 822	1 913	1 949	1 754	195	157
1998	7 093	6 601	6 459	6 413	7 043	5 425	1 618	1 491
1999	3 877	3 106	3 097	3 132	3 347	2 695	652	582
2000	3 367	4 157	10 275	8 651	9 614	3 671	5 943	5 358
2001	2 045	2 606	4 214	4 931	7 892	3 233	4 659	4 071
2002	4 226	2 383	2 046	3 402	3 684	919	2 765	2 322
2003		4 670	2 792	2 593	2 280	564	1 716	1 376
2004			5 078	2 686	3 093	146	2 947	2 336
2005				6 283	5 187	51	5 136	3 976
2006					7 922	(3)	7 925	5 995
				Totals	56 160	20 688	35 472	29 448
Value of Recoveries at 30 June 2006							29	28
Gross Liability at 30 June 2006							35 501	29 476

Medical Malpractice

Loss Year Ending 30 June	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June 2002	2003	2004	2005	2006	Paid to Date	2006 Undiscounted Liability	Discount to Present Value
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Prior	25 942	21 759	16 796	13 788	21 311	2 460	18 851	13 678
1997	32 102	21 304	12 613	11 553	11 436	5 936	5 500	3 834
1998	15 370	9 599	14 692	13 524	13 269	1 373	11 896	8 079
1999	4 411	2 406	2 315	6 215	11 825	689	11 136	7 395
2000	7 965	6 190	5 518	9 471	15 422	2 242	13 180	8 634
2001	11 274	8 879	7 140	7 060	10 273	70	10 203	6 474
2002	16 522	15 038	13 328	7 581	10 253	37	10 216	6 207
2003		11 619	21 220	17 077	14 533	6	14 527	8 468
2004			14 397	12 260	9 012	-	9 012	4 600
2005				18 826	16 683	-	16 683	8 504
2006					21 363	-	21 363	10 888
				Totals	155 380	12 813	142 567	86 761
Value of Recoveries at 30 June 2006							717	496
Gross Liability at 30 June 2006							143 284	87 257

Property

Loss Year Ending 30 June	Cumulative Payments Plus Undiscounted Outstanding Liability Measurement as at 30 June 2002 $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	Paid to Date $'000	Undiscounted Liability 2006 $'000	Discount to Present Value $'000
Prior	2 348	2 354	2 354	2 354	2 350	2 354	(4)	(3)
1997	7 807	2 565	2 565	2 565	2 565	2 565	-	-
1998	263	258	258	258	258	253	5	5
1999	361	361	361	361	360	356	4	3
2000	1 512	991	984	459	487	777	(290)	(281)
2001	808	1 256	1 146	1 418	1 386	1 158	228	222
2002	1 372	4 041	3 802	3 817	1 737	1 089	648	612
2003		1 162	853	586	426	428	(2)	(1)
2004			2 764	2 920	2 444	1 235	1 209	1 087
2005				12 812	4 035	480	3 555	3 138
2006					1 667	66	1 601	1 385
				Totals	17 715	10 761	6 954	6 167
Value of Recoveries at 30 June 2006							1 371	1 320
Gross Liability at 30 June 2006							8 325	7 487
Gross Value of Central Estimate at 30 June 2006							187 110	124 220

24.4 Credit, Liquidity and Market Risk

The agencies of the South Australian Government present very little credit risk in the collection of premium revenue as it is mandated that SAICORP be used as the Government's captive insurer. In addition, the operations of SAICORP are backed by the Treasurer's Indemnity in the event that SAICORP could not meet its obligations. Credit risk exists in the form of reinsurance recoveries. Should a participant on the Government's reinsurance program become insolvent or cease trading, the recoveries to which SAICORP may be entitled could be jeopardised in full or in part, or the timing of any recovery may be subject to an insolvency action.

25. Motor Vehicle Insurance

On 10 May 1996, the Commonwealth Bank of Australia (CBA) through South Australia Fleet Lease Arranger Pty Ltd, acquired ownership of the South Australian Government's light motor vehicle fleet. Pursuant to a Master Lease Agreement, the fleet was leased back to the South Australian Government and is managed by the Department for Administrative and Information Services, Fleet SA.

On 1 July 2003, the South Australian Government Financing Authority (SAFA) became the funding body for Fleet SA to purchase fleet vehicles. This process was completed on 30 June 2005 and the master lease agreement was formally ended on 10 July 2005.

During 2005-06, the Corporation incurred $nil ($1.229 million) fleet maintenance expenses. This reflects the conclusion for the agreement between CBA (South Australia Fleet Lease Arranger Pty Ltd), SAICORP and Fleet SA.

26. Auditor's Remuneration

	2006 $'000	2005 $'000
Audit fees paid/payable to the Auditor-General's Department	**30**	35
Total Audit Fees	**30**	35

Other Services

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

27. Consultants

Number of consultants and the dollar amount of consultancies paid/payable that fell within the following bands:	**2006 Number of Consultants**	2005 Number of Consultants	**2006 $'000**	2005 $'000
Below $10 000	**-**	1	**-**	1
Between $10 000 - $50 000	**1**	1	**33**	30
	1	2	**33**	31

28. Directors' Remuneration

28.1 Directors' Remuneration

Number of Directors of the Corporation and the dollar amount of remuneration paid/payable to Directors that fell within the following bands:	**2006 Number of Directors**	2005 Number of Directors	**2006 $'000**	2005 $'000
$nil	**1**	1	**-**	-
$1 - $10 000	**4**	4	**15**	19
	5	5	**15**	19

Directors of the Corporation receive remuneration in the form of statutory fees. The Chairman, who is employed by the State Government of South Australia does not receive remuneration from the Corporation.

28.2 Superannuation and Retirement Benefits

Directors of the Corporation are not paid superannuation or retirement benefits for their activities associated with the Corporation, other than the amount set aside by the Corporation in compliance with the Superannuation Guarantee Charge.

29. Related Parties

29.1 Directors

The names of each person who held the position of Director of the Corporation during the financial year are:

Mr K M Cantley (Chairman)
Mr L R Foster (Deputy Chairman)
Ms Y Sneddon
Ms R J Batt (retired December 2005)
Mr L C Holmes (retired December 2005)

29.2 Directors' Transactions with the Corporation

Transactions

There were no related party transactions during the financial year.

Loans

There have been no loans advanced to Directors of the Corporation during the financial year. The total of loans outstanding to Directors of the Corporation at year end was $nil.

30. Contingent Liabilities

Insurance underwriting by its very nature has liabilities contingent upon certain events occurring which give rise to a claim under the policy of insurance. All of the known and expected claims in respect of events that have occurred up to balance date have been accounted for in the preparation of these financial statements plus an allowance for claims incurred but not reported and incurred but not enough reported using IBNR and IBNER calculations. Many claims require legal input to negotiate suitable settlements. The results of such negotiations may result in liabilities to the Corporation different to those incorporated in these financial statements.

31. Cash Flow Reconciliation

	2006	2005
31.1 Reconciliation of Cash - Cash at the End of the Financial Year per	**$'000**	$'000
Cash Flow Statement	**14 992**	5 746
Balance Sheet	**14 992**	5 746

31.2 Reconciliation of Net Cash Provided by Operating Activities to Operating Profit after Income Tax Equivalents

	2006	2005
Net Cash Provided by Operating activities	**9 246**	11 101
Add: Non-cash items:		
Interest from investments reinvested	**1 297**	1 165
Investment monies receivable	**(11 000)**	-
Distributions from investments reinvested	**11 346**	8 991
Management fees deducted against Investment balance	**(53)**	(20)
Accrued interest on Cash Management Fund	**36**	(93)
Unrealised gains on investments	**19 261**	13 502
Changes in Assets and Liabilities:		
(Decrease) Increase in receivables	**11 578**	25
(Decrease) Increase in recoveries receivable	**534**	499
(Decrease) Increase in prepayments	**178**	(3 146)
(Increase) Decrease in payables	**(418)**	146
(Increase) Decrease in unearned premium	**(2)**	1 507
(Increase) Decrease in outstanding claims	**(20 793)**	(25 685)
(Increase) Decrease in income tax equivalent liability	**(3 591)**	1 543
(Increase) Decrease in other current liabilities	**(102)**	(37)
Operating Profit after Income Tax Equivalents	**17 517**	9 498

32. Events after Balance Date

SAICORP advises that since the end of the financial year there has been one matter arise which will affect the operations of the entity and the reported results of the entity in future financial years. The *Government Financing Authority (Insurance) Amendment Act 2006*, which expands the functions of the South Australian Government Financing Authority (SAFA) to act as captive insurer of the Crown came into operation on 1 July 2006. The Public Corporations (Dissolution of South Australian Government Captive Insurance Corporation) Regulations 2006 promulgated under the *Public Corporations Act 1993* came into operation on 1 July 2006. As a consequence SAICORP was dissolved and its assets, rights and liabilities transferred to SAFA on 1 July 2006.

SOUTH AUSTRALIAN GOVERNMENT
INSURANCE AND RISK MANAGEMENT FUND — SECTION 2

Income Statement
for the year ended 30 June 2006

	Note	**2006**	2005
		$'000	$'000
EXPENSES:			
Claims expense	4	**15 345**	24 907
Compensation expense	5	**98**	46
Administration expense	6	**196**	208
Total Expenses		**15 639**	25 161
INCOME:			
Inwards reinsurance	7	**45**	26
Claims recoveries	8	**1 235**	(169)
Compensation recoveries	9	**-**	2
Interest	10	**904**	700
Total Income		**2 184**	559
NET COST OF PROVIDING SERVICES		**(13 455)**	(24 602)
REVENUES FROM SA GOVERNMENT:			
Revenues from SA Government	11	**7 000**	7 000
Total revenues from SA Government		**7 000**	7 000
NET RESULT		**(6 455)**	(17 602)
THE NET RESULT IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			

Balance Sheet
as at 30 June 2006

	Note	**2006**	2005
		$'000	$'000
CURRENT ASSETS:			
Cash	12	**12 584**	12 684
Receivables	13	**74**	139
Recoveries receivable	14	**473**	353
Total Current Assets		**13 131**	13 176
NON-CURRENT ASSETS:			
Recoveries receivable	14	**3 107**	1 999
Total Non-Current Assets		**3 107**	1 999
Total Assets		**16 238**	15 175
CURRENT LIABILITIES:			
Outstanding claims	15	**30 749**	21 430
Outstanding compensation payments	16	**-**	11
Total Current Liabilities		**30 749**	21 441
NON-CURRENT LIABILITIES:			
Outstanding claims	15	**54 847**	56 637
Total Non-Current Liabilities		**54 847**	56 637
Total Liabilities		**85 596**	78 078
NET ASSETS		**(69 358)**	(62 903)
EQUITY:			
Retained earnings		**(69 358)**	(62 903)
TOTAL EQUITY		**(69 358)**	(62 903)
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Contingent Liabilities	19		

Statement of Changes in Equity
for the year ended 30 June 2006

	Retained Earnings $'000
Balance at 30 June 2004	(45 301)
Changes in accounting policy	-
Restated Balance at 30 June 2004	(45 301)
Net result for 2004-05	(17 602)
Total Recognised Income and Expenses for 2004-05	(17 602)
Balance at 30 June 2005	(62 903)
Net result for 2005-06	(6 455)
Total Recognised Income and Expenses for 2005-06	(6 455)
Balance at 30 June 2006	**(69 358)**

All changes in Equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

	Note	**2006 Inflows (Outflows) $'000**	2005 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:			
Claims paid		**(7 867)**	(4 274)
Compensation payments		**(109)**	(389)
Administration costs paid		**(195)**	(209)
GST payments on purchases		**(224)**	(261)
GST remitted to ATO		**(6)**	(3)
Cash used in Operations		**(8 401)**	(5 136)
CASH INFLOWS:			
Inwards insurance premium received		**48**	13
Compensation received		**-**	1 802
Interest received		**896**	679
Deductibles collected		**121**	385
Claim recoveries received		**6**	16
GST input tax credits		**224**	261
GST received on receivables		**6**	3
Cash generated from Operations		**1 301**	3 159
CASH FLOWS FROM SA GOVERNMENT:			
Receipts from SA Government		**7 000**	7 000
Cash generated from SA Government		**7 000**	7 000
Net Cash (used in) provided by Operating Activities	20.2	**(100)**	5 023
NET (DECREASE) INCREASE IN CASH HELD		**(100)**	5 023
CASH AT 1 JULY		**12 684**	7 661
CASH AT 30 JUNE	20.1	**12 584**	12 684

NOTES TO AND FORMING PART OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

1. Objectives

The South Australian Government Captive Insurance Corporation ('SAICORP' or 'the Corporation') is established as a subsidiary of the Treasurer by the Public Corporations (Treasurer) Regulations 1994, which were gazetted and came into effect on 29 September 1994.

The Corporation has been proclaimed to be a semi-government authority for the purposes of the *Public Finance and Audit Act 1987* and the Treasurer has indemnified the Corporation 'to the extent necessary to satisfy all the liabilities which arise out of the carrying out of its functions in accordance with the Public Corporations (Treasurer) Regulations 1994.'

SAICORP's objectives are to:

- efficiently and effectively administer the Government's insurance and risk management arrangements;
- insure, co-insure and reinsure the risks of the Crown;
- provide advice on the management of risks of the Crown.

The purpose of the South Australian Government Insurance and Risk Management Fund ('the SAGIRM Fund' or 'the Fund') is to record receipts and payments associated with the operations of the Government's insurance and risk management program. This financial report encompasses all activities transacted through Section 2 of the Fund, which is used to meet claim payments in respect of incidents which occurred prior to 1 July 1994, claim payments in respect of uninsurable risks and any other payments which fall outside the insurance cover provided under Section 1 of the Fund.

SAICORP is responsible for the administration of Section 2 of the SAGIRM Fund.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

This financial report is a general purpose financial report which has been prepared in accordance with:

- applicable Accounting Standards;
- relevant Treasurer's Instructions and Accounting Policy Statements issued under the *Public Finance and Audit Act 1987*;
- other mandatory professional requirements in Australia.

These financial statements are the first to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these statements. Previous financial statements were prepared in accordance with Australian Generally Accepted Accounting Principles. There were no adjustments required.

The Income Statement and Balance Sheet have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets that were valued in accordance with the stated valuation policy applicable to those assets.

The financial report has been prepared based on a 12 month operating cycle and presented in Australian currency.

The Cash Flow Statement has been prepared on a cash basis.

2.2 Reporting Entity

The financial statements of Section 2 of the SAGIRM Fund include the use of assets, liabilities, income and expenses controlled or incurred in the management of the Fund.

Given the different funding and governance arrangements of Section 1 and Section 2 of the SAGIRM Fund, the principles of AASB 127 *Consolidated and Separate Financial Statements* cannot be applied. Therefore two separate financial reports are prepared to discharge SAICORP's disclosure obligations.

2.3 Comparative Figures

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

2.4 Rounding

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

2.5 Taxation

Section 2 of the SAGIRM Fund is not subject to income tax. Due to the non-commercial nature of Section 2 of the SAGIRM Fund, approval has been given by the Department of Treasury and Finance for it to be exempt from the South Australian Government's tax equivalent regime.

Section 2 of the SAGIRM Fund is liable for the Goods and Services Tax (GST).

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

- where the amount of GST incurred by Section 2 of the SAGIRM Fund as a purchaser is not recoverable from the Australian Taxation Office;
- receivables and payables, which are stated with the amounts of GST included.

2.6 Income and Expenses

Income and Expenses are recognised in the Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured.

Income and Expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5 and have not been offset unless required or permitted by a specific accounting standard.

2.7 Revenues from SA Government

Appropriations are recognised as income in the period in which SAICORP gains control of the appropriated funds. Control over appropriations is normally obtained upon their receipt and is accounted for in accordance with Treasurer's Instruction 3 *Appropriation*. They are credited to the SAGIRM Fund from the Treasurer's Other Payments line titled 'Fire Damage and Insurance Costs'.

2.8 Current and Non-Current Classification

Assets and liabilities are characterised as either current or non-current in nature. Section 2 of the SAGIRM Fund has a clearly identifiable operating cycle of 12 months. Assets and liabilities that are realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

2.9 Cash

For the purposes of the Cash Flow Statement, cash comprises cash at bank (also referred to as Deposits with the Treasurer), used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

2.10 Receivables

Receivables include amounts receivable from trade and interest accruals.

Trade receivables arise in the normal course of providing insurance services to agencies. Trade receivables are generally receivable within 30 days after the issue of an invoice.

Interest debtors arise as a result of interest accrued as at the reporting date on the balance of Section 2 of the SAGIRM Fund. Interest is calculated in quarters ending with the months of May, August, November and February and is paid in the following month.

2.11 Claim Recoveries Receivable

Recoveries receivable on claims paid and/or claims reported but not yet paid are recognised as income and assets where they can be reliably measured.

Recoveries receivable are measured as the present values of the expected future recovery receipts. An inflation rate (normal and superimposed) of 7.25 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 5.9 percent per annum for medical malpractice, 5.9 percent per annum for short tail classes and 5.9 percent per annum for long tail classes (5.2 percent per annum for medical malpractice, 5.2 percent per annum for short tail classes and 5.2 percent per annum for long tail classes) have been assumed.

2.12 Payables

Payables include creditors and accrued expenses.

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 Section 2 of the SAGIRM Fund.

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 payables are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

2.13 Outstanding Claims

Liabilities for outstanding claims are recognised in respect of occurred incidents. The liabilities include the anticipated costs of settling those claims and a prudential margin.

The prudential margin for the year ended 30 June 2006 has been assumed to be 10 percent of its outstanding claims liabilities for short tail business, 25 percent for medical malpractice and 20 percent for all other classes (same percentages applied in 2005). Indirect claim settlement costs are those claim settlement costs that cannot be directly allocated to a specific claim and have been estimated at 5 percent (5 percent) of the outstanding claims liabilities.

The claims liabilities are measured as the present values of the expected future claims payments. An inflation rate (normal and superimposed) of 7.25 percent per annum (6.5 percent per annum) has been assumed. In the calculation of present values, discount rates of 5.9 percent per annum for medical malpractice, 5.9 percent per annum for short tail classes and 5.9 percent per annum for long tail classes (5.2 percent per annum for medical malpractice, 5.2 percent per annum for short tail and 5.2 percent per annum for long tail classes) have been assumed.

2.13 Outstanding Claims (continued)

The above methodologies were originally adopted by SAICORP because there was insufficient historical data to perform a portfolio analysis to derive a statistical methodology for the calculation of claims liabilities. For several years Brett & Watson Pty Ltd - Consulting Actuaries have been engaged to consider the continued appropriateness of the above methodologies and to recommend appropriate discount and inflation rates, prudential margins and indirect claim settlement costs percentages to be used for annual financial reporting. Their recommendations were adopted for the preparation of these financial statements.

Builders' Warranty Inwards Reinsurance

Claims under this reinsurance are likely to be infrequent with a very low probability of occurrence. In the short to medium term it is considered the most appropriate approach is to set reserves equal to accumulated premiums.

2.14 Relationship with the Department of Treasury and Finance

The SAICORP Board has entered into a Service Level Agreement with the Department of Treasury and Finance to cover the use of staff, assets and accommodation to provide the services required by the Board.

The Board reimburses the Department for any payments made by the Department on behalf of the Board relating to the provision of the services to the Board, including payments for the salaries and on costs of all employees of the SAICORP Branch of the Department. These are apportioned between Section 1 and Section 2 of the SAGIRM Fund. The amount expended in 2006 for Section 2 was $440 000 ($436 000).

3. Financial Risk Management

Section 2 of the SAGIRM Fund has significant non-interest bearing assets (receivables) and liabilities (outstanding claims) and interest bearing assets (cash). The exposure of Section 2 of the SAGIRM Fund to market risk and cash flow interest risk is minimal.

Section 2 of the SAGIRM Fund has no significant concentration of credit risk.

In relation to liquidity/funding risk, the operations of Section 2 of the SAGIRM Fund are dependent on Government policy and on continuing appropriation from the Government. The existence of Section 2 of the SAGIRM Fund in its present form will cease from 1 July 2006. Refer Note 21 'Events After Balance Date' for further information.

4. Claims Expense

	2006	2005
	$'000	$'000
Claim payments	**7 603**	4 007
Deductibles	**(51)**	(454)
Claim movements	**7 529**	21 106
Other	**264**	248
Total Claims Expense	**15 345**	24 907
Liability - Medical malpractice	**804**	10 656
Liability - Other	**8 120**	12 223
Property	**6 421**	2 028
Total Claims Expense	**15 345**	24 907
Claims expense paid/payable to entities within the SA Government	**8 849**	3 998
Claims expense paid/payable to entities external to the SA Government	**6 496**	20 909
Total Claims Expense	**15 345**	24 907

5. Compensation Expense

On Friday 27 June 2003, a number of properties at Glenelg North were flooded following the failure of barrage gates at the southern end of the Patawalonga Lake. This caused storm water to back up through the local storm water system causing flood conditions on nearby streets and inundation of the properties. The Government established an urgent investigation into the cause of the flooding and implemented plans to compensate residents and businesses affected by the floods. Payment of compensation was contingent upon claimants making application for compensation and subrogating their rights of recovery to SAICORP. The compensation monies were paid in the first instance by SAICORP.

	2006	2005
	$'000	$'000
Compensation expense paid/payable to entities external to the SA Government	**98**	46
Total Compensation Expense Paid/Payable to Entities external to the SA Government	**98**	46

6. Administration Expense

	2006 $'000	2005 $'000
Administration Expenses paid/payable to entities within the SA Government:		
Service Level Agreement	**177**	188
Total Administration Expense Paid/Payable to Entities within the SA Government	**177**	188
Administration Expenses paid/payable to entities external to the SA Government:		
Software maintenance	**12**	11
Actuarial consultants	**7**	9
Total Administration Expenses Paid/Payable to Entities external to the SA Government	**19**	20
Total Administration Expense	**196**	208

7. Inwards Reinsurance Premium Revenue

	2006	2005
Inwards Reinsurance Premium Revenue from entities external to the SA Government:		
Inwards reinsurance premium revenue	**45**	26
Inwards Reinsurance Premium Revenue from entities external to the SA Government	**45**	26

In January 2004, Cabinet authorised the Minister for Consumer Affairs to enter into an agreement on behalf of the South Australian Government with a builders' warranty insurer in respect of the insurer's building indemnity insurance policies issued to builders operating in South Australia whereby the State would underwrite the insurer's losses to the extent that those losses exceed $10 million and are associated with a singe event, being the death, disappearance or insolvency of an insured builder.

The agreement subsequently entered into provides that the Crown in the right of the State of South Australia will be included as a reinsurer of the builders' warranty insurer under the terms and conditions of the Reinsurance Agreement in respect of building certificates issued relating to property located in South Australia, effective from 4.00 pm on 31 December 2004.

8. Claim Recoveries

Claim recoveries reported in the Income Statement are comprised of claim recovery receipts as well as the movements in underlying assets.

	2006 $'000	2005 $'000
Claim recovery receipts	**6**	16
Claim recovery movements	**1 229**	(185)
Total Claim Recoveries	**1 235**	(169)
Claim recoveries from entities within the SA Government	**-**	4
Claim recoveries from entities external to the SA Government	**1 235**	(173)
Total Claim Recoveries	**1 235**	(169)

9. Compensation Recoveries

The Minster for Infrastructure negotiated a settlement to recover compensation monies expended by the SA Government in relation to the flooding of the Patawalonga Lake. An amount of $1.8 million was received from Baulderstone Hornibrook.

	2006 $'000	2005 $'000
Compensation recovery from entities external to the SA Government	**-**	2
Total Compensation Recovery	**-**	2

10. Interest

	2006	2005
Interest from entities within the SA Government	**904**	700
Total Interest	**904**	700

11. Revenues from SA Government

	2006	2005
Appropriations from Consolidated Account pursuant to the *Appropriation Act*	**7 000**	7 000
Total Revenues from SA Government	**7 000**	7 000

12. Cash

	2006	2005
Cash held with entities within the SA Government:		
Deposits with the Treasurer	**12 584**	12 684
Total Cash	**12 584**	12 684

Interest Rate Risk

Deposits with the Treasurer are bearing a floating interest rate between 5.35 percent and 5.43 percent. The carrying amount of cash approximates net fair value.

13. Receivables

	2006	2005
	$'000	$'000
Accrued interest revenue	**65**	56
Inwards reinsurance receivable	**9**	13
Cost recovery debtors	**-**	70
Total Receivables	**74**	139
Receivables from entities within the SA Government	**65**	126
Receivables from entities external to the SA Government	**9**	13
Total Receivables	**74**	139

Interest Rate and Credit Risk

Receivables are raised for all goods and services provided for which payment has not been received.

Receivables are normally settled within 30 days. Trade receivables and accrued revenues are non-interest bearing. Other than recognised in the provision for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. In addition, there is no concentration of credit risk.

Bad and Doubtful Debts

The expense for bad and doubtful debts for the year was $nil.

14. Recoveries Receivable

	2006	2005
	$'000	$'000
Expected future recoveries (undiscounted)	**5 064**	3 165
Discount to present value	**(1 484)**	(813)
Recoveries Receivable	**3 580**	2 352
Current recoveries receivable from entities external to SA Government	**473**	353
Non-current recoveries Receivable from entities external to SA Government	**3 107**	1 999
Total Recoveries Receivable	**3 580**	2 352

15. Outstanding Claims

15.1 Total Outstanding Claims

	Reported Claims	Risk Margin	Indirect Claim Settlements Margin	**Total 2006**	Total 2005
	$'000	$'000	$'000	**$'000**	$'000
Expected future claims payments (inflated/undiscounted)	87 209	18 385	4 107	**109 701**	99 896
Discount to present value	(18 956)	(4 275)	(874)	**(24 105)**	(21 829)
Total Outstanding Claims	68 253	14 110	3 233	**85 596**	78 067

	2006	2005
Current:	**$'000**	$'000
Liability - Medical Malpractice	**5 195**	5 636
Liability - Other	**17 076**	13 316
Property	**8 478**	2 478
Total Current Outstanding Claims	**30 749**	21 430
Non-Current:		
Liability - Medical Malpractice	**46 079**	49 873
Liability - Other	**8 696**	6 764
Property	**72**	-
Total Non-Current Outstanding Claims	**54 847**	56 637
Total Outstanding Claims	**85 596**	78 067
Claims payable to entities within the SA Government	**8 478**	2 478
Claims payable to entities external to the SA Government	**77 118**	75 589
Total Outstanding Claims	**85 596**	78 067

15.2 Discount/Inflation Rates

SAICORP used the following discount and inflation assumptions in the measurement of its outstanding claims:

	2006	2005
For the succeeding year:	**Percent**	Percent
Inflation rate (which includes superimposed inflation)	**7.25**	6.5
Discount rate - Medical malpractice	**5.9**	5.2
Discount rate - Short tail classes	**5.9**	5.2
Discount rate - Long tail classes	**5.9**	5.2

15.2 Discount/Inflation Rates (continued)

	2006	2005
For subsequent years:	**Percent**	Percent
Inflation rate (which includes superimposed inflation)	**7.25**	6.5
Discount rate - Medical malpractice	**5.9**	5.2
Discount rate - Short tail classes	**5.9**	5.2
Discount rate - Long tail classes	**5.9**	5.2

15.3 Weighted Average Expected Term to Settlement of Outstanding Claims from the Balance Date

	2006	2005
	Years	Years
Medical malpractice	**6.7**	6.6
Liability (other than medical malpractice)	**4.6**	1.0
Property	**0.5**	0.5
Other	**1.0**	1.0

15.4 Table of Classes

Property (Short Tail)	*Liability (Long Tail)*	*Medical Malpractice*	*Other (Long Tail)*
Aviation Property	Aviation Liability		
Buildings and Contents	General Liability		
Consequential Loss	Marine Liability		
Fidelity Guarantee	Volunteers		
General Property	Professional Indemnity		
Machinery Breakdown	Builders Warranty		
Marine Property	Personal Accident/ Corporate Travel		
Standing Timber			
Motor Vehicle Liability			
Motor Vehicle Property			

15.5 Percentage Risk Margin Adopted

The percentage risk margin adopted to reflect the inherent uncertainty of the central estimate is illustrated in Note 15.1 above and was applied at the following rates by broad class:

	2006	2005
Liability:	**Percent**	Percent
Medical malpractice	**25**	25
Other	**20**	20
Property	**10**	10
Other	**20**	20

The process used to determine the risk margin took into account the stochastic nature of insurance, uncertainty regarding the central estimate and environmental uncertainty including:

- random variation in the claim process;
- case estimates subject to movement up or down;
- uncertainty regarding economic and other assumptions used for the central estimate;
- impact of adverse changes in future rates of inflation and interest;
- court precedents for liability claims; and
- social attitudes.

16. Outstanding Compensation Payments

	2006	2005
	$'000	$'000
Expected future compensation payments/payables to entities external to SA Government	**-**	11
Total Outstanding Compensation Payments	**-**	11

17. Auditors' Remuneration

	2006	2005
Audit fees paid/payable to the Auditor-General's Department	**10**	10
Total Audit Fees	**10**	10

Other Services

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

18. Consultants

Number of consultants and the dollar amount of consultancies paid/payable that fell within the following bands:	**2006 Number of Consultants**	2005 Number of Consultants	**2006 $'000**	2005 $'000
Below $10 000	**1**	2	**7**	9
	1	2	**7**	9

19. Contingent Liabilities

Insurance underwriting by its very nature has liabilities contingent upon certain events occurring which give rise to a claim under the policy of insurance. All of the known and reported claims in respect of events that have occurred up to balance date have been accounted for in the preparation of these financial statements. Many claims may require legal input to negotiate a suitable settlement. The results of such negotiations may result in liabilities to Section 2 of the SAGIRM Fund being different to those incorporated in these financial statements.

By the *Motor Accident Commission (Transfer of Residual Assets and Liabilities) Proclamation 2003* under Section 30 of the *SGIC (Sale) Act 1995* the assets and liabilities of residual State Government Insurance Commission (SGIC) policies were transferred to SAICORP on 30 June 2003. These were general policies of insurance issued by SGIC that were not previously transferred on the sale of the general insurance business formerly conducted by SGIC. Specific details of these policies are not available and hence no liability has been recognised in relation to them. Liabilities will be brought to account if and when valid claims are made by the policy owners.

20. Cash Flow Reconciliation

20.1 Reconciliation of Cash - Cash at 30 June per:

	2006	2005
	$'000	$'000
Cash Flow Statement	**12 584**	12 684
Balance Sheet	**12 584**	12 684

20.2 Reconciliation of Net Cash Provided by (Used in) Operating Activities to Net Cost of Providing Services

	2006	2005
Net cash provided by (used in) operating activities	**(100)**	5 023
Revenues from SA Government	**(7 000)**	(7 000)
Changes in Assets and Liabilities:		
Increase (Decrease) in receivables	**(65)**	103
Increase (Decrease) in recoveries receivable	**1 228**	(185)
Increase (Decrease) in compensation recovery	**-**	(1 800)
(Increase) Decrease payables	**-**	19
(Increase) Decrease in outstanding claims	**(7 529)**	(21 106)
(Increase) Decrease in outstanding compensation payments	**11**	344
Net Cost of Providing Services	**(13 455)**	(24 602)

21. Events after Balance Date

SAICORP advises that since the end of the financial year there has been one matter arise which will affect the operations of the entity and the reported results of the entity in future financial years. The *Government Financing Authority (Insurance) Amendment Act 2006*, which expands the functions of the South Australian Government Financing Authority (SAFA) to act as captive insurer of the Crown came into operation on 1 July 2006. The Public Corporations (Dissolution of South Australian Government Captive Insurance Corporation) Regulations 2006 promulgated under the *Public Corporations Act 1993* came into operation on 1 July 2006. As a consequence SAICORP was dissolved and its assets, rights and liabilities transferred to SAFA on 1 July 2006.

SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Government Financing Authority (SAFA), a Body Corporate, was established under the *Government Financing Authority Act 1982* (the Act).

Functions

The functions of SAFA are:

- to develop and implement borrowing and investment programs for the benefit of semi government authorities;
- to engage in such other financial activities as are determined by the Treasurer to be in the interests of the State.

SAFA functions as the central borrowing authority for the State of South Australia, and is responsible for managing the majority of the State's debt and for the implementation of the Government's Debt Management Policy as determined by the Treasurer of South Australia.

Pursuant to section 15 of the Act, liabilities of SAFA are guaranteed by the Treasurer.

SAFA Advisory Board

The Act provides that SAFA is constituted of the Under Treasurer and establishes the South Australian Government Financing Advisory Board.

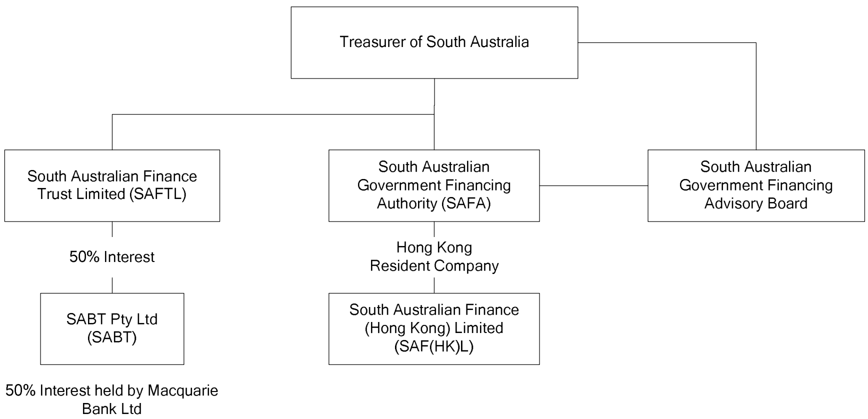
The Advisory Board comprises up to six members one of whom is the Under Treasurer, who is also Presiding Member.

The function of the Advisory Board is to provide advice relating to the exercise by SAFA of its powers, functions and duties.

The Act provides that the Under Treasurer may request advice from the Advisory Board and consider any advice given. The Advisory Board may proffer advice, as it sees fit to the Treasurer or the Authority. The Annual Report of SAFA must include details of any advice of the Advisory Board that the Treasurer or the Authority has decided not to follow and the Treasurer's or Authority's reason for that decision.

Structure

The following diagram reflects the relationship between the Treasurer of South Australia, SAFA and SAFA's controlled entities as at 30 June 2006.



Changes to Functions and Structure

During the financial year there have been no notable changes to SAFA's organisational structure.

Previous reports have discussed planned changes resulting from the reduction in subsidiary operations. The current status of these changes is as follows:

- SAFTL is now dormant and is expected to be wound up in 2006-07 following the wind up of SABT Pty Ltd.
- SABT Pty Ltd has been dormant since November 1999. A member's voluntary liquidation commenced 28 June 2006. SABT Pty Ltd is expected to be wound up in 2006-07.
- SAF(HK)L has been wound up.

The above entities do not have a material impact on SAFA's financial position or performance. As a result, they were not consolidated with SAFA's results for 2005-06.

As stated in Note 31, the *Government Financing Authority (Insurance) Amendment Act 2006* expands SAFA's functions from 1 July 2006 to act as a captive insurer of the Crown. As a consequence of the Public Corporations (Dissolution of South Australian Government Captive Insurance Corporations) Regulations 2006 (promulgated under the *Public Corporations Act 1993*) the South Australian Government Captive Insurance Corporation (SAICORP) was dissolved on 1 July 2006 and its assets, rights and liabilities transferred to SAFA.

An administrative amalgamation of the SAFA and SAICORP branches of the Department of Treasury and Finance was approved by the Under Treasurer in December 2005. The new SAFA/SAICORP branch was responsible for supporting both the SAFA Advisory Board and the SAICORP Board until the dissolution of SAICORP occurred on 1 July 2006.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 25(2) of the *Government Financing Authority Act 1982* and subsection 31(1) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts of the South Australian Government Financing Authority 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 Government Financing Authority 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 2005-06, specific areas of audit attention included:

- Treasury function, including the management of:
  - cash and investments
  - borrowings
  - derivative transactions
- Risk reporting and monitoring including:
  - interest rate risk management
  - credit risk management
  - liquidity and funding risk management
  - foreign exchange risk management
- Common Public Sector Interest Rate (CPSIR) calculation
- Financial accounting and settlement functions

- Areas of the information technology environment, including:
  - information resource strategy and planning
  - business continuity planning
  - relationship with outsourced vendors
  - information security
- SAFA investment products and services.

The work done by the internal auditor and SAFA's compliance unit was considered in planning the audit programs. Reliance was placed on the work of internal audit in assessing the effectiveness of SAFA's internal controls. Specific areas in which reliance was placed on internal audit work included:

- monthly findings of the compliance unit's review of operations;
- half yearly reviews for the period ending 31 December 2005 and period ending 30 June 2006.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

In my opinion, the financial report presents fairly, in accordance with the Treasurer's Instructions promulgated under 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 Government Financing Authority as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian Government Financing Authority 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 South Australian Government Financing Authority have been conducted properly and in accordance with law.

Audit Communications with Management

Matters arising during the course of the audit were detailed in a management letter to the General Manager. The response to the management letter was considered to be satisfactory.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006	2005	Percentage
	$'million	$'million	Change
Interest Income	**614.4**	923.4	(33)
Interest expense	**589.3**	899.8	(35)
Net Interest Income	**25.1**	23.6	6
Other Income	**33.4**	6.4	n/a
Other expenses	**6.7**	7.3	(8)
Operating Profit before income tax	**51.8**	22.7	128
Income tax equivalent expense	**15.4**	6.7	130
Net Profit after income tax	**36.4**	16.0	128
ASSETS			
Cash, short term assets and investments	**2 570**	2 965	(13)
Loans to SA Government entities	**5 384**	5 374	-
Other assets	**62**	123	(50)
Total Assets	**8 016**	8 462	(5)

	2006 **$'million**	2005 $'million	Percentage Change
LIABILITIES			
Deposits and short term borrowings	**3 106**	2 707	15
Long term borrowings	**4 728**	5 517	(14)
Other liabilities	**59**	64	(8)
Total Liabilities	**7 893**	8 288	(5)
EQUITY	**123**	174	(29)

Income Statement

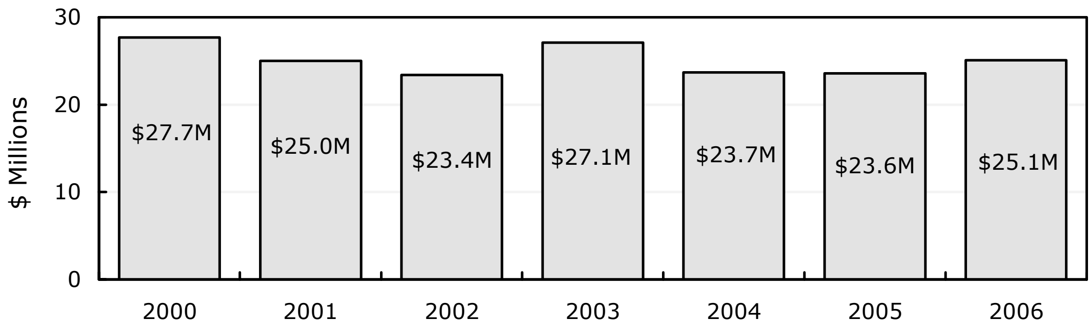
Net Interest Income

Net interest income is determined on a market value accounting basis which combines actual interest revenue and expenses with realised and unrealised gains and losses arising from interest rate movements.

Net interest income was $25.1 million, up $1.5 million from the previous year.

Interest income has decreased by $309 million or 33 percent primarily as a result of unrealised losses of $159.4 million arising from movements in market yields. This has been associated with a corresponding decrease in interest expenses of $310.5 million or 35 percent due primarily to unrealised gains of $164 million during the year. Net unrealised gains were $4.6 million ($6.7 million) in 2005-06. Refer to Note 20 of the Financial Statements.

The following chart shows net interest income for the past seven years. Notwithstanding the fluctuations in interest income and expense, net interest income has remained relatively stable over a long period of time as shown in the following chart.

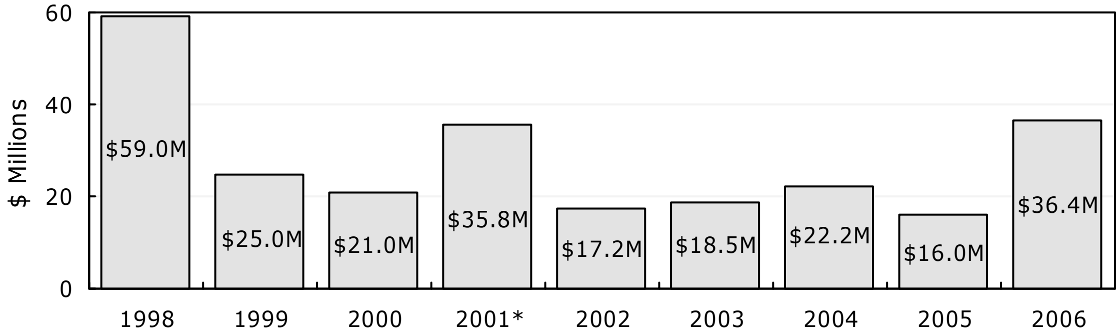


The net interest margin has remained constant from 2000 at around 3.2 percent.

Operating Profit

SAFA's operations in 2005-06 included an operating profit before income tax equivalent of $51.8 million ($22.7 million). This represents a $29.1 million increase from 2004-05 attributable mainly to a $26.2 million increase in debt redemption assistance from the Commonwealth Government.

The trend in SAFA's operating profit after income tax expense since the return of capital in 1998 is demonstrated in the following chart.



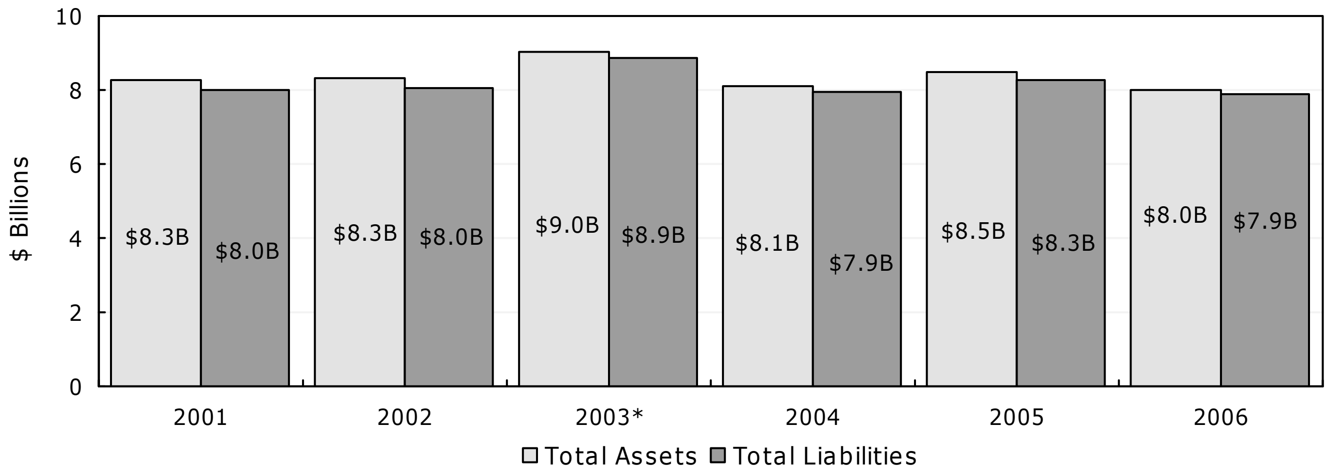
* The increase in 2001 was due primarily to the distribution of surpluses to SAFA from a subsidiary entity.

Another significant impact on the operating profit is the level of retained earnings, which are effectively invested by SAFA. During 2005-06 a distribution of $87.5 million ($37.6 million) was made to the Treasurer (refer to later comments under 'Capital and Distributions').

Balance Sheet

Assets and Liabilities

A structural analysis of assets and liabilities for the six years to 2006 is shown in the following chart. The chart shows that since the retirement of debt following asset sales, the level of assets and liabilities has remained relatively unchanged.



* Balances prior to 2003 do not reflect SAFA's current accounting policy with respect to repurchase agreements.

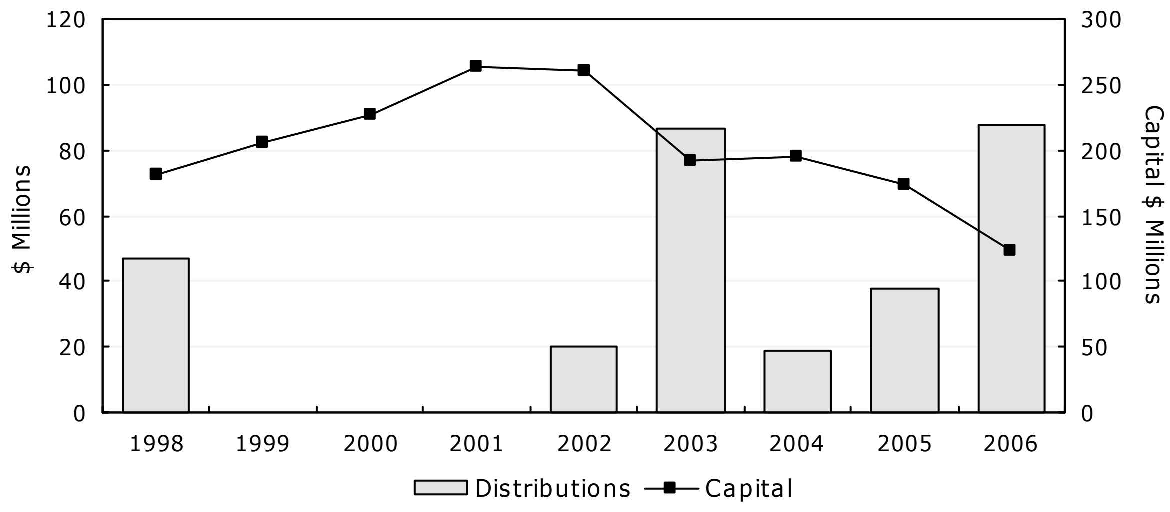
Capital and Distributions

SAFA has experienced a significant decrease in capital since 2000-01 reflecting a policy decision that excess capital be repaid to the State's Consolidated Account. At 30 June 2006, SAFA's capital reserves were represented solely by its Retained earnings, which stood at $123 million ($174 million).

As part of the preparation of the State Budget for 2001-02, the Treasurer requested that the level of SAFA's capital be reviewed. The outcome of that review was that decreases in capital were to occur with SAFA's capital base being reduced to $75 million progressively over a period of time. This decrease in the retained earnings was to bring SAFA more in line with the capital holdings of interstate central financing authorities.

A distribution of $87.5 million was made to the Treasurer from SAFA this financial year.

The following chart sets out the level of capital and distributions to Government since the 1997-98 financial year.



As indicated previously, given that a significant component of SAFA's operating profit is derived from the return on retained earnings/ capital, such a reduction would be expected to reduce the profitability of SAFA in the future, all things being equal.

Cash Flow Statement

The following table summarises the net cash flows for the four years to 2006.

	2006	2005	2004	2003
	$'million	$'million	$'million	$'million
Net Cash Flows				
Operations Activities	**92**	82	96	26
Investing Activities	**281**	(318)	(389)	(677)
Financing Activities	**(372)**	369	228	717
Change in Cash	**1**	133	(65)	66
Cash at 30 June	**203**	202	69	134

The analysis of cash flows shows that although SAFA's cash position has fluctuated over the four years, there has been a steady inflow of cash from operating activities.

FURTHER COMMENTARY ON OPERATIONS

The Common Public Sector Interest Rate (CPSIR)

A major proportion of funding provided by SAFA is to the Treasurer at a common interest rate referred to as the Common Public Sector Interest Rate (CPSIR). The CPSIR is the quarterly charge out rate reflecting SAFA's average costs of borrowings sourced from domestic and international financial markets plus a margin to cover administration expenses.

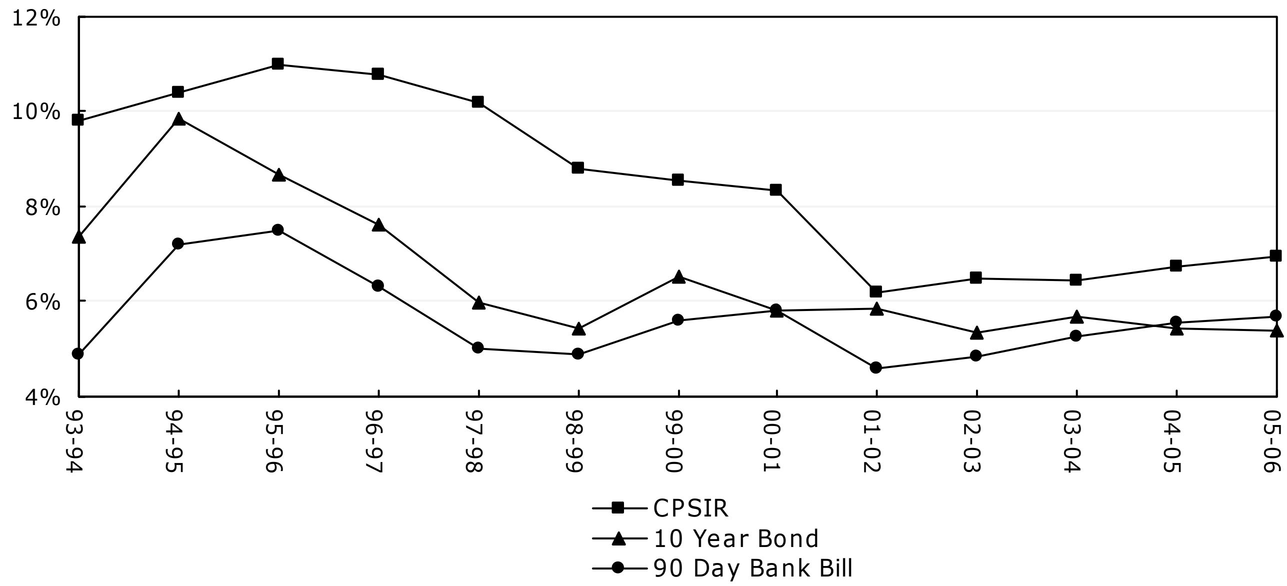
The CPSIR rate is calculated based on historical cost principles, and hence tends to be slow to react to changes in market rates as the 'CPSIR pool' consists of a large number of transactions at differing interest rates and maturities (ie changes to CPSIR should occur when transactions mature or are re-priced).

The average annual CPSIR for 2005-06 was approximately 6.96 percent (6.75 percent).

It is important to note that the objectives underlying the debt management policy of the Government, in effect, determine the CPSIR. SAFA manage debt in compliance with Government policy such that the cost of debt is minimised over the medium to long term.

While there is no direct benchmark against which to compare the CPSIR rate, the following chart indicates the movements in the average CPSIR against the 90 day bank bill rate and the 10 year Bond rate:

Interest Rate Comparison



Business Risk Management

Operational Risk Management

Although SAFA do not have in place a formal risk management plan, they do have a number of mechanisms which enable the authority to manage operational risks, including:

- an annual risk assessment performed by the internal auditors addressing changes to SAFA's operating environment and financial markets they transact with. This assessment is used to determine the scope of the internal audit program;
- the establishment of a policy manual which details parameters within which SAFA pursues its core objectives; including dealings with financial markets, reporting requirements and management of assets and liabilities;
- the compliance unit performing daily, weekly and monthly reviews to ensure compliance with policy requirements.

Market Risk

In order to manage SAFA's operations and associated risks, SAFA has split its operations into a number of portfolios. The portfolio structure includes two Treasurer's portfolios, managed and passive.

The main task of the managed portfolio (representing $207.5 million at 30 June 2006) is to minimise interest rate risk within the portfolio with respect to the policy benchmark approved by the Treasurer. The management of this portfolio involves the use of measurements including:

- Value at Risk (VaR) — VaR is a single number estimate of how much an entity could lose due to the price volatility of the assets and liabilities it holds or is contracted to hold.
- Duration/Modified Duration — Duration is a weighted average measure of the present value of a series of cash flows. Modified duration is a measure of the sensitivity of a portfolio of interest bearing securities to changes in interest rates.
- Basis Point Sensitivity (PVO1) — PVO1 is the change in market value through a change in interest rates by one basis point.

The passive portfolio ($2.99 billion at 30 June 2006) contains transactions such as indexed liabilities and loans, Commonwealth housing loans, 2015 zero coupon bonds and rolling loans and deposits. These deals are not included in the managed portfolio due to the nature of the transactions and inability to readily manage these to the Treasurer's benchmarks.

Net expenses in the Treasurer's portfolios are passed through to the Treasurer with a margin attached. The result of this is that SAFA has no interest rate risk in regards to the Treasurer's portfolios.

In addition to the Treasurer's portfolio, a number of principal portfolios are maintained including:

- Domestic
- Offshore
- Adelaide Darwin Railway
- Reinvestment Portfolio
- Capital
- Foreign Exchange Hedging Service Portfolio
- Cash Management Fund
- Cash Enhanced Fund.

These portfolios (holding assets of $4.8 billion at 30 June 2006) are used for the purpose of monitoring and managing investment and hedging services provided by SAFA to public sector agencies. Any profits or losses from the other principal portfolios are recorded in SAFA's Income Statement.

Income Statement
for the year ended 30 June 2006

	Note	**2006** **$'million**	2005 $'million
Interest Income	20	**614.4**	923.4
Less: Interest Expense	20	**589.3**	899.8
Net Interest Income		**25.1**	23.6
Dividends	21	**0.3**	0.3
Debt redemption assistance from Commonwealth	22	**30.0**	3.8
Other non-interest income	22	**3.1**	2.3
Less: Non-interest expenses	23	**6.7**	7.3
OPERATING PROFIT BEFORE INCOME TAX		**51.8**	22.7
Income Tax Equivalent Expense		**15.4**	6.7
NET PROFIT AFTER INCOME TAX		**36.4**	16.0
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH SA GOVERNMENT AS OWNER		**36.4**	16.0

Balance Sheet
as at 30 June 2006

	Note	**2006** **$'million**	2005 $'million
ASSETS:			
Cash and short-term assets	4	**1 483**	1 758
Investments	5	**1 087**	1 207
Loans to the SA Government	6	**2 715**	2 846
Loans to semi-government authorities	7	**1 481**	1 492
Loans to public sector financial institutions	8	**1 188**	1 036
Derivatives - Receivable from SA Government	9	**9**	12
Derivatives - Receivable	10	**53**	110
Other assets	11	**-**	1
Total Assets		**8 016**	8 462
LIABILITIES:			
Deposits from SA Government	12	**2 169**	1 832
Deposits and short-term borrowings	13	**937**	875
Bonds, notes and debentures	14	**4 161**	4 871
Obligations to Commonwealth Government	15	**567**	646
Derivatives - Payable to SA Government	16	**2**	2
Derivatives - Payable	17	**33**	37
Other liabilities	18	**24**	25
Total Liabilities		**7 893**	8 288
NET ASSETS		**123**	174
EQUITY:			
Retained earnings		**123**	174
TOTAL EQUITY		**123**	174
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Contingent Assets and Liabilities	19		

Statement of Changes in Equity
for the year ended 30 June 2006

	Retained Earnings $'million	Total $'million
Balance at 30 June 2004	195.4	195.4
Profit after income tax equivalent for 2004-05	16.0	16.0
Total recognised income and expense for 2004-05	16.0	16.0
Dividend as determined by Treasurer of South Australia	(37.6)	(37.6)
Balance at 30 June 2005	173.8	173.8
Profit after income tax equivalent for 2005-06	36.4	36.4
Total recognised income and expense for 2005-06	36.4	36.4
Distribution as determined by Treasurer of South Australia	(87.5)	(87.5)
Balance at 30 June 2006	**122.7**	**122.7**

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

	Note	**2006 Inflows (Outflows) $'million**	2005 Inflows (Outflows) $'million
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received on loans to clients		**345**	348
Interest received on investments		**217**	265
Dividend received		**-**	-
Other income		**29**	(3)
GST received		**-**	1
Interest paid on borrowings		**(517)**	(506)
Administration fees paid		**(7)**	(6)
Net Interest received (paid) on derivatives		**40**	(10)
Income tax equivalent paid		**(15)**	(7)
Net Cash provided by Operating Activities	24(b)	**92**	82
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net proceeds from payments for loans to clients		**(177)**	88
Purchase of investments		**(25 199)**	(21 835)
Proceeds from investments		**25 657**	21 429
Net Cash provided by (used in) Investing Activities		**281**	(318)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of obligations to Commonwealth Government		**(43)**	(13)
Repayment of borrowings		**(241)**	420
Dividend as determined by Treasurer of SA Government		**(37)**	(38)
Repayment to SA Government		**(51)**	-
Net Cash (used in) provided by Financing Activities		**(372)**	369
NET INCREASE IN CASH HELD		**1**	133
CASH AT 1 JULY		**202**	69
EFFECT OF EXCHANGE RATE CHANGES		**-**	-
CASH AT 30 JUNE	24(a)	**203**	202

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives

In the Financial Report the South Australian Government Financing Authority is referred to as 'SAFA'. The registered address of SAFA is Level 5, State Administration Centre, 200 Victoria Square East, Adelaide, South Australia, 5000. SAFA is a statutory authority constituted as the Under Treasurer under the *Government Financing Authority Act 1982*. SAFA's functions are:

- to develop and implement borrowing and investment programs for the benefit of semi-government authorities; and
- to engage in such other financial activities as are determined by the Treasurer of South Australia to be in the interest of the State.

2. Segment Information

SAFA acts predominantly in the finance industry and lends funds and provides financial advice to the South Australian Government, Semi-Government Authorities, South Australian Public Sector Financial Institutions and Government agencies.

3. Summary of Significant Accounting Policies

(a) Basis of Accounting

The Financial Report for SAFA does not include SAFA consolidated with its controlled entities. The inclusion of these entities would not have a material impact on the figures presented. Note 29 include details of the entities.

The Financial Report has been prepared as a general purpose financial report and complies with the requirements of the Australian Accounting Standards (Accounting Standards) and the requirements of the Treasurer's Instructions relating to financial reporting by statutory authorities which are issued pursuant to the South Australian *Public Finance and Audit Act 1987* (PFAA).

These financial statements are the first published statements to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards* has been applied in preparing these statements. Previous financial statements were prepared in accordance with Australian Generally Accepted Accounting Principles. SAFA has elected to adopt early the requirements of AASB 7 *Financial Instrument Disclosures*.

(b) Statutory Guarantee

Under Section 15 of the *Government Financing Authority Act 1982*, all financial obligations incurred or assumed by SAFA are guaranteed by the Treasurer on behalf of the State of South Australia.

(c) Market Value Accounting

SAFA designates at initial recognition to account for all financial transactions at fair value through profit and loss. SAFA believes that this better reflects how SAFA manages its assets and liabilities and provides a better basis for making decisions and evaluating performance. Financial assets and liabilities (including derivatives) are recorded at fair value in the Balance Sheet. All financial instruments are revalued to reflect market movements with gains and losses, whether realised or unrealised, being recognised immediately in the Income Statement (Note 20, Interest Income and Expense). Financial instruments are revalued daily either at their quoted market price or their cash flows are discounted against the relevant yield curve.

(d) Foreign Currency Translation

Foreign currency assets and liabilities are brought into the Financial Report at the exchange rate applying at 30 June 2006. Revenue and expense items are translated at the exchange rate current at the date at which those items were recognised in the Financial Report. Revaluation of foreign currency assets and liabilities are recognised as unrealised gains or losses and are brought to account in the Income Statement.

Forward foreign exchange contracts are translated at the exchange rate applying at 30 June 2006. Resulting exchange differences are recognised in the Income Statement.

(e) Interest Recognition

Interest income and expense is accrued in accordance with the terms and conditions of the underlying financial instrument and premiums and discounts are amortised over the life of the associated borrowings.

Net realised gains/losses and unrealised gains/losses are included in interest income and expense in the Income Statement, but are separately identified in Note 20.

(f) Non-Interest Revenue Recognition

Fee income in respect of services provided is recognised in the period in which the service is provided.

Income from the Commonwealth Government is provided under the terms and conditions of the *Financial Agreement Act 1994* as compensation for refinancing of previous borrowings undertaken by the Commonwealth Government. The revenue is recognised on an accrual basis in the period to which it relates.

(g) Common Public Sector Interest Rate (CPSIR) Loan

The CPSIR loan to the Treasurer is funded through a range of financial assets and liabilities within the Treasurer's Portfolio (refer Note 27). Any gains or losses, whether realised or unrealised, on the assets and liabilities in the Treasurer's Portfolio that fund the CPSIR loan are equally offset by a loss or gain on the CPSIR loan to the Treasurer of South Australia.

(h) Employee Benefits

SAFA does not employ any direct staff, but is provided with staff resources by the Department of Treasury and Finance (Treasury) through a Service Level Agreement (SLA). The responsibility to provide for employer contributions to superannuation benefits rests with Treasury and for this reason SAFA is not required to establish a provision. Long service leave liabilities are met by Treasury as they fall due.

(i) Taxation

Accounting Profits Model

SAFA and its controlled entities came under a Tax Equivalent Regime (TER) as from 1 July 1995 and are taxed at 30 percent using the Accounting Profits Tax Model. SAFA receives a credit against its TER liability for any income tax paid directly or by its controlled entities in Australia or in other jurisdictions.

South Australian Finance Trust Limited (SAFTL), which previously came under the Commonwealth income tax jurisdiction, commenced under the TER as from 1 July 1995 and is assessed under a Substantive Tax Model which adopts as its basis the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997.*

Goods and Services Tax

SAFA is grouped with Department of Treasury and Finance, for Goods and Services Tax (GST) purposes.

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

- where the GST is not recoverable, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- 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 receivable or payables.

Fringe Benefits Tax

SAFA does not directly employ any staff. All Fringe Benefits Tax liability is incurred by Treasury.

(j) Cash and Short Term Assets

Primarily, Short Term Money Market Deposits and Negotiable Discount Securities, are held for liquidity and investment purposes.

(k) Investments

Investments are assets originating outside the South Australian public sector, which are purchased as part of SAFA's cash management products, for liquidity and interest rate risk management and may be sold prior to maturity in response to various factors including changes in interest rates and funding requirements of the South Australian public sector. SAFA does not hold investments for trading purposes.

(l) Impairment of Loans and Advances

Loans and advances are recognised at fair value after assessing required provisions for impairment. The Treasurer of South Australia guarantees all loans and advances to South Australian public sector entities. The loan portfolio is reviewed regularly and an impairment of a loan would be recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the relevant agreement. There are no impaired loans as at 30 June 2006.

(m) Repurchase Agreements

Securities sold under an agreement to repurchase remain as an investment whilst the obligation to repurchase is recorded as a liability in Deposits and Short Term Borrowings (refer Note 13).

(n) Bonds, Notes and Debentures and Other Borrowings

Funds are raised through various instruments including bonds, notes and debentures. All borrowings are raised on an unsecured basis.

(o) Derivative Instruments

SAFA utilises derivative instruments in fundraising, debt management and client activities. They are used to convert funding costs, facilitate diversification of funding sources, reconfigure interest rate risk profiles and manage foreign currency exposures. Interest receipts and interest payments are accrued on a gross basis and classified as Interest Income and Interest Expense in the Income Statement.

(p) Other Assets and Liabilities
Other assets, including debtors, fee accruals, and other liabilities, including interest paid in advance, creditors, expense accruals and provisions, are all stated at cost.

(q) Maturity of Assets and Liabilities
The maturity classification of the assets and liabilities is determined by the length of time from the date of the Financial Report, 30 June 2006, to the contractual repayment date of the individual assets and liabilities. The amounts shown represent the face value of the financial assets and liabilities as at 30 June 2006 (refer Note 27).

(r) Average Balances
The average balances presented in Note 20 refer to average month end balances and reflect the face value of the assets and liabilities. The average rate equals interest divided by the average balance of interest bearing assets and liabilities.

(s) Comparatives
The comparative amounts provided for the previous year have been reclassified to facilitate comparison with changes in presentation in the current year.

There has been no significant changes arising from the transition to AIFRS requiring restatement of the June 2005 comparatives.

(t) Transactions with SA Government
In accordance with Accounting Policy Framework the financial report's body and Notes to the accounts disclose any transactions with an entity within the SA Government as at the reporting date, classified according to their nature.

(u) Rounding
Unless otherwise indicated, all amounts have been rounded to the nearest million Australian dollars.

4. Cash and Short-Term Assets	**2006 $'million**	2005 $'million
Cash at bank	**3.4**	2.5
Short-term money market deposits	**200.5**	199.6
Negotiable discount securities	**1 279.1**	1 555.9
	1 483.0	1 758.0

5. Investments		
Semi-government securities	**181.2**	276.0
Commonwealth Government securities	**138.5**	151.1
Local government securities	**22.2**	26.4
Indexed securities	**65.9**	65.1
Bank and corporate securities	**678.7**	688.4
	1 086.5	1 207.0

6. Loans to the SA Government		
Loans to SA Government at CPSIR	**2 653.1**	2 762.5
Loans to SA Government at market	**61.6**	83.6
	2 714.7	2 846.1

The Common Public Sector Interest Rate (CPSIR) is the charging mechanism through which the Government allocates the net interest cost paid on debt owing to the external financial market within the South Australian public sector. The CPSIR is the rate charged on the majority of the South Australian Government's debt with SAFA. The CPSIR is set by the Treasurer on a quarterly basis and interest is payable by public sector entities to the Treasurer and by the Treasurer to SAFA. CPSIR is set so as to recover the net interest expense of the assets and liabilities funding the CPSIR loan plus a margin to facilitate recovery of administration costs.

Realised gains and losses resulting from debt management activities on behalf of the Treasurer in the Treasurer's Portfolio (refer Note 27) are passed on to the Treasurer as an adjustment to the CPSIR loan balance. The fair value of the CPSIR loan is considered to be the fair value of the net Australian dollar assets and liabilities funding the CPSIR loan.

7. Loans to Semi-Government Authorities	**2006 $'million**	2005 $'million
Forestry SA	**10.0**	4.9
Austraining International	**-**	0.4
Fleet SA	**220.9**	199.3
West Beach Trust	**2.3**	0.4
Minister for Primary Industries	**4.5**	5.7
Land Management Corporation	**56.7**	76.8
South Australian Water Corporation	**1 186.2**	1 204.4
	1 480.6	1 491.9

		2006	2005
8.	**Loans to Public Sector Financial Institutions**	**$'million**	$'million
	Local Government Finance Authority	**4.5**	8.2
	HomeStart Finance	**1 062.1**	903.2
	South Australian Community Housing Authority	**121.6**	124.5
		1 188.2	1 035.9
9.	**Derivatives - Receivable from SA Government**		
	Interest rate swaps - SA Government entities	**9.1**	12.4
		9.1	12.4
10.	**Derivatives - Receivable**		
	Forward rate agreements	**-**	0.1
	Interest rate swaps	**53.0**	109.5
		53.0	109.6
11.	**Other Assets**		
	Sundry debtors	**0.1**	(0.5)
	Sundry debtors - SA Government entities	**0.2**	1.0
		0.3	0.5
12.	**Deposits from SA Government**		
	Deposits from the Treasurer of South Australia	**1 551.5**	1 307.1
	Deposits from SA Government entities	**617.4**	524.9
		2 168.9	1 832.0
13.	**Deposits and Short-term Borrowings**		
	Deposits	**141.2**	196.7
	Repurchase agreements	**300.1**	267.6
	Commercial paper	**495.5**	410.4
		936.8	874.7
14.	**Bonds, Notes and Debentures**		
	Select line	**3 519.8**	3997.8
	Inflation linked bonds and annuities	**314.6**	332.9
	Retail and immigration bonds	**124.7**	141.4
	Zero coupon	**201.6**	398.9
		4 160.7	4 871.0
15.	**Obligations to Commonwealth Government**		
	Obligations to Commonwealth Government	**566.5**	646.0
		566.5	646.0
16.	**Derivatives - Payable to SA Government**		
	Interest rate swaps - SA Government entities	**2.1**	2.1
		2.1	2.1
17.	**Derivatives - Payable**		
	Interest rate swaps	**33.4**	37.1
		33.4	37.1
18.	**Other Liabilities**		
	Interest received in advance - SA Government entities	**23.3**	23.3
	Sundry creditors	**1.1**	1.3
		24.4	24.6

19. Contingent Assets and Liabilities

Contingent Assets

Under section 15 of the *Government Financing Authority Act 1982*, all financial obligations incurred or assumed by SAFA are guaranteed by the Treasurer on behalf of the State of South Australia.

Contingent Liabilities

General

SAFA has provided an indemnity to SAFTL for the aggregate borrowing costs and expenses properly incurred in the normal course of business, where it is shown that income of SAFTL is insufficient. SAFTL has been dormant since 2003 and it is expected to be wound up in 2006-07 following the wind up of SABT Pty Limited, for which a member's voluntary liquidation commenced on 28 June 2006.

Other indemnities provided by SAFA have been primarily provided to third parties involved, either directly or indirectly, in financing arrangements with SAFA, other statutory authorities and financial institutions of the State, and relate to financial advantages which are expected to be available to those parties or to preserve existing financial advantages. No indemnities have been given for income tax aspects of any financing arrangement undertaken since July 1988.

Guarantees
SAFA has guaranteed as at 30 June 2006:

- The South Australian Housing Trust's performance under certain letters of credit. These guarantees totalled $0.8 million.
- Land Management Corporation for the Port Waterfront Redevelopment. This guarantee totalled $5 million.

Unused Loan Facilities
As at 30 June 2006, SAFA had extended loan facilities that were unutilised totalling $351.2 million.

20. Interest Income and Expense

2006

	Interest $'million	Net Unrealised Gains (Losses) $'million	Net Realised Gains (Losses) $'million	**Total $'million**	Average Balance $'million	Average Rate Percent
Income:						
Cash and short-term assets	90.0	(0.2)	-	**89.8**	1 681	5.35
Investments	69.6	(19.4)	(0.7)	**49.5**	1 113	6.25
Loans to SA Government	185.9	(91.5)	7.5	**101.9**	2 672	6.96
Loans to semi-government authorities	86.3	(20.1)	0.1	**66.3**	1 455	5.93
Loans to public sector financial institutions	63.3	(2.8)	-	**60.5**	1 119	5.66
Derivatives - Receivable from SA Government	25.2	(3.2)	0.2	**22.2**	-	N/A
Derivatives - Receivable	248.7	(22.2)	2.3	**224.2**	-	N/A
	769.0	(159.4)	4.8	**614.4**	8 040	6.16
Expense:						
Deposits from SA Government	(109.0)	11.9	(4.3)	**(101.4)**	(2 015)	5.41
Deposits and short-term borrowings	(62.3)	4.5	-	**(57.8)**	(1 102)	5.65
Bonds, notes and debentures	(267.9)	112.2	(4.8)	**(160.5)**	(4 314)	6.21
Obligations to Commonwealth Government	(31.5)	35.4	-	**3.9**	(691)	4.56
Derivatives - Payable to SA Government	(22.7)	-	-	**(22.7)**	-	N/A
Derivatives - Payable	(250.8)	-	-	**(250.8)**	-	N/A
	(744.2)	164.0	(9.1)	**(589.3)**	(8 122)	5.80
NET	24.8	4.6	(4.3)	**25.1**		

2005

	Interest $'million	Net Unrealised Gains (Losses) $'million	Net Realised Gains (Losses) $'million	Total $'million	Average Balance $'million	Average Rate Percent
Income:						
Cash and short-term assets	82.5	-	-	82.5	1 582	5.22
Investments	72.9	10.3	5.4	88.6	1 191	6.11
Loans to SA Government	207.5	51.3	0.1	258.9	3 023	6.86
Loans to semi-government authorities	84.2	7.3	1.0	92.5	1 408	5.98
Loans to public sector financial institutions	52.3	2.7	-	55.0	929	5.63
Derivatives - Receivable from SA Government	25.4	(0.8)	-	24.6	-	N/A
Derivatives - Receivable	304.0	26.1	(8.8)	321.3	-	N/A
	828.8	96.9	(2.3)	923.4	8 133	6.14
Expense:						
Deposits from SA Government	(116.0)	(3.8)	-	(119.8)	(2 209)	5.25
Deposits and short-term borrowings	(54.4)	3.2	(0.2)	(51.4)	(953)	5.73
Bonds, notes and debentures	(270.3)	(37.6)	(4.0)	(311.9)	(4 326)	6.25
Obligations to Commonwealth Government	(33.8)	(52.0)	-	(85.8)	(722)	4.68
Derivatives - Payable to SA Government	(23.1)	-	-	(23.1)	-	N/A
Derivatives - Payable	(307.8)	-	-	(307.8)	-	N/A
	(805.4)	(90.2)	(4.2)	(899.8)	(8 210)	5.78
NET	23.4	6.7	(6.5)	23.6		

The average balance has been calculated on a monthly basis and reflects the face value of the assets and liabilities. The average interest rate equals interest income/expense divided by the average balance of interest bearing assets and liabilities. It excludes the realised and unrealised gains (losses).

21. Dividends

	2006 $'million	2005 $'million
Dividends from South Australian Finance Trust (HK)	**0.3**	0.3
	0.3	0.3

22. Other Non-Interest Income

	2006 $'million	2005 $'million
Debt redemption assistance from Commonwealth Government	**30.0**	3.8
Fees - SA Government entities	**1.9**	1.6
Foreign currency translation movement(1)	**-**	(0.1)
GST Recovery(2)	**1.1**	-
Other	**0.1**	0.8
	33.1	6.1

(1) Reflects the translation of foreign currency retained surpluses.
(2) Represents a refund of GST relating to the prior years of 2000 to 2004.

23. Non-Interest Expenses

	2006 $'million	2005 $'million
Service Level Agreement with SA Government entities	**5.8**	5.5
Program and debt management fees	**0.8**	0.9
Other	**0.1**	0.9
	6.7	7.3

The Service Level Agreement is between SAFA and Treasury. Treasury provides services to SAFA in order to enable SAFA to undertake its business activities in a manner so that SAFA may achieve its key outcomes. Treasury provides SAFA with appropriately trained and skilled staff together with necessary infrastructure support including internal audit. The majority of the fee relates to staffing, accommodation, internal audit and network systems.

Program and debt management fees include the costs of raising funds in the financial markets, futures brokerage, registry, bank and credit rating fees.

24. Cash Flow Information

(a) Reconciliation of Cash

	2006 $'million	2005 $'million
Includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts	**203.3**	202.1

(b) Reconciliation of Net Cash provided by Operating Activities to Operating Profit after Income Tax Equivalents

	2006 $'million	2005 $'million
Operating profit after income tax equivalent	**36.4**	16.0
Add: Non-cash items:		
Net unrealised (gain) loss on market revaluations	**6.0**	0.2
Amortisations	**48.8**	39.6
Changes in assets and liabilities:		
(Increase) Decrease in accrued interest income	**13.2**	38.9
Increase (Decrease) in accrued interest expense	**(12.0)**	(14.1)
(Increase) Decrease in debtors	**0.1**	(0.2)
Increase (Decrease) in creditors	**(0.1)**	1.8
FX movement	**-**	0.1
Net Cash provided by Operating Activities	**92.4**	82.3

(c) Non-Cash Financing and Investing Activities

During 2005-06, $7.4 million was adjusted against the Treasurer's debt for book losses arising from debt management activity.

25. Fiduciary Activities

SAFA provides asset and liability management services to clients and these financial assets and liabilities do not reside on SAFA's Balance Sheet. SAFA manages these assets and liabilities within prescribed risk limits as directed or agreed by the clients. SAFA is responsible for providing regular financial and management information with respect to its management of the clients' assets and liabilities. As at 30 June 2006, assets under management totalled $Nil ($22.2 million) and liabilities totalled $1 133.7 million ($1 155.3 million).

SAFA provides a range of pooled investment portfolios to its clients that reflect their investment needs. The Cash Management Fund comprises cash and short term money market securities whilst the Cash Enhanced Fund is a market value fund that comprises term investments of high credit quality and marketability. Total market value of these portfolios as at 30 June 2006 was $574.4 million ($533.4 million). The assets and liabilities of these portfolios are reported within SAFA's Balance Sheet.

26. Auditor's Remuneration

	2006 $'000	2005 $'000
Remuneration paid to Auditor-General's Department	**102**	111

27. Financial Risk Management

SAFA's core functions are fundraising, asset and liability management and the provision of financial risk management and advisory services to its public sector clients. SAFA aims to undertake its functions in a manner that protects the interest of its owner and clients.

To assist in the management of SAFA's operations and its associated risks, SAFA's business activities have been separated into portfolios. SAFA's portfolio structure consists of a number of Principal Portfolios and two portfolios comprising the Treasurer's Portfolio. Any profit and loss resulting from the operations of Principal Portfolios is for SAFA's account whilst net interest expenses and market revaluations in the Treasurer's Portfolio are for the account of the Treasurer. The Treasurer's Portfolio comprises assets and liabilities that together compose the CPSIR loan to the Treasurer. Effectively, the CPSIR loan mirrors the other assets and liabilities in that portfolio.

The Principal Portfolios are managed within strict risk limits to minimise exposure to SAFA. The Treasurer's Portfolio is managed within duration limits and value at risk limits with all the risk being borne by the Treasurer

Interest Rate Risk

SAFA uses a variety of methods to measure interest rate risk, including basis point sensitivity, duration/modified duration, and Value-at-Risk (VaR). The Under Treasurer and Treasurer approve the interest rate risk limits for SAFA's portfolios. Limits on interest rate risk for portfolios managed on behalf of clients are set in consultation with the clients.

SAFA uses interest rate futures contracts, interest rate swaps, interest rate options and forward rate agreements to manage interest rate risk. The use of interest rate derivatives enables the management of the volatility of the portfolio of debt and assets without requiring transactions in physical securities.

(i) Interest Rate Futures Contracts

A futures contract is an obligation to buy or sell an underlying commodity or financial instrument of a standardised amount and quantity at a specified future date with the price being set by an open auction system at the time when the contract is made.

The futures contracts principally transacted by SAFA are 90-day bank bill futures contracts and 3-year and 10-year bond futures contracts traded on the Sydney Futures Exchange.

SAFA utilises futures contracts to manage interest rate exposures on a specific transaction or portfolio of transactions.

As at 30 June 2006, open interest rate futures positions represented a total notional principal of $247 million ($645 million).

The mark-to-market movement in futures contracts is taken to the Income Statement, except where it was undertaken as part of the Treasurer's Portfolios, and is passed onto the Treasurer as an adjustment to his debt level.

(ii) Interest Rate Swaps

An interest rate swap is a financial contract between two parties agreeing to exchange interest obligations over a fixed term on fixed dates. Interest amounts are calculated on a notional principal.

SAFA utilises interest rate swaps to manage interest rate exposures on a specific transaction or portfolio of transactions.

Contracts principally involve the payment or receipt of interest payments on a monthly, quarterly or semi-annual basis. As at 30 June 2006, the notional value of interest rate swaps totalled $5 318 million ($5 274 million).

(iii) Swaptions/Interest Rate Options

An interest rate option is a contract between two parties where one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to receive a payment equal to the amount by which an interest rate differs to a specific strike rate. As at 30 June 2006, there were no outstanding exchange traded interest rate option contracts.

(iv) Forward Rate Agreements (FRAs)

A forward rate agreement is a contractual agreement between two parties to lock in a preset interest rate on an agreed notional principal for a given period of time commencing at a specific future date.

SAFA utilises forward rate agreements to manage interest rate exposures on a specific transaction or portfolio of transactions. The notional value of forward rate agreements as at 30 June 2006 was $nil ($150 million).

The settled amount for FRAs is recognised immediately in the Income Statement, except where it was undertaken as part of the Treasurer's Portfolios, and is passed onto the Treasurer as an adjustment to his debt level.

(v) *Sensitivity Analysis*

SAFA manages the sensitivity of its portfolios for changes in market risk variables by calculating Value at Risk (VaR) daily and monitoring the calculated VaR against pre determined exposure limits. VaR is the calculation of the potential loss due to rate movements for any one day.

SAFA calculates VaR using the Historical Simulation method and a two year rate horizon. The daily VaR is assessed at the 95 percent confidence level. VaR for the Domestic Portfolio is managed daily against an approved working limit of $500 000.

As at 30 June 2006 the computed VaR on SAFA's principal portfolios were:

- Domestic Portfolio $208 000
- Reinvestment Portfolio $157
- Cash Management Fund $9 100
- Cash Enhanced Fund $2 076

Should future rates vary from those used in the historic rate horizon, profit/losses will vary from the expected results calculated under VaR.

All risk on the Treasurer's portfolios is borne directly by the Treasurer.

(vi) *Market Value Movements Attributable to changes in Credit Risk*

The majority of SAFA's lending (over 75 percent) is to agencies and corporations of the South Australian Government. Consequently, SAFA's profit does not reflect any component that relates to credit movement for this part of its business. The profit or loss resulting from credit movements for the remainder have been examined and are immaterial.

(vii) *Interest Rate Risk Exposures*

SAFA's exposure to interest rate risk, repricing maturities and effective interest rates on financial instruments as at 30 June 2006 consolidated into Australian dollars is detailed below. The market value of the assets and liabilities have been used as have the respective historic yield.

	Weighted Average Effective Interest Rate Percent	Repricing Period as at 30 June 2006 0 to 3 months $'million	3 to 12 months $'million	1 to 2 years $'million	2 to 3 years $'million
Assets:					
Cash and short-term assets	5.83	1 421.0	62.0	-	-
Investments	5.93	575.5	6.5	6.8	67.0
Loans to SA Government	6.55	2 653.1	1.5	1.4	0.2
Loans to semi-government authorities	5.87	458.0	194.7	232.2	232.5
Loans to public sector financial institutions	5.88	1 074.4	15.8	18.1	16.0
Total Assets		6 182.2	280.5	258.5	315.7
Liabilities:					
Deposit from SA Government	5.83	2 105.2	63.6	-	-
Deposits and short-term borrowings	6.05	887.0	49.8	-	-
Bonds, notes and debentures	6.23	42.8	27.6	1 430.7	27.8
Obligations to Commonwealth Government	4.60	-	-	-	-
Total Liabilities		3 035.0	141.0	1 430.7	27.8
NET		3 147.2	139.5	(1 172.2)	287.9
Off-Balance Sheet:					
Interest Rate Swaps - SA Government	0.48	(184.7)	68.5	4.9	43.5
Interest Rate Swaps	0.27	(1 750.0)	(308.9)	887.7	(82.5)

	Weighted Average Effective Interest Rate Percent	Repricing Period as at 30 June 2006 3 to 4 years $'million	4 to 5 years $'million	Over 5 years $'million	**2006 Total $'million**
Assets:					
Cash and short-term assets	5.83	-	-	-	**1 483.0**
Investments	5.93	21.6	111.7	297.2	**1 086.5**
Loans to SA Government	6.55	5.7	0.8	52.0	**2 714.7**
Loans to semi-government authorities	5.87	50.8	90.0	222.4	**1 480.6**
Loans to public sector financial institutions	5.88	25.0	10.0	28.9	**1 188.2**
Total Assets		103.1	212.5	600.5	**7 953.0**

(vii) Interest Rate Risk Exposures (continued)

Liabilities:	Weighted Average Effective Interest Rate Percent	Repricing Period as at 30 June 2006 3 to 4 years $'million	4 to 5 years $'million	Over 5 years $'million	**2006 Total $'million**
Deposit from SA Government	5.83	-	-	-	**2 168.8**
Deposits and short-term borrowings	6.05	-	-	-	**936.8**
Bonds, notes and debentures	6.23	1 293.7	745.3	592.8	**4 160.7**
Obligations to Commonwealth Government	4.60	-	-	566.5	**566.5**
Total Liabilities		1 293.7	745.3	1 159.3	**7 832.8**
NET		(1 190.6)	(532.8)	(558.8)	**120.2**
Off-Balance Sheet:					
Interest Rate Swaps - SA Government	0.48	29.1	(7.3)	53.0	**7.0**
Interest Rate Swaps	0.27	938.2	704.1	(369.0)	**19.6**

Assets:	Weighted Average Effective Interest Rate Percent	Repricing Period as at 30 June 2005 0 to 3 months $'million	3 to 12 months $'million	1 to 2 years $'million	2 to 3 years $'million
Cash and short-term assets	5.65	1 609.9	148.1	-	-
Investments	5.70	475.7	37.1	30.5	47.5
Loans to SA Government	7.06	2 762.5	15.8	2.5	2.3
Loans to semi-government authorities	5.90	402.9	196.4	275.1	202.3
Loans to public sector financial institutions	5.71	919.7	2.8	11.9	18.9
Total Assets		6 170.7	400.2	320.0	271.0
Liabilities:					
Deposit from SA Government	5.69	1 674.8	157.2	-	-
Deposits and short-term borrowings	6.15	718.7	108.5	47.5	-
Bonds, notes and debentures	6.50	886.9	227.9	21.3	1 417.6
Obligations to Commonwealth Government	4.67	29.8	-	-	-
Total Liabilities		3 310.2	493.6	68.8	1 417.6
NET		2 860.5	(93.4)	251.2	(1 146.6)
Off-Balance Sheet:					
Interest Rate Swaps - SA Government	0.66	(212.3)	19.2	91.5	25.1
Interest Rate Swaps	0.29	(1 332.6)	(73.0)	(271.9)	908.0

Assets:	Weighted Average Effective Interest Rate Percent	Repricing Period as at 30 June 2005 3 to 4 years $'million	4 to 5 years $'million	Over 5 years $'million	2005 Total $'million
Cash and short-term assets	5.65	-	-	-	1 758.0
Investments	5.70	125.8	77.5	412.9	1 207.0
Loans to SA Government	7.06	0.2	6.7	56.1	2 846.1
Loans to semi-government authorities	5.90	105.1	52.2	257.9	1 491.9
Loans to public sector financial institutions	5.71	16.5	25.9	40.2	1 035.9
Total Assets		247.6	162.3	767.1	8 338.9
Liabilities:					
Deposit from SA Government	5.69	-	-	-	1 832.0
Deposits and short-term borrowings	6.15	-	-	-	874.7
Bonds, notes and debentures	6.50	20.4	1 060.8	1 236.1	4 871.0
Obligations to Commonwealth Government	4.67	-	-	616.2	646.0
Total Liabilities		20.4	1 060.8	1 852.3	8 223.7
NET		227.2	(898.5)	(1085.2)	115.2
Off-Balance Sheet:					
Interest Rate Swaps - SA Government	0.66	21.1	30.5	35.3	10.4
Interest Rate Swaps	0.29	(2.3)	725.5	118.7	72.4

(viii) Maturity Analysis of Financial Instruments

The maturity analysis has been calculated based on the repayment of the principal (face value).

	Maturity Period as at 30 June 2006			
	0 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years
Assets:	$'million	$'million	$'million	$'million
Cash and short term assets	1 429.5	63.5	-	-
Investments	9.7	74.3	103.1	138.3
Loans to SA Government	0.7	2.7	2.9	2.7
Loans to semi-government authorities	154.1	240.4	335.6	215.3
Loans to public sector financial institutions	70.8	14.4	354.3	15.9
Total	1 664.8	395.3	795.9	372.2
Liabilities:				
Deposits from SA Government	2 062.2	62.2	-	-
Deposits and short term borrowings	890.4	52.3	-	-
Bonds, notes and debentures	44.8	35.6	1 397.3	39.7
Obligations to Commonwealth Government	-	0.5	30.3	16.5
Total	3 003.4	150.6	1 427.6	56.2
NET	(1 338.6)	244.7	(631.7)	316.0

	Maturity Period as at 30 June 2006			
	3 to 4 years	4 to 5 years	Over 5 years	**2006 Total**
Assets:	$'million	$'million	$'million	**$'million**
Cash and short term assets	-	-	-	**1 493.0**
Investments	289.1	139.6	310.0	**1 064.1**
Loans to SA Government	3.3	1.7	2 625.9	**2 639.9**
Loans to semi-government authorities	155.3	134.7	237.9	**1 473.3**
Loans to public sector financial institutions	419.1	279.0	28.6	**1 182.1**
Total	866.8	555.0	3 202.4	**7 852.4**
Liabilities:				
Deposits from SA Government	-	-	-	**2 130.4**
Deposits and short term borrowings	-	-	-	**942.7**
Bonds, notes and debentures	1 288.2	772.7	588.3	**4 166.6**
Obligations to Commonwealth Government	17.3	18.1	592.5	**675.2**
Total	1 305.5	790.8	1 180.8	**7 914.9**
NET	(438.7)	(235.8)	2 021.6	**(62.5)**

	Maturity Period as at 30 June 2005			
	0 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years
Assets:	$'million	$'million	$'million	$'million
Cash and short term assets	1 617.4	151.5	-	-
Investments	22.3	44.9	113.4	135.4
Loans to SA Government	0.6	18.2	4.4	3.8
Loans to semi-government authorities	242.0	205.4	304.8	279.3
Loans to public sector financial institutions	127.4	45.7	32.0	354.2
Total	2 009.7	465.7	454.6	772.7
Liabilities:				
Deposits from SA Government	-	-	-	-
Deposits and short term borrowings	2 361.6	260.8	52.4	-
Bonds, notes and debentures	932.8	212.8	32.3	1 329.1
Obligations to Commonwealth Government	28.9	14.4	0.5	30.3
Total	3 323.3	488.0	85.2	1 359.4
NET	(1 313.6)	(22.3)	369.4	(568.7)

	Maturity Period as at 30 June 2005			
	3 to 4 years	4 to 5 years	Over 5 years	2005 Total
Assets:	$'million	$'million	$'million	$'million
Cash and short term assets	-	-	-	1 768.9
Investments	95.1	347.9	403.5	1 162.5
Loans to SA Government	3.6	4.3	2 640.1	2 675.0
Loans to semi-government authorities	103.9	90.9	235.5	1 461.8
Loans to public sector financial institutions	15.9	202.5	249.6	1 027.3
Total	218.5	645.6	3 528.7	8 095.5
Liabilities:				
Deposits from SA Government	-	-	-	-
Deposits and short term borrowings	-	-	-	2 674.8
Bonds, notes and debentures	62.1	989.8	1 212.1	4 771.0
Obligations to Commonwealth Government	16.5	17.3	610.6	718.5
Total	78.6	1 007.1	1 822.7	8 164.3
NET	139.9	(361.5)	1 706.0	(68.8)

Foreign Exchange Risk

SAFA has a policy of avoiding foreign currency risk and has limits in place to protect against movements in foreign currency exchange rates.

(i) *Currency Swaps*

A cross currency swap is a financial contract between two parties agreeing to exchange interest obligations in two different currencies over a fixed term on fixed dates. Interest amounts are calculated on currency principals which are usually exchanged at the start of the transaction.

SAFA utilises cross currency swaps to eliminate foreign currency exposures associated with foreign currency borrowings. Currently SAFA has no cross currency swaps.

(ii) *Foreign Exchange and Forward Exchange Contracts*

A foreign exchange contract is an agreement between two parties to buy and sell one currency against another currency either on a spot basis or on a specified future date. A foreign exchange swap is an agreement to enter into both a spot foreign exchange transaction and a forward foreign exchange transaction.

SAFA utilises foreign exchange contracts (spot and forward) to manage foreign exchange risk associated with foreign currency borrowings and to manage exposures arising from the Foreign Exchange Hedging Service provided to South Australian public sector agencies and to hedge profits from overseas subsidiaries.

SAFA has entered into forward foreign exchange contracts to hedge exposures arising from the Foreign Exchange Hedging Service provided to Public Sector Clients. These transactions totalled $26.8 million ($31.9 million) in face value as at 30 June 2006.

(iii) *Currency Exposures*

The following table summarises the Economic Entity's exposure to exchange risk. The value to be received under the currency contracts is designed to hedge the exposure to the net foreign currency liabilities.

	USD A$'million	GBP A$'million
Less than one year:		
Net foreign currency assets	0.1	1.6
Net Derivatives	-	-
NET	0.1	1.6
Greater than one year:		
Net foreign currency assets	-	(1.2)
Net Derivatives	-	-
NET	-	(1.2)
TOTAL NET	0.1	0.4

Credit Risk

Credit risk is the risk of financial loss and associated costs, resulting from the failure of a counterparty to meet its financial obligations as and when they fall due.

SAFA incurs credit risk through undertaking its core functions of fundraising, debt management and liquidity management.

SAFA's dealings in physical securities and other financial contracts, including derivatives, are transacted only with counterparties possessing strong to extremely strong safety characteristics regarding timely payment of principal and interest.

To minimise the potential for credit loss, SAFA complies with stringent credit guidelines. The guidelines are designed to promote diversification of credit risk amongst counterparties while limiting exposure only to highly rated institutions worldwide. The credit guidelines do not apply to loans to South Australian governmental entities.

No credit losses were incurred by SAFA over the reporting period.

SAFA measures credit risk for physical securities at face value and the credit risk of derivative transactions using a mark-to-market methodology that includes an additional factor to cover potential future adverse market movements.

An analysis of credit risk exposure by country, counterparty class, asset class and credit rating as at 30 June 2006 is detailed below.

NR represents loans within the South Australian Government which are not classified under a particular rating.

2006
Rating

Asset Class	AAA $'million	AA+ $'million	AA $'million	AA- $'million	A+ $'million	A $'million	A- $'million	BBB+ $'million	NR $'million	**Total $'million**
Loans/Investments	896.7	1.1	293.6	831.8	318.2	195.1	30.0	27.0	5 345.5	**7 939.0**
Interest rate swaps	-	8.2	5.0	142.2	0.1	15.9	-	-	21.7	**193.1**
FX Contracts	-	-	-	-	0.1	-	-	-	3.7	**3.8**
Total	896.7	9.3	298.6	974.0	318.4	211.0	30.0	27.0	5 370.9	**8 135.9**

Credit Risk (continued)

Asset Class	AAA $'million	AA+ $'million	AA $'million	AA- $'million	2005 Rating A+ $'million	A $'million	A- $'million	BBB+ $'million	NR $'million	Total $'million
Loans/Investments	929.3	11.0	266.6	1 158.3	260.0	415.2	-	-	5 211.0	8 251.4
Interest rate swaps	-	12.6	7.2	165.4	2.8	23.5	-	-	32.6	244.1
FX Contracts	-	-	-	-	-	0.1	-	-	5.4	5.5
Total	929.3	23.6	273.8	1 323.7	262.8	438.8	-	-	5 249.0	8 501.0

Counterparty Class	**Asset Class**	**SAFA 2006** Australia (AAA)* $'million	Canada (AAA) $'million	Germany (AAA) $'million	Netherlands (AAA) $'million	Singapore (AAA) $'million
South Australian Government:						
	Loans/Investments	5 316.2	-	-	-	-
	Interest rate swaps	21.7	-	-	-	-
	FX Contracts	3.8	-	-	-	-
	Sub Total	5 341.7	-	-	-	-
Commonwealth/State Government:						
	Loans/Investments	323.7	-	-	-	-
	Sub Total	323.7	-	-	-	-
Banks:						
	Loans/Investments	1 476.4	105.7	30.0	10.0	100.0
	Interest rate swaps	122.8	-	21.9	9.9	-
	FX Contracts	(0.1)	0.1	-	-	-
	Sub Total	1 599.1	105.8	51.9	19.9	100.0
Counterparty Class	**Asset Class**					
Corporate/Other:						
	Loans/Investments	245.3	-	-	-	-
	Interest rate swaps	-	-	-	-	-
	Sub Total	245.3	-	-	-	-
	Total by Country	7 509.8	105.8	51.9	19.9	100.0
Total by Asset Class:						
	Loans/Investments	7 361.6	105.7	30.0	10.0	100.0
	Interest rate swaps	144.5	-	21.9	9.9	-
	FX Contracts	3.7	0.1	-	-	-
	Total by Country	7 509.8	105.8	51.9	19.9	100.0

Counterparty Class	**Asset Class**	Supranational (AAA) $'million	Switzerland (AAA) $'million	United Kingdom (AAA) $'million	United States (AAA) $'million	**2006 Total $'million**
South Australian Government:						
	Loans/Investments	-	-	-	-	**5 316.2**
	Interest rate swaps	-	-	-	-	**21.7**
	FX Contracts	-	-	-	-	**3.8**
	Sub Total	-	-	-	-	**5 341.7**
Commonwealth/State Government:						
	Loans/Investments	-	-	-	-	**323.7**
	Sub Total	-	-	-	-	**323.7**
Banks:						
	Loans/Investments	-	-	237.0	21.6	**1 980.7**
	Interest rate swaps	-	2.6	-	6.6	**163.8**
	FX Contracts	-	-	-	-	**-**
	Sub Total	-	2.6	237.0	28.2	**2 144.5**
Corporate/Other:						
	Loans/Investments	72.0	1.1	-	-	**318.4**
	Interest rate swaps	-	7.6	-	-	**7.6**
	Sub Total	72.0	8.7	-	-	**326.0**
	Total by Country	72.0	11.3	237.0	28.2	**8 135.9**
Total by Asset Class:						
	Loans/Investments	72.0	1.1	237.0	21.6	**7 939.0**
	Interest rate swaps	-	10.2	-	6.6	**193.1**
	FX Contracts	-	-	-	-	**3.8**
	Total by Country	72.0	11.3	237.0	28.2	**8 135.9**

Credit Risk (continued)

SAFA 2005

Counterparty Class	Asset Class	Australia (AAA)* $'million	Canada (AAA) $'million	Germany (AAA) $'million	Netherlands (AAA) $'million	Singapore (AAA) $'million
South Australian Government:						
	Loans/Investments	5 183.3	-	-	-	-
	Interest rate swaps	32.7	-	-	-	-
	FX Contracts	5.5	-	-	-	-
	Sub Total	5 221.5	-	-	-	-
Commonwealth/State Government:	Loans/Investments	473.3	-	-	-	-
	Sub Total	473.3	-	-	-	-
Banks:						
	Loans/Investments	1 871.8	40.0	2.0	10.0	120.0
	Interest rate swaps	153.7	-	12.9	21.1	-
	FX Contracts	-	-	-	-	-
	Sub Total	2 025.5	40.0	14.9	31.1	120.0
Corporate/Other:						
	Loans/Investments	186.6	-	-	-	-
	Interest rate swaps	-	-	-	-	-
	Sub Total	186.6	-	-	-	-
	Total by Country	7 906.8	40.0	14.9	31.1	120.0
Total by Asset Class:						
	Loans/Investments	7 714.9	40.0	2.0	10.0	120.0
	Interest rate swaps	186.4	-	12.9	21.1	-
	FX Contracts	5.5	-	-	-	-
	Total by Country	7 906.8	40.0	14.9	31.1	120.0

Counterparty Class	Asset Class	Supranational (AAA) $'million	Switzerland (AAA) $'million	United Kingdom (AAA) $'million	United States (AAA) $'million	2005 Total $'million
South Australian Government:						
	Loans/Investments	-	-	-	-	5 183.3
	Interest rate swaps	-	-	-	-	32.7
	FX Contracts	-	-	-	-	5.5
	Sub Total	-	-	-	-	5 221.5
Commonwealth/State Government:	Loans/Investments	-	-	-	-	473.3
	Sub Total	-	-	-	-	473.3
Banks:						
	Loans/Investments	-	-	273.0	28.6	2 345.3
	Interest rate swaps	-	4.1	-	8.2	200.0
	FX Contracts	-	-	-	-	-
	Sub Total	-	4.1	273.0	36.8	2 545.4
Corporate/Other:						
	Loans/Investments	62.0	0.9	-	-	249.5
	Interest rate swaps	-	11.4	-	-	11.4
	Sub Total	62.0	12.3	-	-	260.9
	Total by Country	62.0	16.4	273.0	36.8	8 501.0
Total by Asset Class:						
	Loans/Investments	62.0	0.9	273.0	28.6	8 251.4
	Interest rate swaps	-	15.5	-	8.2	244.1
	FX Contracts	-	-	-	-	5.5
	Total by Country	62.0	16.4	273.0	36.8	8 501.0

SAFA's credit guidelines also permit SAFA to undertake credit exposure transactions with counterparties from New Zealand, Norway, France and Luxembourg. As at 30 June 2006, SAFA did not have any credit exposure to these countries.

* Standard and Poor's long-term foreign currency credit rating.

Liquidity Risk

In order to manage liquidity risk, SAFA has in place liquidity management guidelines, which require SAFA to hold a base level of liquidity comprising of highly marketable financial assets. Liquid assets include cash, promissory notes, Commonwealth notes, floating rate notes and negotiable discount securities. The level of financial asset holdings by SAFA on any given day must be sufficient to cover the higher of a base liquidity buffer of $250 million or the sum of debt maturities over the next 30 days. Adherence to these guidelines enables SAFA to be in a position to meet the forecasted cash demands and any unanticipated funding requirements of the South Australian public sector.

SAFA has chosen an approach to minimise medium-term refinancing risks, which involves diversification of physical borrowings across the maturity spectrum, diversification of funding sources and the holding of liquid assets to assist in the management of refinancing and liquidity risk.

These strategies result in SAFA facing manageable funding demands from financial markets in any given period. This approach assists the maintenance of an orderly market place for SAFA's securities when refinancing maturing debt obligations.

28. Remuneration of SAFA Advisory Board Members

	2006 Number of Members	2005 Number of Members
Remuneration:		
$20 001 - $30 000	**4**	4
	4	4

The Advisory Board as at 30 June 2006 comprised 6 members: Mr J Wright (Presiding Member), Mr B Brownjohn, Ms A Howe, Mr C Long, Ms Y Sneddon, and Mrs J Tongs. Mrs J Tongs was appointed on 7 July 2005 and all other members held their positions for the full year. The fees paid to Advisory Board Members are set by Executive Council in accordance with approved procedures. Those members who are permanently employed under the *Public Sector Management Act 1995* or on similar terms, are not entitled to fees. During 2005-06 only four members were entitled to receive the approved fee. The total remuneration paid was $101 670 ($106 830).

29. Controlled Entities

SAFA controls certain entities either through ownership or management control. SAFA's controlled entities are:

	Place of Incorporation	Ownership Percent	Investment By SAFA $
South Australian Finance Trust Limited(1)	Aust	-	-
South Australian Finance (Hong Kong) Limited(2)	HK	100	1 HKD
SABT Pty Limited(3)	Aust	-	1

(1) SAFTL is now dormant and it is expected to be wound up in 2006-07 following the wind up of SABT Pty Limited.

(2) SAF(HK)L has been wound up and is awaiting the expiry of a 3 month statutory period (August 2006). SAFA received a final dividend of USD$251 954 in 2005-06.

(3) There has been no activity in SABT Pty Limited since November 1999 and a member's voluntary liquidation commenced 28 June 2006.

It is anticipated that SABT Pty Ltd and SAFTL will be wound up by 30 June 2007.

30. Related Party Transactions

There was one transaction during the year between SAFA and its controlled entities of South Australian Finance (Hong Kong) Limited (SAF(HK)L) being a distribution to SAFA of USD $0.3 million on 18 November 2005.

31. Subsequent Events

SAFA advises that since the end of the financial year there has been one matter arise which will affect the operations of the consolidated entity and the reported results from the consolidated entity in future financial years. The *Government Financing Authority (Insurance) Amendment Act 2006*, which expands SAFA's functions to act as captive insurer of the Crown came into operation on 1 July 2006. The *Public Corporations (Dissolution of South Australian Government Captive Insurance Corporation) Regulations 2006* promulgated under the *Public Corporations Act 1993* came into operation on 1 July 2006. As a consequence South Australian Government Captive Insurance Corporation was dissolved and its assets, rights and liabilities transferred to SAFA on 1 July 2006.

The insurance activities of the former SAICORP entity assumed by SAFA reflect the pre 1 July 1994 and post 1 July 1994 periods as two distinct business activities.

In prior years these have been reported as Section 1 of the South Australian Government Insurance and Risk Management Fund (SAGIRM Fund) and Section 2 of the SAGIRM Fund respectively.

Section 1 of the SAGIRM Fund is funded through premiums collected from agencies. Section 2 is for incidents arising from uninsurable risks and other items falling outside the cover of Section 1 relating to the period prior to 1 July 1994.

The Treasurer of South Australia guarantees SAFA's liabilities (refer Note 3(b)).

The full details of the amounts being assumed by SAFA are available in the 2005-06 annual report of SAICORP.

The nature of the insurance business makes it difficult to estimate precisely the financial impact on the accounts of the SAFA in future years.

SOUTH AUSTRALIAN HOUSING TRUST

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Housing Trust was established by the *South Australian Housing Trust Act 1936* to administer the Act. The Trust also administers the *Housing Improvement Act 1940*.

The *South Australian Housing Trust Act 1995* repealed the *South Australian Housing Act 1936* and amended the *Housing Improvement Act 1940*. The Act provides for the continuation of the Trust as the principal provider of public housing in the State.

Functions

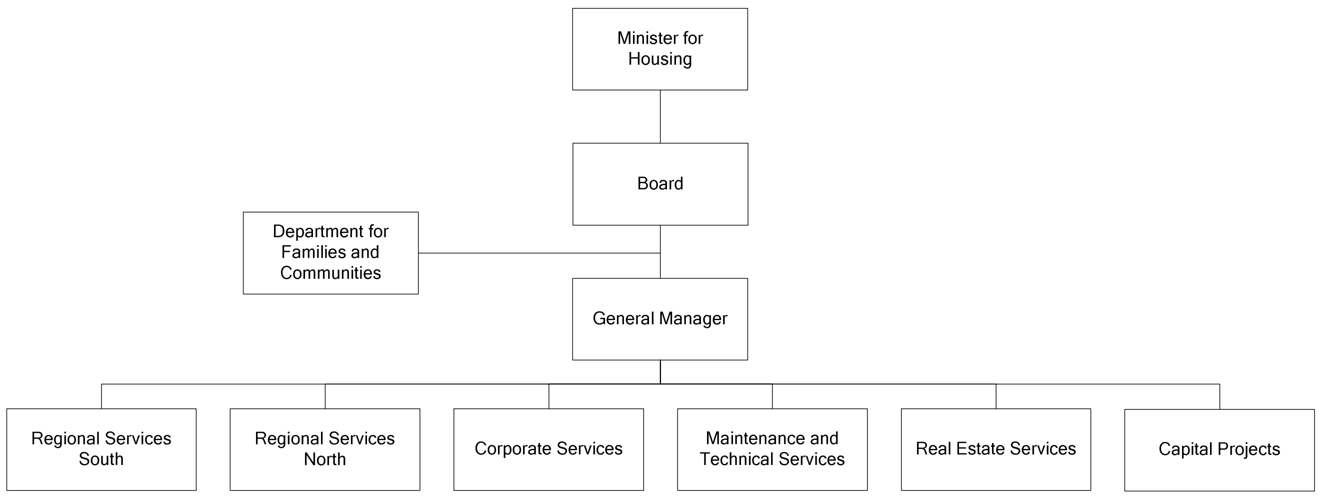
The functions of the Trust include the following:

- The ownership of houses and units for tenant occupation.
- The construction and purchase of houses and other properties.
- The management of tenancy arrangements for Trust properties including the assessment of rents and provision of reduced rents, and the raising and receiving of rent and other monies from tenants.
- The management of costs associated with ownership of Trust properties including the maintenance of those properties.

In addition, the Trust manages a range of programs related to housing on behalf of the Government with respect to which the Trust receives direct capital and recurrent grant funding. The range of grant programs managed is detailed in Note 10 to the Trust's financial statements.

Structure

The structure of the South Australian Housing Trust is illustrated in the following organisation chart.



Changes to Function and Structure

In May 2006 the Minister for Housing announced a decision to reform housing governance arrangements including the restructure of the South Australian Housing System. To facilitate implementation of the reforms and the Government's housing initiatives the South Australian Housing Trust Board has entered into a service level agreement with the Department for Families and Communities for the provision of housing services on behalf of the Board effective 1 July 2006.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

The *South Australian Housing Trust Act 1995* (the Act), subsection 27(2), requires the Trust to keep proper accounting records and to produce financial statements, in respect of each financial year. Section 31 of the *Public Finance and Audit Act 1987* and subsection 27(4) of the *South Australian Housing Trust Act 1995* requires the Auditor-General to audit the accounts and financial statements.

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 Housing 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 audit opinions to be formed with respect to the financial statements and internal controls.

During 2005-06, specific areas of audit attention included:

- revenue, including rent raising and recovery
- accounts payable
- staffing costs
- maintenance expenditure
- council and water rates
- borrowings
- fixed assets, including rental properties
- inventory
- fixed asset and inventory work in progress

In addition, system operations and activities undertaken by the Department of Health and the Department for Families and Communities on behalf of the Trust, which included corporate related services, payroll and aspects of accounts payable processing, were reviewed as part of the audit of those Departments.

The work of the internal auditor was considered in planning the audit programs. Where appropriate reliance was placed on the work of internal audit in assessing the effectiveness of the Trust's internal controls. Internal Audit coverage in 2005-06 included:

- Review of Maintenance Works Systems Implementation - Controls Assessment
- Review of Capital Work in Progress

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 Housing Trust as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian Housing 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 fixed asset and inventory work in progress, accounts payable, council and water rates, and rent as outlined under 'Audit Communications with Management and Other Matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Housing Trust have been conducted properly and in accordance with law.

Audit Communications with Management and Other Matters

Matters arising during the course of the audit were detailed in management letters to the Deputy Chief Executive, Department for Families and Communities. Responses to the management letters were generally considered to be satisfactory. Major matters raised with the Trust and the related responses are discussed herein.

Inventory and Fixed Asset Work in Progress

The Trust's arrangements for management and control of Capital Projects and particularly accounting for work in progress have been the subject of review and comment by Audit in previous years. In prior years External Audit has identified a number of weaknesses in controls over accounting for capital projects work in progress. Internal Audit has also reviewed controls over work in progress and has made a number of observations regarding weaknesses in procedures, systems and reconciliations.

Audit review in 2005-06 found that the Trust had made progress in addressing some of the issues raised previously by External Audit and Internal Audit. Audit review found that the Trust implemented a Project Accounting System (PAS) in February 2006 and made improvements to certain reconciliation processes. Audit also noted that the Trust undertook a detailed review of work in progress account balances (ie substantiation process) to ensure work in progress balances were reliable. It is considered, however, that controls over work in progress for the year were unsatisfactory. Specifically, audit review found that there was scope to improve:

- Review and reconciliation processes over work in progress account balances. For instance, a number of reconciliations and review processes which support the integrity of management reporting were not performed throughout the financial year.
- Systems in place to monitor and review actual versus budget results for individual projects.
- The automation and integration of systems used to manage and control work in progress account balances.
- The implementation and promulgation of documented policies and procedures.

Audit noted that the Trust was developing a business case to further develop current systems and processes to manage and account for work in progress balances.

In response the Trust advised that implementing the enhancements to the current Capital Projects Database system to enable greater integration of systems is not a short term project and will require significant work and investment. Further development and enhancement of the PAS system will continue during 2006-07 and Internal Audit will assist management in further improving efficiencies and controls.

Accounts Payable

Prior year audits of the Trust's purchasing, approval and accounts payable processes highlighted areas where controls could be improved. In the current year the audit of the accounts payable function found:

- a significant proportion of accounts payable transactions were not processed through the Online Purchase Order System;
- instances where payments were not processed through the Online Purchase Order System in accordance with the Trust's Purchasing Policy;
- monitoring and reporting on the use of the Online Purchase Order System could be enhanced by reporting instances where non-exempt transactions were processed using manual payment vouchers;
- there was scope to improve controls to ensure manual payment vouchers are authorised in accordance with the Trust's Levels of Authority;
- authority levels within the Purchasing System were not consistent with the Levels of Authority approved by the Board. Audit communicated the view that the Levels of Authority were not expressed in a manner which enables them to be efficiently and effectively administered; and
- control procedures to be followed in circumstances where system administrator intervention is required to override Deskbank system transaction limits were not documented.

The Trust responded to the issues raised and advised of measures to address the issues. In regards to the use of use of the Online Purchase Order system the Trust advised it has implemented a process of monitoring and reporting the use of manual vouchers and has provided training to staff which has resulted in an increase in the use of the Online Purchase Order system.

Water and Council Rates

Water and Council Rates expenditure processed through the Water/Council Rate system represents a significant expenditure ($51 million in 2005-06) item for the Trust. Audit review in 2004-05 found that there was scope to improve controls in a number of areas. The audit of this area in the current year found some matters were not addressed by the Trust. The more significant observations made by Audit were:

- Audit was unable to locate evidence that Council and SA Water rate payments were authorised in accordance with the Trust's Levels of Authority;
- there was scope to improve the segregation of duties associated with the processing of Water and Council rates;
- no check was performed to ensure that the Trust had received bills for water rates and water usage for all Trust owned properties and there was scope to improve controls to ensure that the Trust received Council rate bills for all Trust owned properties; and
- reconciliations of data transferred from the Water/Council Rates system to Accounts Payable system were not always performed on a timely basis.

In response the Trust advised of proposed actions to address the matters raised. The actions included:

- developing an authorisation procedure to ensure compliance with the Trust's Levels of Authority;
- developing a strategy to improve segregation of duties;
- investigating the possibility of developing an exception report detailing Trust properties not billed; and
- ensuring reconciliations between the Water/Council Rates system and the Accounts Payable system are performed on a timely basis.

Rent

Audit review of the Rent Management System used to raise and collect rent highlighted areas where controls could be improved. Specifically the review found:

- There was scope to improve controls to ensure all Trust tenants who receive rent rebates are subject to ongoing benefit review processes. Audit noted a significant number of tenants were not subject to proof of income processes to confirm their ongoing entitlement to rebates for periods ranging from three months to three years.
- There was a lack of control to ensure all exceptions recorded on the Income Confirmation Service exception reports are investigated and appropriately actioned.
- Rent calculation overrides processed by Benefit Review officers were not independently reviewed.
- Instances where credit notes were not appropriately authorised.

In response the Trust advised of action taken or proposed to address the matters raised including:

- there is a batch job which assists in identifying customers requiring benefit review. A request has been made to produce a regular control report to make the process more transparent. Also, the system was modified to ensure that exceptions from the ICS process are included in subsequent reviews.
- a system change has been requested to increase automation of follow-up of ICS exceptions. Also, a risk analysis will be undertaken to identify whether it is cost effective to pursue a manual follow up process in certain circumstances.

Maintenance

The Trust manages the costs associated with ownership of Trust properties including their maintenance. Audit review in the current year found areas where controls could be improved including:

- there was a lack of reconciliation between the Contracts Register Database and the Maintenance system;
- there was a lack of an independent check to ensure all manual adjustments processed in the Maintenance system are valid and correctly processed; and

- no self assessment was performed of the Trust's Maintenance Centre (Comskill) in 2005-06.

In response the Trust indicated that it would implement actions to address the issues raised.

Service Level Agreements

Audit review in 2005 found that service level agreements between the Trust and service providers were not entered into for a number of key areas of the Trust's operations. Audit considers service level agreements ensure roles and responsibilities are clearly defined and agreed to by each party to the agreement.

Audit review in the current year found that the service level agreement with the Department for Families and Communities for 2005-06 was not executed on a timely basis.

In response the Trust advised that the service level agreement for the 2006-07 financial year was executed prior to 1 July 2006.

Affordable Housing Innovations Fund

Audit review in the current year included a review of the accounting arrangements for the Affordable Housing Innovations Fund. The review found that there was scope to improve documentation regarding the operation of the Fund and improve certain accounting and reconciliation procedures. A feature of the operation of the fund is the retirement of Trust debt. Audit found debt retirement arrangements had not been finalised with the Department of Treasury and Finance (Treasury).

In response the Trust advised it would develop documented polices and procedures and will implement measures to improve accounting and reconciliation processes. The Trust also indicated it would comply with debt retirement arrangements once finalised with Treasury.

Payroll

The Department for Families and Communities was responsible for processing payroll transactions for staff assigned to the Trust in accordance with a service level agreement. Audit review of the Department's payroll function revealed that internal controls over the processing of the payroll transactions were ineffective in key areas including:

- bona fide certificate processes;
- leave recording and management processes; and
- policies and procedures relating to variance reporting and investigation processes.

Further commentary on these matters is provided under the Department for Families and Communities section of my Annual Report under the heading 'Audit Communications with Management and Other Matters'.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006 $'million	2005 $'million	Percentage Change
INCOME			
Rent	**203**	195	4
Commonwealth Government grants	**36**	35	3
State Government grants	**151**	164	(8)
Other	**52**	44	18
Total Income	**442**	438	1
EXPENSES			
Staffing costs	**43**	39	10
Borrowing costs	**42**	43	(2)
Maintenance	**74**	67	10
Council rates and water charges	**51**	49	4
Land tax equivalent	**116**	97	20
Depreciation	**58**	56	4
Other expenses	**67**	69	(3)
Total Expenses	**451**	420	7
Net Result before Income Tax	**(9)**	18	n/a
Income Tax Equivalent Expense	**-**	(8)	n/a
Net Result After Income Tax	**(9)**	10	n/a

	2006 **$'million**	2005 $'million	Percentage Change
NET CASH FLOWS	**4**	13	(69)
ASSETS			
Current assets	**190**	176	8
Non-current assets	**5 786**	5 293	9
Total Assets	**5 976**	5 469	9
LIABILITIES			
Current liabilities	**54**	60	(10)
Non-current liabilities	**767**	786	(2)
Total Liabilities	**821**	846	(3)
EQUITY	**5 155**	4 623	12

Income Statement

Income

Income for 2006 increased by $4 million (1 percent). Notably, rent increased by $8 million (4 percent) due mainly to rental rate rises reflecting increases in market rents. Further detail is provided in the commentary on Rental Operations. In addition, Other Income increase by $8 million (18 percent) due mainly to a $6 million increase in Net Gain from Disposal of Assets. The change reflects an increase in the net gain from disposal of inventory capital work in progress projects. Refer to Note 16 to the financial statements.

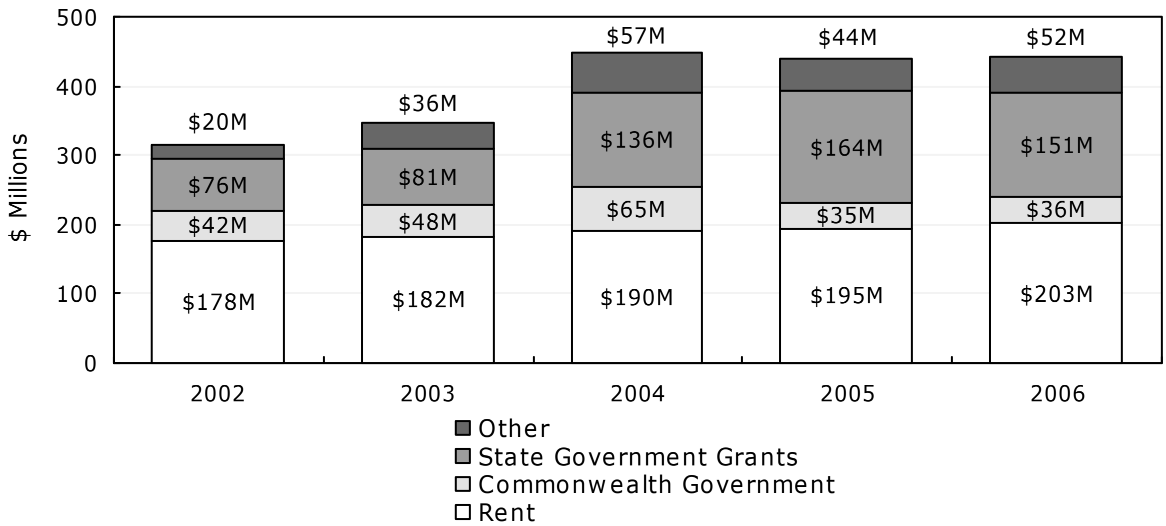
State Government Grants decreased by $13 million (8 percent) to $151 million due to a decrease in funding from the State Government for specific housing initiatives. The main decreases were:

- capital funding totalling $18.3 million was received in 2005 for Urban Renewal Projects ($15 million) and Special Purpose House Purchases ($3.3 million). No funding was received for these initiatives in the current financial year.

- a decrease of $11.9 million in funding for the Affordable Housing Initiative.

These decreases were offset by a $11.5 million increase in the Land Tax Equivalent Reimbursement received from the Department for Families and Communities. The increase in the Land Tax Equivalent Reimbursement reflects increased values in Trust owned properties and matches Land Tax Equivalent expense.

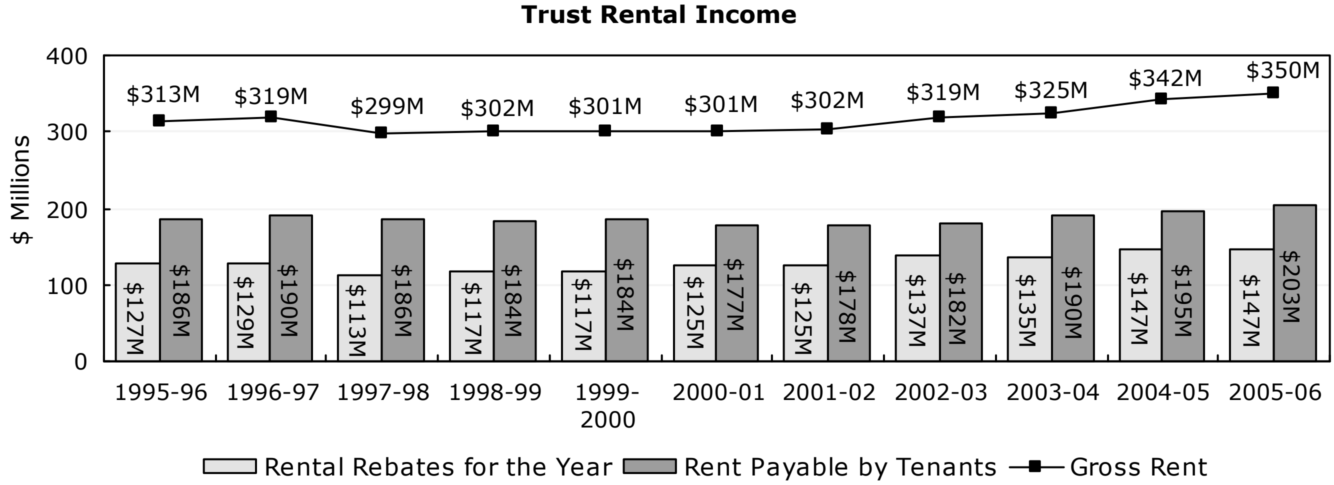
For the five years to 2006 a structural analysis of Income for the Trust is presented in the following chart. The chart shows higher Income in 2004, 2005 and 2006 when compared to previous years, due principally to increased grant contributions from State Government.



Rental Operations

The Trust has continued to experience a high level of demand for its rental accommodation as it received 7716 (8093) new applications for tenancies and was able to house 2944 (3213) new tenants during the year. The level of housing stock, excluding unlettable properties, was 45 455 (46 122) at 30 June 2006.

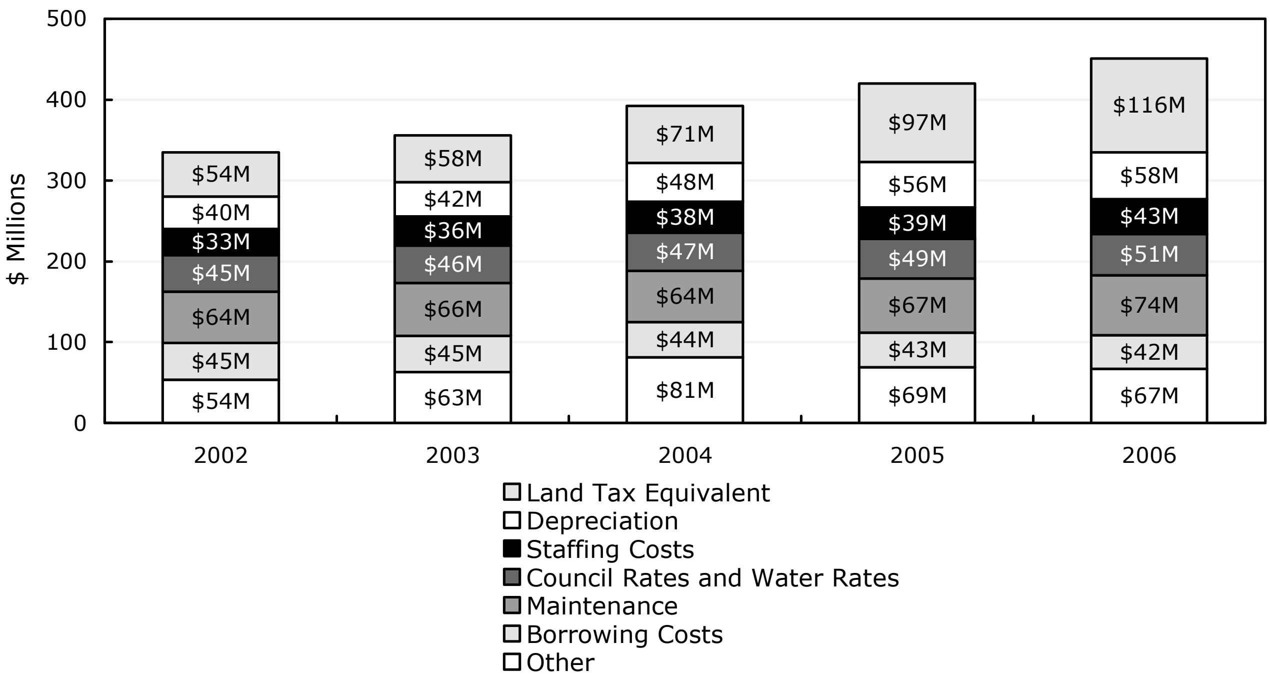
The trend identified in previous years, of a high proportion of Trust tenants being eligible for reduced rent due to low income, continued and, at 30 June 2006, 36 618 (37 326) tenants or 85 percent (85 percent) of all tenants paid reduced rent. The trend is illustrated in the following chart:



The chart highlights that Gross Rent has steadily increased over the last four years due to increases in market rents. In 2006 Gross Rent increased 2 percent ($8 million), Rent Revenue increased 4 percent ($8 million) and Rent Rebates increased slightly.

Expenses

For the five years to 2006, a structural analysis of the major expense items for the Trust is shown in the following chart.



The chart shows a upward trend in expenses, mainly as a result of higher Land Tax Equivalent expenses.

In total Expenses increased by $31 million (7 percent). This increase was due mainly to increases in Land Tax Equivalent ($19 million) and Maintenance ($7 million). The increase in the Land Tax Equivalent expense reflects increased values in Trust owned properties. The increase in maintenance expense reflects work carried out on Trust properties in accordance with its programmed and responsive maintenance work programs.

Grant Funded Programs

The Trust's recurrent direct expenditure with respect to grant funded programs was $16 million ($18 million). This decrease was due mainly to:

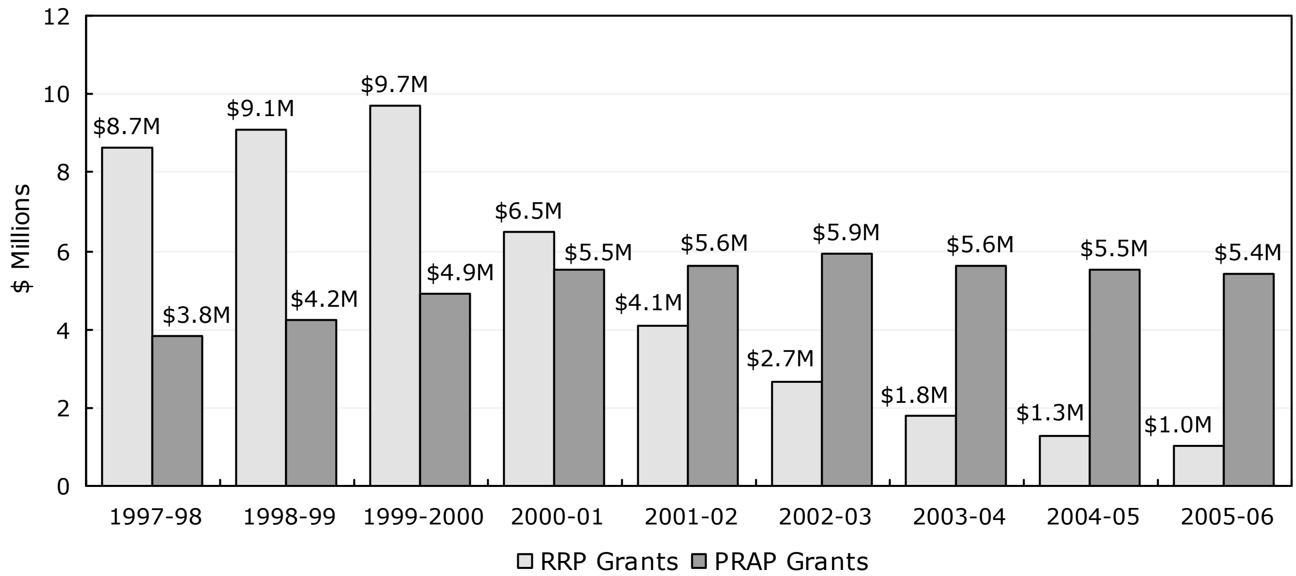
- the effect of a $7.3 million once-off grant payment made to the Aboriginal Housing Authority in 2005.
- the transfer of the Supported Accommodation Assistance Program (SAAP) from the Trust to the Department for Families and Communities.

These decreases were offset by grant payments totalling $5.8 million to HomeStart Finance for EquityStart loan concessions and a $1.5 million increase in Crisis Accommodation Program payments.

Consistent with previous years there has been a downward trend in expenditure in the Private Rental Assistance Program (PRAP) and the Rent Relief Program (RRP).

Rent Relief Program and Private Rental Assistance Program

The following chart shows the changing level of grant funded spending (excluding administration costs) over the past eight years for the Rent Relief Program (RRP) and the Private Rental Assistance Program (PRAP).



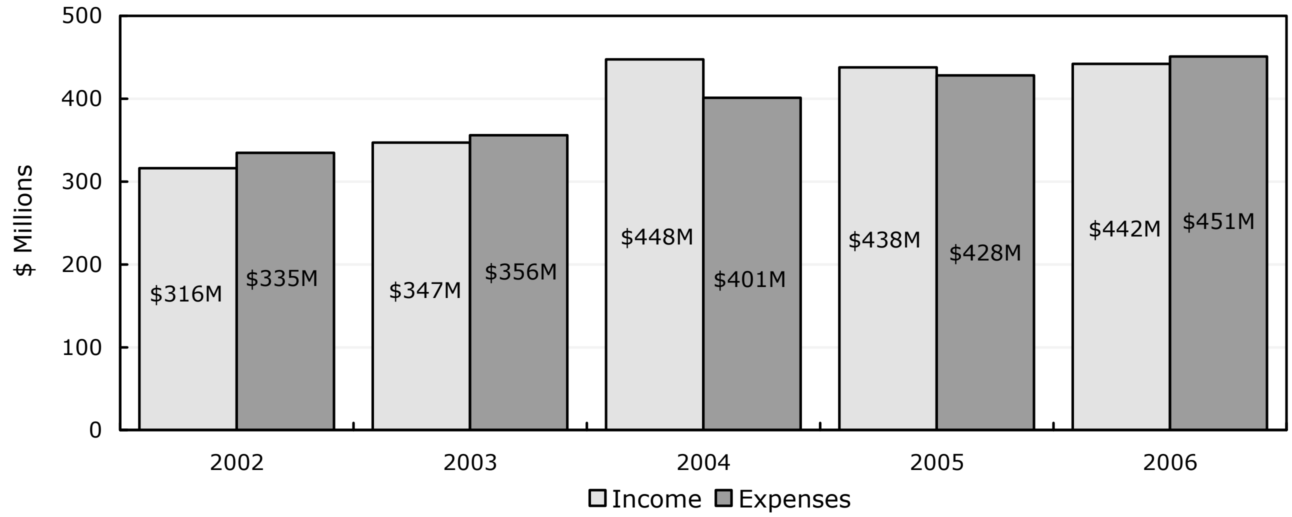
The RRP provides assistance to tenants in private rental accommodation, who are experiencing financial difficulty, by providing payments to tenants, of amounts up to $25 per week. The number of recipients of assistance for the year to 30 June 2006 was 990 (1235), reflecting an ongoing reduction in the number of beneficiaries following closure of the scheme to new entrants in May 2000. This reduction resulted in a decrease in RRP grant payments of $312 000.

The PRAP assists people to establish themselves in privately owned rental accommodation by providing an information service to help locate suitable accommodation; financial assistance to tenants with respect to security bonds and rent in advance; and short term emergency accommodation in Trust houses. Grant payments for the program in 2006 decreased by $80 000.

The Private Rental Assistance Program includes a bond guarantee scheme which enables the Trust to guarantee payments to landlords in the event of a claim against a bond. The Trust's contingent liability with respect to Bond Guarantees increased by $600 000 from $12.3 million to $12.9 million as at 30 June 2006.

Net Result

The following chart shows the income and expenses (including Income Tax Equivalent) for the five years to 2006.

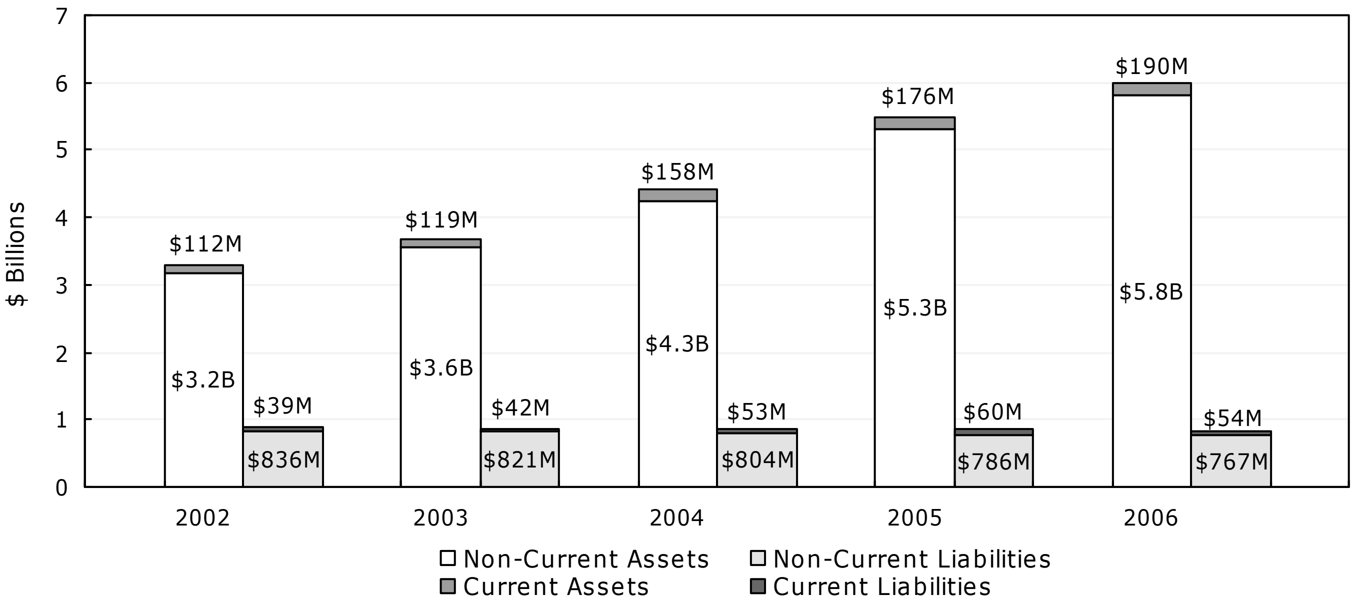


The chart demonstrates that the Trust recorded deficits for the first two years followed by surpluses in 2004 and 2005 and a loss of $9 million in 2006.

The net result (after income tax equivalent expense) recorded in 2006 decreased by $19 million reflecting an increase in expenses of $31 million, a decrease in income tax equivalent of $8 million and an increase in income of $4 million. Refer to commentary under the headings Income and Expenses for more detailed analysis of income and expenses.

Balance Sheet

For the five years to 2006, a structural analysis of assets and liabilities is shown in the following chart.



The analysis shows a decrease in liabilities of 6 percent ($54 million) over the period of review, in comparison to an increase in assets of 81 percent ($2.7 billion) over the same period.

Over the period there has been a significant increase in the value of non-current assets which is due primarily to the continued upward trend in the property market. The value of Trust's rental property increased by $2.5 billion or 81 percent over this period. As at 30 June 2006 the value of the Trust's rental properties was $5.6 billion ($5.2 billion).

The increase in property values has occurred notwithstanding that there has been a reduction of 4088 in the number of properties held over the same period.

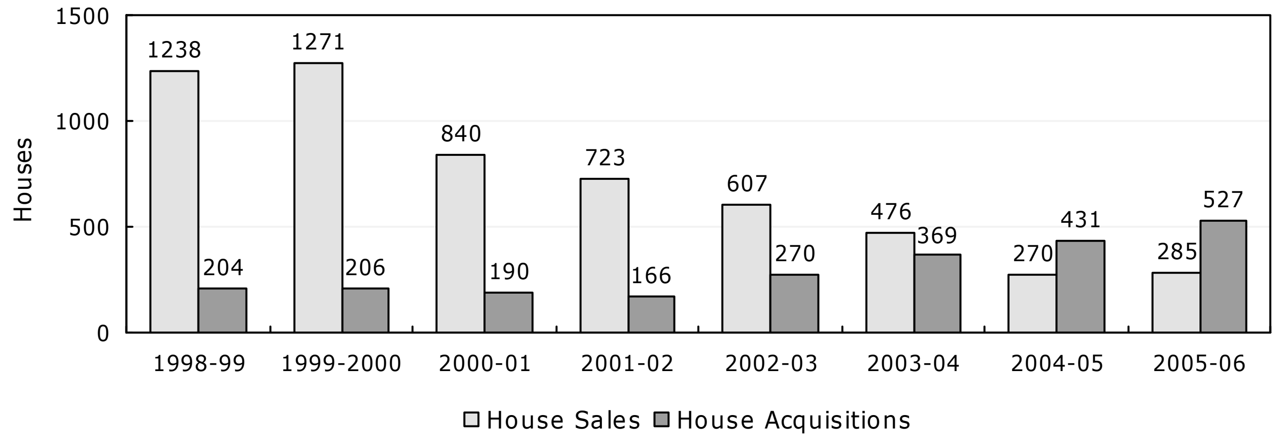
The decrease in liabilities over the period is due primarily to the reduction in Trust concessional interest rate borrowings due to principal repayments. Refer to further commentary under the 'Indebtedness' heading.

Asset Management

The Trust has continued to respond to changes in demand for housing, the need to quit housing stock which is of inappropriate amenity or involves high levels of maintenance by establishing annual targets for house sales. In addition to house sales the Trust transfers houses to the South Australian Aboriginal Housing Authority and the South Australian Community Housing Authority.

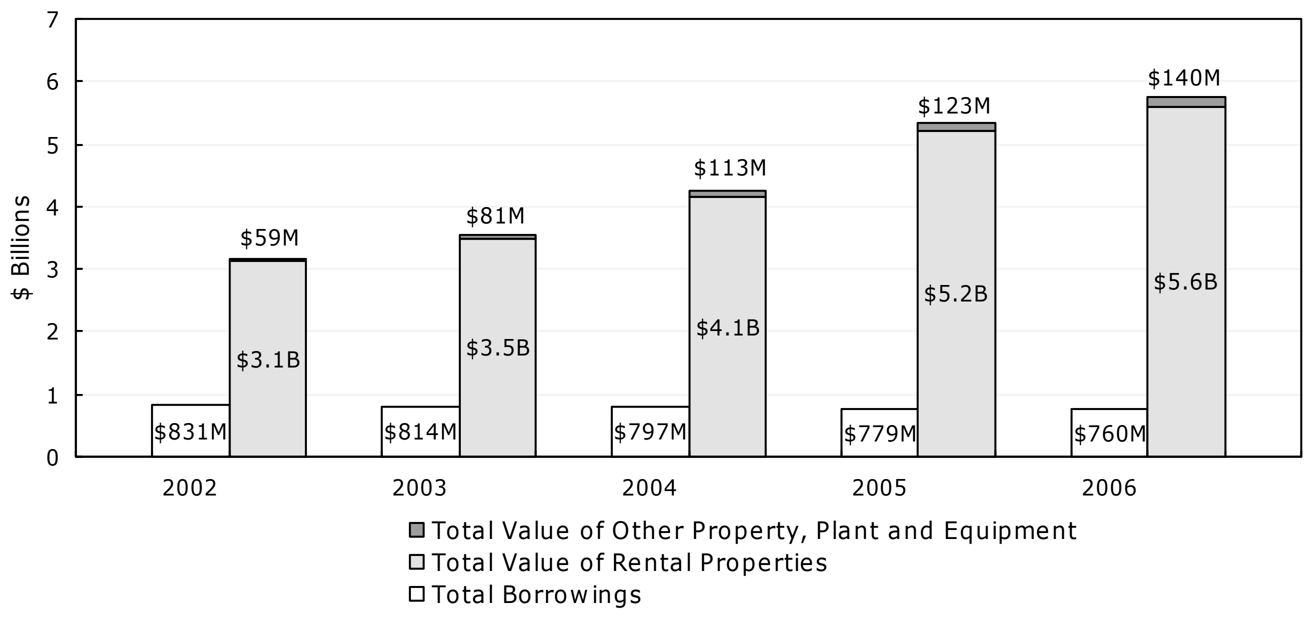
The Trust's lettable housing stocks have fallen from 46 122 dwellings as at 30 June 2005 to 45 455 dwellings as at 30 June 2006 reflecting the impact of the house sales and acquisition program, the transfer of properties to other housing authorities and transfers of properties to work in progress.

The following chart depicts the level of house sales (excluding transfer to other housing authorities) and the offsetting acquisitions of houses over the past eight years to demonstrate the net impact of house sales on the level of Trust housing stock. The chart demonstrates that there has been an upward trend in house acquisitions over the past few years and a general downward trend in house sales over the same period.



Indebtedness

The following chart demonstrates the ongoing reduction in Trust indebtedness over the past five years in comparison to the increase in the value of the Trust's assets. Notably, the chart highlights a 9 percent ($71 million) decrease in borrowings over the period against a 81 percent increase ($2.5 billion) in property values. The increase in property values has occurred notwithstanding that there has been a 8 percent decrease in the number of properties held over the same period.



Cash Flow Statement

The following table summarises the net cash flows for the five years to 2006.

	2006 $'million	2005 $'million	2004 $'million	2003 $'million	2002 million
Net Cash Flows					
Operations	**28**	61	72	28	15
Investing	**(5)**	(31)	(29)	(10)	16
Financing	**(19)**	(17)	(17)	(16)	(16)
Change in Cash	**4**	13	26	2	15
Cash at 30 June	**98**	94	81	55	53

In 2006 the Trust recorded a net cash surplus of $4 million compared to a net cash surplus of $13 million in 2005.

Net cash outflows from Operating activities for 2006 mainly reflected higher payments for staffing costs and rental property expenses.

Net cash outflows from Investing activities for 2006 reflected that the Trust made greater payments for the purchase of property and intangible assets compared to cash inflows from the proceeds of sale of property assets.

Net cash outflows from Financing activities have increased consistently over the five years of review reflecting repayments of borrowings in accordance with repayment schedules.

Income Statement
for the year ended 30 June 2006

	Note	**2006**	2005
EXPENSES:		**$'000**	$'000
Staffing costs	6	**42 822**	39 310
Supplies and services	7	**34 794**	32 836
Rental property expenses	8	**242 370**	213 182
Depreciation and amortisation	9	**58 630**	56 013
Grants and subsidies	10	**16 483**	18 439
Borrowing costs	11	**41 725**	42 885
Other expenses	12	**14 763**	17 916
Total Expenses		**451 587**	420 581
INCOME:			
Rental income	14	**202 622**	195 080
Interest Revenue	15	**6 116**	5 724
Net gain from disposal of assets	16	**28 691**	22 326
Recoveries	17	**12 379**	12 435
Commonwealth revenues	18	**35 868**	34 776
Other revenue	19	**5 241**	4 178
Total Income		**290 917**	274 519
Net Cost of Providing Services		**160 670**	146 062
REVENUES FROM (PAYMENTS TO) SA GOVERNMENT:			
Revenues from SA Government	20	**151 361**	163 787
Net Result Before Income Tax Equivalents		**(9 309)**	17 725
Income tax equivalent expense		**-**	7 511
NET RESULT AFTER INCOME TAX EQUIVALENTS		**(9 309)**	10 214

THE NET RESULT AFTER INCOME TAX EQUIVALENTS IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

Balance Sheet
as at 30 June 2006

	Note	2006 $'000	2005 $'000
CURRENT ASSETS:			
Cash	32	**98 114**	93 744
Receivables	21	**15 175**	20 971
Inventories	22	**70 924**	53 756
Non-current assets classified as held for sale	23	**6 213**	7 612
Total Current Assets		**190 426**	176 083
NON-CURRENT ASSETS:			
Inventories	22	**727**	2 077
Property, plant and equipment	24	**5 774 247**	5 284 123
Intangible Assets	25	**10 537**	6 146
Receivables	21	**218**	469
Total Non-Current Assets		**5 785 729**	5 292 815
Total Assets		**5 976 155**	5 468 898
CURRENT LIABILITIES:			
Payables	26	**23 132**	25 799
Interest-bearing liabilities	27	**19 663**	18 803
Provisions	28	**3 281**	3 157
Other liabilities	29	**8 275**	12 083
Total Current Liabilities		**54 351**	59 842
NON-CURRENT LIABILITIES:			
Interest-bearing liabilities	27	**740 789**	760 452
Payables	26	**5 271**	4 804
Provisions	28	**17 672**	17 841
Other liabilities	29	**2 864**	3 052
Total Non-Current Liabilities		**766 596**	786 149
Total Liabilities		**820 947**	845 991
NET ASSETS		**5 155 208**	4 622 907
EQUITY:			
Retained earnings		**1 031 570**	975 036
Asset revaluation reserve		**4 123 638**	3 647 871
TOTAL EQUITY		**5 155 208**	4 622 907
Commitments for Expenditure	30		
Contingent Assets and Liabilities	31		

Statement of Changes in Equity
for the year ended 30 June 2006

	Note	Asset Revaluation Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 30 June 2004		2 628 889	928 532	3 557 421
Changes in accounting policy		-	(3 033)	(3 033)
Error correction		-	(5 908)	(5 908)
Restated Balance at 30 June 2004		2 628 889	919 591	3 548 480
Gain on revaluation of property during 2004-05:				
Decrement in rental houses due to revaluation:				
Transferred to capital works		(34 720)	-	(34 720)
Subject to sales contract		(224)	-	(224)
Increment in freehold land and buildings due to revaluation		1 098 492	-	1 098 492
Transfer to retained earnings of increment realised on sale of freehold land and buildings		(44 566)	-	(44 566)
Realisation of asset revaluation reserve on sale of freehold land and buildings		-	44 566	44 566
Net income recognised directly in equity for 2004-05		1 018 982	44 566	1 063 548
Net Result After Income Tax Equivalents for 2004-05		-	10 214	10 214
Total Recognised Income and Expense for 2004-05		1 018 982	54 780	1 073 762
Balance at 30 June 2005		3 647 871	974 371	4 622 242
Changes in Accounting Policy		-	665	665
Restated Balance at 30 June 2005	4	3 647 871	975 036	4 622 907
Gain on revaluation of property during 2005-06:				
Decrement in rental houses due to revaluation:				
Transferred to capital works		(38 720)	-	(38 720)
Subject to sales contract		(816)	-	(816)
Increment in freehold land and buildings due to revaluation		581 146	-	581 146
Transfer to retained earnings of increment realised on sale of freehold land and buildings		(65 843)	-	(65 843)
Realisation of asset revaluation reserve on sale of freehold land and buildings		-	65 843	65 843
Net income recognised directly in equity for 2005-06		475 767	65 843	541 610
Net Result After Income Tax Equivalents for 2005-06		-	(9 309)	(9 309)
Total Recognised Income and Expense for 2005-06		475 767	56 534	532 301
Balance at 30 June 2006		**4 123 638**	**1 031 570**	**5 155 208**

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

		2006	2005
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		**(Outflows)**	(Outflows)
CASH OUTFLOWS:	Note	**$'000**	$'000
Staffing costs		**(43 420)**	(38 832)
Supplies and services		**(41 462)**	(41 220)
Rental property expenses		**(126 401)**	(110 420)
Grants and subsidies		**(16 483)**	(18 439)
Interest paid		**(35 948)**	(35 619)
Other borrowing costs		**(4 588)**	(6 118)
Land tax equivalents paid		**(115 898)**	(97 147)
GST remitted to Department of Health		**(2 586)**	(2 547)
GST payments on purchases		**(2 535)**	(305)
Other payments		**(97)**	(517)
Cash used in Operating Activities		**(389 418)**	(351 164)
CASH INFLOWS:			
Rent received		**193 418**	190 314
Recoveries received		**12 379**	12 435
Other receipts		**2 914**	2 698
Receipts from Commonwealth		**35 868**	34 776
Interest received		**6 145**	5 460
GST receipts from Department of Health		**1 792**	289
GST receipts on receivables		**3 710**	2 046
Cash generated from Operating Activities		**256 226**	248 018
CASH FLOWS FROM SA GOVERNMENT:			
Receipts from SA Government		**161 120**	164 545
Cash generated from SA Government		**161 120**	164 545
Net Cash provided by Operating Activities	32	**27 928**	61 399
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of property, plant and equipment		**(130 249)**	(127 289)
Purchase of intangibles		**(5 942)**	(2 260)
Cash used in Investing Activities		**(136 191)**	(129 549)
CASH INFLOWS:			
Proceeds from sale of assets		**131 333**	98 654
Proceeds from interest bearing receivables		**102**	15
Cash generated from Investing Activities		**131 435**	98 669
Net Cash used in Investing Activities		**(4 756)**	(30 880)
CASH FLOWS FROM FINANCING ACTIVITIES:			
CASH OUTFLOWS:			
Repayment of borrowings		**(18 802)**	(17 742)
Cash used in Financing Activities		**(18 802)**	(17 742)
Net Cash used in Financing Activities		**(18 802)**	(17 742)
NET INCREASE IN CASH HELD		**4 370**	12 777
CASH AT THE 1 JULY		**93 744**	80 967
CASH AT THE 30 JUNE	32	**98 114**	93 744

Program Schedule of Expenses and Income for the year ended 30 June 2006

	Tenancy Management		Asset Management		Private Rental Assistance	
	2006	2005	**2006**	2005	**2006**	2005
EXPENSES:	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Staffing costs	**26 934**	23 335	**11 464**	12 440	**4 424**	3 612
Supplies and services	**19 129**	17 990	**12 519**	12 025	**3 146**	2 790
Rental property expenses	**2 192**	2 199	**240 160**	210 969	**18**	14
Depreciation and amortisation	**1 309**	1 050	**57 002**	54 778	**319**	171
Grants and subsidies	**4 280**	2 460	**5 815**	7 300	**6 388**	6 779
Borrowing costs	**736**	701	**40 868**	41 958	**121**	226
Other expenses	**3 565**	5 097	**9 256**	10 769	**1 942**	2 047
Total Expenses	**58 145**	52 832	**377 084**	350 239	**16 358**	15 639
INCOME:						
Rental income	**202 602**	195 007	**20**	73	**-**	-
Interest revenue	**-**	-	**6 116**	5 724	**-**	-
Net gain from disposal of assets	**-**	187	**28 691**	22 139	**-**	-
Recoveries	**2 291**	1 164	**6 515**	7 623	**3 573**	3 599
Commonwealth revenues	**27 765**	27 162	**-**	-	**8 103**	7 614
Other revenue	**2 194**	2 858	**2 933**	1 097	**114**	223
Total Income	**234 852**	226 378	**44 275**	36 656	**11 790**	11 436
Net Cost of Providing Services	**176 707**	173 546	**(332 809)**	(313 583)	**(4 568)**	(4 203)
REVENUES FROM (PAYMENTS TO) SA GOVERNMENT:						
Revenues from SA Government	**14 771**	17 378	**131 917**	141 975	**4 673**	4 434
NET RESULT BEFORE INCOME TAX EQUIVALENTS	**191 478**	190 924	**(200 892)**	(171 608)	**105**	231
Income tax equivalent expense	**-**	-	**-**	7 511	**-**	-
NET RESULT AFTER INCOME TAX EQUIVALENTS	**191 478**	190 924	**(200 892)**	(179 119)	**105**	231

	Supported Accommodation Assistance Program (SAAP)		Net Allocated Expenses		Total	
	2006(1)	2005	**2006**	2005	**2006**	2005
EXPENSES:	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Staffing costs	**-**	(77)	**-**	-	**42 822**	39 310
Supplies and services	**-**	1	**-**	30	**34 794**	32 836
Rental property expenses	**-**	-	**-**	-	**242 370**	213 182
Depreciation and amortisation	**-**	-	**-**	14	**58 630**	56 013
Grants and subsidies	**-**	1 900	**-**	-	**16 483**	18 439
Borrowing costs	**-**	-	**-**	-	**41 725**	42 885
Other expenses	**-**	2	**-**	1	**14 763**	17 916
Total Expenses	**-**	1 826	**-**	45	**451 587**	420 581
INCOME:						
Rental Income	**-**	-	**-**	-	**202 622**	195 080
Interest revenue	**-**	-	**-**	-	**6 116**	5 724
Net gain from disposal of assets	**-**	-	**-**	-	**28 691**	22 326
Recoveries	**-**	20	**-**	29	**12 379**	12 435
Commonwealth revenues	**-**	-	**-**	-	**35 868**	34 776
Other revenue	**-**	-	**-**	-	**5 241**	4 178
Total Income	**-**	20	**-**	29	**290 917**	274 519
Net Cost of Providing Services	**-**	(1 806)	**-**	(16)	**(160 670)**	(146 062)
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:						
Revenues from SA Government	**-**	-	**-**	-	**151 361**	163 787
NET RESULT BEFORE INCOME TAX EQUIVALENTS	**-**	(1 806)	**-**	(16)	**(9 309)**	17 725
Income tax equivalent expense	**-**	-	**-**	-	**-**	7 511
NET RESULT AFTER INCOME TAX EQUIVALENTS	**-**	(1 806)	**-**	(16)	**(9 309)**	10 214

(1) As from 1 July 2004 the SAHT transferred the management and funding for the SAAP program to DFC.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the South Australian Housing Trust

The South Australian Housing Trust (the Trust) is the State's principal public housing authority. The Trust's roles and powers are based on the *South Australian Housing Trust Act 1995* and *Housing Improvement Act 1940*. The Board of the Trust is responsible to the Minister for Housing for overseeing the operations of the Trust. This responsibility is formalised in a Ministerial Agreement that defines the objectives and responsibilities of the Trust.

The role of the South Australian Housing Trust is to assist low income and special needs households and individuals to access appropriate housing. This is achieved by direct provision of public housing and through a variety of programs and services. The *South Australian Housing Trust Act 1995* lists the key functions of the organisation as being to:

- assist people to secure and maintain affordable and appropriate housing;
- provide houses to meet public and community housing requirements;
- manage public housing assets so as to ensure acceptable rates of return and to protect the value of the assets over the longer term; and
- undertake programs for the improvement of community housing within the State and to support various housing programs.

In achieving these functions, the Trust and its Board are accountable to the South Australian State Government through the Minister for Housing and reports regularly on progress against programs and associated activities.

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 the Accounting Policy Framework promulgated under the provision of the *Public Finance and Audit Act 1987;*
- applicable Australian Accounting Standards;
- other mandatory professional reporting requirements in Australia.

These Financial Statements are the first statements to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these statements. Previous financial statements were prepared in accordance with Australian Generally Accepted Accounting Principles.

A reconciliation explaining the transition to AIFRS is contained in Note 4.

The Trust's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that have been revalued.

The financial report has been prepared based on a 12 month operating cycle and presented in Australian currency.

2.2 Reporting Entity

The South Australian Housing Trust's financial report includes only Trust items. The Trust's financial statements include assets, income, expenses and liabilities, controlled or incurred by the Trust in its own right.

2.3 Comparative Figures

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change. Where permitted by a specific Accounting Policy Statement or Australian Accounting Standard comparative information has been reclassified and disclosed where required.

The structure of comparative information may also differ due to the restructuring of note presentation and classification.

Comparative figures have been restated due to AIFRS. Note 4 provides a detailed analysis of comparative amounts that have been reclassified as a result of the adoption of AIFRS.

Where it has been impracticable to reclassify comparative amounts, the reason for not reclassifying the amount and the nature of the adjustment has been disclosed.

2.4 Rounding

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

2.5 Taxation

In accordance with Treasurer's Instructions issued under the *Public Finance and Audit Act 1987*, the Trust is required to pay to the State Government an income tax equivalent. The income tax liability is based on the Treasurer's accounting profit method, which requires that the corporate income tax rate be applied to the net profit of the Trust.

The Trust is liable for Payroll Tax, Fringe Benefits Tax, Goods and Services Tax (GST), Land Tax Equivalents and Emergency Services Levy on vacant properties.

With respect to GST, the Trust is part of a GST group of which the nominated representative of the group is the Department of Health (DH), which is responsible for paying GST and is entitled to claim input tax credits. Administrative arrangements between DH and the Trust provide for the reimbursement of the GST consequence incurred/earned by the Trust. The reimbursement receivable from/payable to the Trust has been recognised as a payable/receivable in the Balance Sheet.

In accordance with the requirements of Interpretation 1031 *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 statutory authority as a purchaser that is not recoverable from the Australian Taxation Office (through DH) 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.

2.6 Income and Expenses

Income and Expenses are recognised in the Trust's Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured. Income and Expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5 and have not been offset unless required or permitted by another accounting standard.

Transactions with SA Government entities below the threshold of $100 000 have been included with the non-government transactions, classified according to their nature.

Rent receivable in respect of each property is recognised as revenue and charged to tenants weekly, in advance.

The Trust determines a market rent for each property, structured on the basis of regional rental markets. This represents the potential rental income derivable from the rental stock. The Trust's rental policy is that no tenant will be required to pay more than 25 percent of their household income in rent. The difference between the assessed rent for the property and the market rent is recognised as a rental rebate subsidy provided to tenants.

Revenues received from SA Government are recognised as revenues when the Trust obtains control over them, normally upon receipt.

Grants received for any purpose have been included as revenue upon receipt.

Income from disposal of real property asset sales is recognised by the Trust when settlements are complete, which is determined to be the point when control of the asset has passed to the buyer. Refer to Note 16 for further details. When revalued assets are sold, the revaluation increments are transferred to retained earnings in accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 3.11.

Recoveries for costs on-charged to tenants by the Trust are included as income.

Borrowing costs are recognised as expenses.

2.7 Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. The Trust 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.

Where asset and liability line items combine amounts expected to be realised within 12 months and beyond 12 months, the Trust has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

2.8 Receivables

Rent receivable in respect of each property is recognised as revenue and charged to tenants weekly in advance.

Trade receivables arise in the normal course of selling goods and services to other agencies and to the public.

2.8 Receivables (continued)

Trade receivables are normally settled within 30 days.

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

The Trust determines the provision for doubtful debts based on a review of balances that are unlikely to be collected. This is based on the profile of the Trust's debt and debt write-off history. Specific provision has been made for particular doubtful debts.

2.9 Inventories

At 31 October 2005, the carrying amount of real property inventories, other than those subject to development as capital work in progress, have been compared with an independent valuation undertaken by the Valuer-General as at 1 July 2005 and where the carrying amount exceeded this valuation, the carrying amount has been reduced to reflect the independent valuation.

Independent valuations for real property inventories reflect:

- For vacant properties, the Valuer-General's value (for rating purposes) issued as at 1 July 2005;
- For houses and developed land, the value as the lower cost of net realisable value.

Inventories of stores are carried at cost.

2.10 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 Trust capitalises all non-current physical assets with a value of $5 000 or greater in accordance with Accounting Policy Framework III *Asset Accounting Framework*.

Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Balance Sheet unless they are acquired as part of a restructuring of administrative arrangements, in which case they are recorded at the value recorded by the transferor prior to transfer.

Plant and equipment are carried at cost, which is deemed to be fair value.

Assets held for sale are separately disclosed and measured at the lower of carrying amount and fair value less cost to sell.

2.11 Capital Works in Progress

Capital works in progress reflects assets under construction that will either be sold or utilised in the Trust's operations. The carrying amount for capital work in progress includes all construction costs, charges for administrative expenses, (ie basis for capitalised salary and administrative expenses, refer Notes 6 and 7) and a revaluation increment or decrement where the property has previously been revalued but excludes any borrowing costs and feasibility/pre-construction costs. Once complete, the carrying value of a constructed asset is compared to its market value and an adjustment is effected to ensure that the carrying amount does not exceed fair value, in accordance with Accounting Policy Framework III *Asset Accounting Framework.*

2.12 Revaluation of Non-Current Assets

In accordance with Accounting Policy Framework III *Asset Accounting Framework* the Trust revalues all land and buildings annually at 31 October. Assets are revalued to reflect the Valuer-General's values (for rating purposes) issued as at 1 July where the Valuer-General's value is 'the capital amount that an unencumbered estate of fee simple in the land might reasonably be expected to realise upon sale' in accordance with the *Valuation of Land Act 1971* and is determined in line with the property market evidence at that time. This value is deemed to be fair value for financial reporting purposes.

The Trust, as part of its operations, transfers non-current assets from one class to another and in doing so also transfers the relevant asset revaluation component from one class to another within the Equity asset revaluation reserve accounts. However, if the transferred assets have a revaluation component attached to them and their new class has a previous un-recouped decrement, the assets revaluation component shall remain in the asset revaluation reserve balance but unattached to an individual asset.

2.13 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 intangible assets, while depreciation is applied to physical assets such as property, plant and equipment.

The useful lives of all major assets held by Trust 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.

2.13 Depreciation and Amortisation of Non-Current Assets (continued)

Depreciation/amortisation for non-current assets is determined as follows:

Class of Asset	*Depreciation Method*	*Useful Life (Years)*
Rental properties (dwellings) *	Straight line	50
Administrative properties	Straight line	10-30
Plant and equipment	Straight line	3-10
Intangibles	Straight line	3

The capital works in progress and vacant properties (which consist mainly of land) are not depreciated.

* An estimated useful life of 50 years is assumed for rental dwellings buildings and depreciation expense is calculated at a rate of 2 percent per annum on the opening revalued amount for each property. This is consistent with the national accounting policy framework for State Housing Entities and promotes consistency and comparability between these entities.

2.14 Intangible Assets

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an asset as outlined in AASB 138 *Intangible Assets* and when the amount of expenditure is greater than or equal to $5 000, in accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 2.16.

All research and development projects that do not meet the capitalisation criteria outlined in AASB 138 are expensed.

Capitalised software is amortised over the useful life of the asset, with a maximum time limit for amortisation of three years, commencing from the time the asset is put into production.

2.15 Impairment

All non-current tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. If the amount by which the assets carrying amount exceeds the recoverable amount is material it is recorded as an impairment loss.

For revalued assets an impairment loss is offset against the asset revaluation reserve.

For 2004-05 and 2005-06 there was no material impairment loss.

2.16 Payables

Payables include creditors, accrued expenses, employee entitlements and employment on-costs, including workers compensation.

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 Trust.

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 11 *Payment of Creditors' Accounts* after the Trust receives an invoice.

The Trust is an exempt employer under the *Workers Rehabilitation and Compensation Act 1986*. The workers compensation provision relating to Department for Families and Communities employees assigned to the Trust has been recognised in the Balance Sheet as an amount payable by the Trust to the Department.

The workers compensation liability recognised for the employees assigned to the Trust is based on an apportionment of an actuarial assessment of the whole-of-government workers compensation liability conducted by Taylor Fry Consulting Actuaries based on 31 May data. Taylor Fry Consulting Actuaries extrapolate this data to 30 June. For the 2005-06 financial year the Trust has reflected a workers compensation provision of $1.332 million ($1.299 million).

The actuarial assessment conducted by Taylor Fry Consulting Actuaries is based on the Payment Per Claim Incurred (PPCI) valuation method. The assessment has been conducted in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the WorkCover Guidelines for Actuarial Assessments. The liability covers claims incurred but not yet paid, incurred but not reported and the anticipated direct and indirect costs of settling those claims. The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all the claims do not have to be paid out in the immediate future.

2.17 Employee Benefits

The Trust's staff are employees of the Department for Families and Communities (DFC) who have been assigned to the Trust. The accruing entitlements of departmental employees assigned to the Trust have been recognised in the Balance Sheet as an amount payable by the Trust.

In determining the outstanding payable to DFC, the Trust provision for long service leave is recognised and measured at the actuarial assessment of seven years as advised by the Department of Treasury and Finance, based on a significant sample of employees throughout the South Australian public sector. This calculation is consistent with the Trust experience of employee retention and leave taken.

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 salaries 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 2006 and is measured at the nominal, non-discounted amount, including a 4 percent inflation factor.

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

Accruing employee entitlements to long service and annual leave were charged to the Income Statement as they were incurred.

2.18 Superannuation

Trust staff are employees of the Department for Families and Communities (DFC) who are assigned to the Trust. The accruing entitlements of departmental employees assigned to the Trust have been recognised in the Balance Sheet as an amount payable by the Trust to the Department of Treasury and Finance.

Prior to 1 July 1995 the Trust made provision for its superannuation obligations in respect of contributors to the South Australian Superannuation Fund, in accordance with a formula recommended by the Public Actuary but did not make employer contributions to Super SA to cover this liability. Consequently the Trust recognises a provision to the Department of Treasury and Finance for this superannuation liability. This liability is subject to annual payment, including interest, such that it will be extinguished by 31 December 2025 as advised by the Department of Treasury and Finance (Super SA).

The liability at 30 June 2006 is based on the last actuarial review conducted by the consulting actuaries Brett & Watson Pty Ltd in June 2003. The Trust has been notified by Super SA that the scheduled actuarial review for 30 June 2006 could not be carried out due to contributors no longer being separately identified as relating to the Trust and so the liability remains based on the 30 June 2003 figure. Negotiations are being undertaken with the Department of Treasury and Finance to formally convert this provision to an interest bearing liability with the Treasurer in 2006-07.

Since 1 July 1995 the Trust has paid to the Department of Treasury and Finance (State Superannuation Fund) the incremental cost of its superannuation obligations as they were incurred.

During the year the Trust has provided for employer superannuation contributions at the average rate of 11 percent, on accruing employee entitlements to annual leave and on part of the provision for long service leave. Superannuation on-costs are included for part only of the long service leave provision in recognition that it is estimated that 65 percent of the provision will be paid as a lump sum payment on cessation of employment and will not be subject to employer superannuation contributions.

2.19 Insurance Provisions

The Trust has arranged, through SA Government Captive Insurance Corporation (SAICORP), to insure all major risk of the Trust. The excess payable under this arrangement varies depending on each class of insurance held. The amount of insurance reported in the Income Statement recognises the premium paid to SAICORP and any losses met by the Trust as deductibles under the cover.

The Trust undertakes annual reviews of insurance risks and provides for losses or other charges that are not covered by the Treasurer's indemnity with respect to each category of potential loss or claim reflected below.

The provision for Rental and Purchase Agreement Properties represent payments due to contractors for incurred claims where the works have not been finalised at balance date, the un-expensed write-down estimate of properties that have not been repaired and may be sold in a damaged condition, and for Rental Purchase and Sale Under Agreement properties an estimate for future claim payments for claims incurred but not reported at balance date.

The provision for Public Risk and Professional Indemnity includes estimates for future claim payments for reported claims with an allowance for claims incurred but not reported at balance date. This provision is internally calculated.

For all classes of insurance, claims liabilities are measured as the present values of the expected future payments.

2.20 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 Income Statement on a basis, which is representative of the pattern of benefits derived from the leased items.

As at 30 June 2006 the Trust has no finance leases.

2.21 Unearned Revenue

Lump sums received for leases assigned on Trust properties are progressively brought to account as income on a straight-line basis over the term of their respective agreements.

3 Financial Risk Management

The Trust has certainty with respect to the interest expense arising from the fixed rate concessional loans from the Treasurer, which comprises the major part of its debt. Note 27 contains details of the interest rates applicable to interest bearing liabilities and Note 32 contains details of the interest rates applicable to the cash held in the bank accounts.

The Trust is exposed to credit risk associated with the amounts due to it from tenants for rent and other charges. Credit risk is ameliorated by the fact that amounts due from individual tenants are relatively small. The Trust manages credit risk associated with its tenants by establishment of a Credit Policy which is communicated to Trust staff and tenants. The performance of individual tenants and of components of the total population of tenants are monitored and reported upon to Trust management and the Board.

The entity has calculated net fair value for Concessional Loans using estimated equivalent cost of borrowing at current yields for matching terms.

The fair value of the Trust's other financial assets and liabilities which are subject to normal trade credit terms, is considered to be book value.

In relation to liquidity/funding risk, the continued existence of the Trust in its present form, and with its present programs, is dependent on Government policy for the Trust's administration and outputs.

4. Changes in Accounting Policies

Explanation of Transition to Australian Equivalents to International Financial Reporting Standards

The South Australian Housing Trust has adopted the AIFRS for the first time for the period ended 30 June 2006.

	1 July 2004			30 June 2005		
	Previous AGAAP $'000	Adjustments $'000	AIFRS Adjusted $'000	Previous AGAAP $'000	Adjustments $'000	AIFRS Adjusted $'000
Current Assets	158 127	9 890	168 017	168 471	7 612	176 083
Non-Current Assets	4 256 542	(18 831)	4 237 711	5 302 795	(9 980)	5 292 815
Current Liabilities	53 161	-	53 161	59 842	-	59 842
Non-Current Liabilities	804 087	-	804 087	786 149	-	786 149
Equity:						
Retained earnings	928 532	(8 941)	919 591	977 404	(2 368)	975 036
(a) Error correction	-	(5 908)	5 908	-	-	-
(b) Intangible assets	6 921	(3 033)	3 888	8 514	(2 368)	6 146
Asset revaluation reserve	2 628 889	-	2 628 889	3 647 871	-	3 647 871
Total Equity	3 557 421	(8 941)	3 548 480	4 625 275	(2 368)	4 622 907
Net Result After Income Tax Equivalents	46 704	5 908	52 612	4 306	5 908	10 214
Total Cash Flows	26 463	-	26 463	12 777	-	12 777

The adoption of AIFRS has not resulted in any material adjustments to the Income Statement or Cash Flow Statement.

In accordance with AASB 138 *Intangible Assets*, the Trust no longer capitalises research costs in relation to research and development projects as this is prohibited by the standard.

Employee benefits payable later than 12 months from year-end will be measured at present value rather than at nominal amounts as required by AASB 119 *Employee Benefits*.

In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, the Trust has identified those non-current assets that it is highly probable will be disposed in the next 12 months and disclosed them as current assets.

Other Impacts of Adopting AIFRS

A major change is the treatment of accounting policy changes under AIFRS. These now apply retrospectively except for specific exemptions in accordance with another standard.

The resulting adjustments arising from events and transactions before the date of transition to AIFRS have been recognised directly in retained earnings at the date of transition to AIFRS.

Other Impacts of Adopting AIFRS (continued)
The estimates applied by the Trust under AIFRS are consistent with the estimates applied under previous Australian GAAP, after adjustments to reflect any differences in accounting policies.

There are also a number of Australian Accounting Standards that have been issued or amended and are applicable to the Trust but are not yet effective. The Trust has assessed the impact of the new or amended standards and there will be no impact on the Accounting Policies of the Trust.

Calculation of Income Tax Equivalents
In accordance with Treasurers Instruction 22, the Trust is now required to calculate its Income Tax equivalent based on the Accounting Profits method (refer Note 2.5) and apply the corporate income tax rate to the Net Result. Previously, the income tax liability of the Trust was based on the application of the corporate income tax rate to the net profit of certain property development activities of the Trust.

5. Programs of the South Australian Housing Trust

In achieving its objectives, the Trust has organised its operations into the following business programs:

Tenancy Management — Management of public housing tenancies including assessment of customers for eligibility, allocation of public houses to those in need, provision of rental subsidies, tenancy management, linking customers with appropriate support services, provision of transitional housing and management of supported tenancies by providing properties to support agencies.

Asset Management — Management of public housing assets including maintenance, area regeneration and urban renewal programs, stock replacement programs (construction, purchase and disposal), modification of houses for those with a disability and strategic management and planning for future public housing stock needs.

Private Rental Assistance — Provision of financial assistance, information, referral, advocacy and counselling to assist households who are experiencing instability, poverty or housing difficulty in the private rental market.

Net Allocated Expenses — The cost of goods and services indirectly contributing to the provision of the Trust's programs. These costs are allocated to programs through the expenditure category in which the costs were initially incurred.

6. Staffing Costs

	2006	2005
	$'000	$'000
Salaries and wages	**33 347**	30 375
Superannuation	**4 317**	4 076
Annual leave	**3 556**	3 058
Payroll tax	**2 501**	2 228
Other employee expenses	**1 680**	1 333
Long service leave	**1 506**	1 419
Workers compensation	**582**	1 648
Targeted Voluntary Separation Packages (TVSPs)	**427**	-
Board fees	**152**	143
Charged to capital program	**(5 246)**	(4 970)
Total Staffing Costs	**42 822**	39 310

Targeted Voluntary Separation Packages (TVSPs)

Amount paid to these employees:		
TVSPs	**427**	-
Annual leave and long service leave paid during the reporting period	**116**	-
	543	-
Recovery from the Department of Treasury and Finance (1)	**427**	119

(1) An amount of $119 000 was recovered in 2004-05 from the Department of the Premier and Cabinet pertaining to TVSPs paid in 2003-04.

Number of employees who were paid TVSPs during the reporting period was 5 (nil).

Remuneration of Employees

The number of employees whose remuneration received or receivable falls within the following bands:	**2006 Number**	2005 Number
$100 000 to $109 999	**7**	3
$110 000 to $119 999	**1**	3
$150 000 to $159 999	**3**	3
$160 000 to $169 999	**-**	1
$180 000 to $189 999	**1**	-
$230 000 to $239 999	**-**	1
$240 000 to $249 999	**1**	-
Total Number of Employees	**13**	11

The table includes all DFC employees assigned to the Trust who received remuneration of $100 000 or more during the year. Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, fringe benefits tax, and any other salary sacrifice benefits. The total remuneration received by these employees for the year was $1.733 million ($1.519 million).

Board Members' Remuneration

The Trust Board comprises seven members appointed by the Governor. The fees paid to Board members in their capacity as Board Members are set by Executive Council.

The number of board members whose remuneration for the Trust falls within the following bands:	**2006 Number**	2005 Number
$1 - $10 000	**2**	1
$10 001 - $20 000	**6**	5
$20 001 - $30 000	**1**	2
	9	8

	2006 $'000	2005 $'000
Total remuneration received, or due and received by board members from the Trust	**152**	143

The following persons held the position of board member during the financial year:

M Marsland (appointed 14 January 2006)
S Herzberg (resigned 2 January 2006)
M Slatter
J Dance
D Lee
J Hogan (resigned 13 January 2006)
M Patestos (appointed 3 January 2006)
J Connolly
G Foreman

7. Supplies and Services

	2006	2005
Supplies and services provided by entities within the SA Government:	**$'000**	$'000
Business service fee (2)	**13 139**	10 606
Insurance	**3 946**	3 780
Accommodation expenses	**3 363**	4 337
Motor vehicles	**1 666**	1 983
Staff development	**775**	116
Audit fees (refer Note 13)	**253**	271
Total Supplies and Services - SA Government Entities	**23 142**	21 093
Supplies and services provided by entities external to the SA Government:		
Contractors	**5 381**	3 925
Accommodation expenses	**3 267**	3 670
Printing, stationery and postage	**1 478**	1 512
Computer expenses	**1 197**	817
Agent fees	**1 186**	1 104
Administration expenses	**1 096**	970
Communications	**902**	908
Debt management	**514**	555
Travel and accommodation	**497**	406
Staff development	**263**	567
Consultants	**237**	434
Other customer related expenses	**230**	350
Tenant relocation	**201**	230
Charged to capital program	**(4 797)**	(3 705)
Total Supplies and Services - Non-SA Government Entities (3)	**11 652**	11 743
Total Supplies and Services	**34 794**	32 836

The total supplies and services amount disclosed includes GST amounts not-recoverable from the ATO due to the Trust engaging in input taxed activities, not holding a valid tax invoice or reimbursing payments related to a third party.

(2) The 2005-06 business service fee paid by the Trust to the DFC comprises $4.765 million service charge for services including human resources, internal audit, records management, taxation and payroll, insurance, purchasing and accommodation and fleet management. The remaining $8.324 million comprises $7.361 million in computing/mainframe service and usage charges, $0.137 million in vehicle hire charges and $0.830 million in GST expense on transactions between the Trust and DFC.

(3) The total may include supplies and services paid or payable to SA Government entities where the amount paid or payable to the SA Government entity was less than $100 000.

The number and dollar amount of consultancies paid/payable (included in supplies and services expense) that fell within the following bands:

	2006 Number	**2006 $'000**	2005 Number	2005 $'000
Below $10 000	**8**	**30**	14	49
Between $10 000 and $50 000	**8**	**140**	6	111
Above $50 000	**1**	**67**	2	274
Total Paid/Payable to the Consultants Engaged	**17**	**237**	22	434

8. Rental Property Expenses

	2006	2005
Rental properties expenses provided by entities within the SA Government:	**$'000**	$'000
Land tax equivalent	**115 898**	97 147
Water rates	**21 689**	21 175
Stamp Duty	**639**	83
Valuations	**129**	128
Emergency Services Levy	**124**	123
Total Rental Property Expenses - SA Government	**138 479**	118 656
Rental property expenses provided by entities external to the SA Government:		
Maintenance	**74 079**	66 491
Council rates	**29 519**	27 932
Property expenses	**293**	103
Total Rental Property Expenses - Non-SA Government Entities (4)	**103 891**	94 526
Total Rental Property Expenses	**242 370**	213 182

(4) The total may include rental property expenses paid or payable to SA Government entities where the amount paid or payable to the SA Government entity was less than $100 000.

9. Depreciation and Amortisation

Depreciation:		
Rental properties	**56 168**	53 314
Plant and equipment	**147**	138
Administrative properties	**99**	95
Total Depreciation	**56 414**	53 547
Amortisation:		
Intangible assets	**1 551**	2 086
Leasehold improvements	**665**	380
Total Amortisation	**2 216**	2 466
Total Depreciation and Amortisation	**58 630**	56 013

10. Grants and Subsidies

Grants and subsidies paid/payable to entities within the SA Government:		
One-off funding to Aboriginal Housing Authority	**-**	7 300
Affordable Housing Initiative (EquityStart subsidy to HomeStart)	**5 811**	-
Total Grants and Subsidies - SA Government Entities	**5 811**	7 300
Grants and subsidies paid/payable to entities external to the SA Government:		
Private rental assistance	**5 405**	5 484
Crisis accommodation	**2 614**	1 144
Social inclusion initiatives	**1 663**	964
Rent relief	**983**	1 295
Supported accommodation assistance program	**-**	1 900
Age care support	**-**	225
Other	**7**	127
Total Grants and Subsidies - Non-SA Government Entities (5)	**10 672**	11 139
Total Grants and Subsidies	**16 483**	18 439

(5) The total may include grants and subsidies paid or payable to SA Government entities where the amount paid or payable to the SA Government entity was less than $100 000.

11. Borrowing Costs

Interest on borrowings	**34 741**	35 619
Treasurer's guarantee fee	**5 777**	5 929
Interest accrued against provision for superannuation	**1 207**	1 337
Total Borrowing Costs - SA Government Entities	**41 725**	42 885

12. Other Expenses

Other expenses Non-SA Government:		
Asset write-offs (6)(7)	**8 668**	8 371
Bad and doubtful debts expense	**5 896**	7 141
Construction variances	**103**	1 886
Other	**96**	518
Total Other Expenses - Non-SA Government Entities (8)	**14 763**	17 916
Total Other Expenses	**14 763**	17 916

(6) The 2005-06 balance of asset write-offs includes an immaterial amount of $607 000 relating to prior period adjustments.

(7) Expensing of book value of assets demolished.

(8) The total may include other expenses paid or payable to SA Government entities where the amount paid or payable to the SA Government entity was less than $100 000.

13. Auditor's Remuneration

	2006	2005
	$'000	$'000
Audit fees paid/payable to the Auditor-General's Department	253	271
Total Audit Fees - SA Government Entities	**253**	271

Other Services

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

14. Rental Income

Rent received/receivable from entities external to the SA Government:		
Market rent income	**350 316**	342 002
Less: Rental rebates	**(147 694)**	(146 922)
Total Rent - Non-SA Government Entities (9)	**202 622**	195 080
Total Rent	**202 622**	195 080

(9) The total may include rental income received or receivable from SA Government entities where the amount received or receivable from the SA Government entity was less than $100 000.

15. Interest Revenues

Interest from entities within the SA Government	**6 015**	5 609
Interest from entities external to the SA Government	**101**	115
Total Interest	**6 116**	5 724

16. Net Gain from Disposal of Assets

Rental Properties:		
Proceeds from disposal	**49 677**	35 336
Net book value of assets disposed (10)(11)	**48 221**	27 230
Net Gain from Disposal Rental Properties	**1 456**	8 106
Inventory - Capital Works in Progress:		
Proceeds from disposal	**80 501**	59 991
Net book value of assets disposed (11)	**55 311**	47 014
Net Gain from Disposal of Completed Projects	**25 190**	12 977
Inventory - Vacant Land:		
Proceeds from disposal	**2 231**	2 050
Net book value of assets disposed (11)	**186**	807
Net Gain from Disposal of Vacant Land	**2 045**	1 243
Total Assets:		
Total proceeds from disposal	**132 409**	97 377
Total value of assets disposed (11)	**103 718**	75 051
Net Gain from Disposal of Assets	**28 691**	22 326

(10) The cost of sales comprise the carrying amount of the properties at the depreciated Valuer-General's property valuations, plus the costs of marketing and agent fees and the cost of separating services and titles in respect to double units sold. In establishing the property value, the Valuer-General includes the impact of capital improvements effected by the tenants. Tenants purchasing properties are allowed discounts consistent with their personal investment in the property.

(11) The balance of total value of assets disposed in 2005-06 includes an immaterial amount of $1.618 million relating to prior period adjustments.

17. Recoveries

	2006	2005
Recoveries received/receivable from entities within the SA Government:	$'000	$'000
Administrative services to other agencies	**4 267**	3 571
Total Recoveries - SA Government Entities	**4 267**	3 571
Recoveries received/receivable from entities external to the SA Government:		
Maintenance	**3 637**	4 032
Private Rental Assistance Program	**2 868**	2 954
Water charges	**1 607**	1 878
Total Recoveries - Non-SA Government Entities	**8 112**	8 864
Total Recoveries	**12 379**	12 435

18. Commonwealth Revenues

Rebate subsidy grant	**24 671**	24 092
Private Rental Assistance Program	**7 306**	6 528
Crisis accommodation	**3 093**	3 071
Rent relief	**798**	1 085
Total Commonwealth Revenues	**35 868**	34 776

19. Other Revenue

	2006 $'000	2005 $'000
Write-back of asset decrements	**2 326**	1 480
Bad debts recovered	**2 134**	2 124
Other	**781**	574
Total Other Revenue - Non-SA Government Entities	**5 241**	4 178

20. Revenues from SA Government

Tax equivalent reimbursement	**116 640**	105 149
CSHA general base funding	**12 080**	11 802
Other capital programs	**4 609**	1 751
General Purpose	**4 292**	3 421
Private rental assistance	**3 608**	3 219
Affordable Housing Initiative	**3 500**	15 420
Partial GST compensation	**3 030**	3 030
Social inclusion initiatives	**2 667**	720
Rent relief	**355**	498
Housing improvement and rent control	**580**	477
Capital funding urban renewal projects	**-**	15 000
Capital funding special purpose house purchases	**-**	3 300
Total Revenues from SA Government	**151 361**	163 787

21. Receivables

Current		
Receivables	**17 616**	17 022
Less: Provision for doubtful debts	**(4 620)**	(4 641)
GST receivable	**792**	49
Accrued revenues	**774**	726
TVSP recoverable	**427**	-
Prepayments	**171**	287
Interest bearing receivables	**15**	17
Tax equivalent regime grant receivable	**-**	7 511
Total Current Receivables	**15 175**	20 971
Non-current		
Receivables	**150**	300
Interest Bearing Receivables	**68**	169
Total Non-current Receivables	**218**	469
Total Receivables	**15 393**	21 440

Government/Non-Government Receivables

Receivables from SA Government entities:		
Receivables	**2 581**	1 789
GST receivable from Department of Health	**792**	49
Accrued revenues	**624**	560
TVSP recoverable	**427**	-
Tax equivalent regime grant receivable	**-**	7 511
Total Receivables - SA Government Entities	**4 424**	9 909
Receivables from Non-SA Government entities		
Receivables	**15 185**	15 533
Accrued revenues	**150**	166
Prepayments	**171**	287
Interest bearing receivables	**86**	186
Less: Provisions for doubtful debts	**(4 620)**	(4 641)
Total Receivables - Non-SA Government Entities (12)	**10 969**	11 531
Total Receivables	**15 393**	21 440

(12) The total may include receivables from SA Government entities where the amount due from the SA Government entity was less than $100 000.

Interest Rate and Credit Risk

Receivables are raised for all goods and services provided for which payment has not been received. Rent is payable in advance and charged weekly. All other receivables are subject to a term of 30 days. Other than recognised in the provision for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being received on demand. In addition, there is no concentration of credit risk.

Prepayments, accrued revenues and the majority of receivables are non-interest bearing.

The Trust has some minor interest bearing receivables relating to Shared Home Ownership mortgages.

Bad and Doubtful Debts

The Trust has recognised a bad and doubtful debts expense of $2.7 million in the Income Statement.

22. Inventories

	2006	2005
Current:	**$'000**	$'000
Capital work in progress	**45 843**	34 797
Developed land	**22 615**	16 418
Vacant land	**2 466**	2 519
Stores	**-**	22
Total Current Inventories	**70 924**	53 756
Non-Current:		
Capital work in progress	**727**	2 077
Total Non-Current Inventories	**727**	2 077
Total Inventories	**71 651**	55 833

The Trust does not have any inventories 'held for distribution' as defined in AASB 102 *Inventories*.

23. Non-Current Assets Classified as held for Sale

Current:		
Rental properties		
Land	**2 835**	3 798
Buildings	**3 378**	3 814
Total Non-Current Assets Classified as held for Sale	**6 213**	7 612

Non-Current Assets classified as Held for Sale relate to rental properties that are no longer required for public rental. These properties are offered for sale to the existing tenant (if tenanted) in the first instance and then to the public through listing with an agent.

The properties included in this category have either been contracted for sale and settlement is anticipated to occur within the next 12 months, or are currently listed for sale with an agent. Historical evidence shows that properties listed for sale generally sell within 6-8 weeks of listing.

24. Property, Plant and Equipment

	2006	2005
Rental properties:	**$'000**	$'000
Land:		
Land at Fair Value (13)	**2 849 819**	2 392 063
Buildings:		
Buildings at fair value (13)	**2 821 520**	2 806 857
Accumulated depreciation	**(37 501)**	(37 506)
Total Buildings	**2 784 019**	2 769 351
Total Rental Properties	**5 633 838**	5 161 414
Administrative properties:		
Land:		
Freehold Land	**785**	650
Buildings:		
Buildings	**2 196**	2 255
Accumulated depreciation	**(66)**	(64)
Total Buildings	**2 130**	2 191
Leasehold improvements:		
Leasehold improvements	**4 914**	3 895
Accumulated depreciation	**(2 049)**	(1 801)
Total Leasehold Improvements	**2 865**	2 094
Total Administrative Properties	**5 780**	4 935
Vacant Land:		
Land:		
Freehold Land	**15 294**	12 625
Improvements:		
Improvements	**25**	25
Total Vacant Land	**15 319**	12 650
Plant and Equipment:		
Plant and equipment at cost (deemed fair value)	**1 551**	1 468
Accumulated deprecation	**(696)**	(688)
Total Plant and Equipment	**855**	780
Capital works in progress:		
Freehold land	**79 843**	57 923
Buildings	**38 612**	46 421
Total Capital Works in Progress	**118 455**	104 344
Total Property, Plant and Equipment (14)	**5 774 247**	5 284 123

(13) Includes $29.779 million ($26.611 million) for properties subject to lease and management agreements and $14.607 million ($11.604 million) for properties subject to purchase by tenants under the Trust's Progressive Purchase Scheme. It excludes $0.145 million ($0.135 million) for a property transferred to the South Australian Aboriginal Housing Authority that is subject to management agreement with the Trust.

(14) The 2005-06 balance of Total Property, Plant and Equipment includes an immaterial amount of $1.633 million relating to prior period adjustments.

25. Intangible Assets

	2006	2005
Software:	**$'000**	$'000
Internally generated computer software	**6 965**	4 205
Accumulated amortisation	**(4 523)**	(2 972)
Total Computer Software	**2 442**	1 233
Work in progress computer system development	**8 095**	4 913
Total Intangible Assets	**10 537**	6 146

26. Payables

Current:		
Creditors	**15 834**	13 172
Employee entitlements	**3 524**	2 834
Accrued expenses	**1 941**	1 573
GST payable	**1 462**	338
Workers compensation	**371**	371
Tax equivalent regime payable	**-**	7 511
Total Current Payables	**23 132**	25 799
Non-Current:		
Employee entitlements	**4 112**	3 683
Workers compensation	**961**	928
Creditors	**198**	193
Total Non-Current Payables	**5 271**	4 804
Total Payables	**28 403**	30 603
Payables to SA Government entities:		
Creditors	**5 883**	3 233
Employee entitlements	**7 636**	6 517
Workers compensation	**1 332**	1 299
Accrued expenses	**1 941**	1 573
GST payable to DFC	**1 462**	338
Tax equivalent regime payable	**-**	7 511
Total Payables - SA Government Entities	**18 254**	20 471
Payables to Non-SA Government entities:		
Creditors	**10 149**	10 132
Total Payables to Non-SA Government Entities (15)	**10 149**	10 132
Total Payables	**28 403**	30 603

(15) The total may include payables to SA Government entities where the amount payable to the SA Government entity was less than $100 000.

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

All creditors, employee entitlements, workers compensation, accrued expenses and taxes are non-interest bearing.

27. Interest Bearing Liabilities

	2006	2005
Current:	**$'000**	$'000
Borrowings - SA Department of Treasury and Finance	**19 420**	18 560
Managed houses scheme	**243**	243
Total Current Interest Bearing Liabilities	**19 663**	18 803
Non-Current:		
Borrowings - SA Department of Treasury and Finance	**737 085**	756 505
Managed houses scheme	**3 704**	3 947
Total Non-Current Interest Bearing Liabilities	**740 789**	760 452
Total Interest Bearing Liabilities	**760 452**	779 255
Interest Bearing Liabilities to SA Government entities:		
Borrowings - SA Department of Treasury and Finance	**756 505**	775 065
Managed houses scheme	**2 632**	2 793
Interest Bearing Liabilities to SA Government Entities	**759 137**	777 858
Interest Bearing Liabilities to Non-SA Government entities:		
Managed houses scheme	**1 315**	1 397
Interest Bearing Liabilities to Non-SA Government Entities	**1 315**	1 397
Total Interest Bearing Liabilities	**760 452**	779 255

27. Interest Bearing Liabilities (continued)

South Australian Department of Treasury and Finance loans consist of concessional interest rate borrowing (originally under the Commonwealth/State Housing Agreement), of $756.5 million ($775.1 million) which are repayable over a period of 53 years, with the final instalment scheduled for the year 2042. The loans are subject to principal repayments and interest at fixed interest rates ranging from 3.0 percent to 5.73 percent (3.0 percent to 5.73 percent). The weighted average interest rate is 4.5 percent (4.5 percent).

The fair value of the concessional housing loans is $633.614 million ($691.648 million).

28. Provisions

	2006	2005
Current:	$'000	$'000
Superannuation	**1 377**	1 324
Public risk	**1 012**	1 011
Insurance of rental and purchase agreement properties	**700**	581
Professional indemnity	**192**	241
Total Current Provisions - SA Government Entities	**3 281**	3 157
Non-Current:		
Superannuation	**17 672**	17 841
Total Non-Current Provisions - SA Government Entities	**17 672**	17 841
Total Provisions	**20 953**	20 998

	Super-annuation $'000	Insurance of of Rental and Purchase Agreement Properties $'000	Public Risk $'000	Professional Indemnity $'000	**2006 Total $'000**
Carrying amount at 1 July	19 165	581	1 011	241	**20 998**
Additional provisions recognised	1 208	2 349	5 260	54	**8 871**
Payments made	(1 324)	(15)	(115)	(10)	**(1 464)**
Unused amount reversed	-	(2 215)	(5 144)	(93)	**(7 452)**
Carry Amount at 30 June	19 049	700	1 012	192	**20 953**

29. Other Liabilities

	2006	2005
Current:	$'000	$'000
Rent received in advance	**5 508**	8 175
Deposits held:		
Tenant deposits held	**2 116**	2 080
Sale deposits held	**528**	1 828
Unearned revenue	**123**	-
Total Current Other Liabilities - Non-SA Government Entities (16)	**8 275**	12 083
Non-Current:		
Unearned revenue	**2 864**	3 052
Total Non-Current Other Liabilities - Non-SA Government Entities (16)	**2 864**	3 052
Total Other Liabilities	**11 139**	15 135

(16) The total may include other liabilities to SA Government entities where the amount payable to the SA Government entity was less than $100 000.

30. Commitments for Expenditure

Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2006	2005
	$'000	$'000
Not later than one year	**27 236**	30 059
Later than one year but not later than five years	**1 000**	-
Later than five years	**-**	-
Total Capital Commitments	**28 236**	30 059

Recurrent Commitments

The Trust's recurrent commitments are for agreements for expenditure on operations, maintenance and grant funded programs contracted but not provided for and payable, are as follows:

Not later than one year	**6 850**	9 103
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
Total Recurrent Commitments	**6 850**	9 103

Management Agreement Commitments

The Trust's management agreement commitments are to manage houses subject to lease arrangements with Funds SA and Colonial First State (formerly Motor Accident Commission) which are contracted but not provided for and payable. The commitments are as follows:

	2006	2005
	$'000	$'000
Not later than one year	**1 052**	1 087
Later than one year but not later than five years	**4 477**	4 313
Later than five years	**16 418**	17 356
Total Management Agreement Commitments	**21 947**	22 756

Operating Lease Commitments

The Trust's operating leases are for office accommodation. The leases are non-cancellable with terms ranging up to 10 years with some leases having the right of renewal.

Commitments under non-cancellable operating leases at the reporting date that are not recognised as liabilities in the financial report, are payable as follows:

	2006	2005
	$'000	$'000
Not later than one year	**4 609**	4 596
Later than one year but not later than five years	**13 347**	16 212
Later than five years	**2 479**	2 826
Total Operating Lease Commitments	**20 435**	23 634

31. Contingent Assets and Liabilities

Contingent Assets

South Australian Housing Trust does not have any contingent assets as at 30 June 2006.

Contingent Liabilities

Bond Guarantee Scheme

Under the bond guarantee scheme a guarantee for the bond is given to the landlord. In the event of a claim by a landlord, the Residential Tenancies Branch makes a payment. The Trust then reimburses the Residential Tenancies Branch and the private rental customer becomes liable to the Trust for the amount. The Trust recovers amounts reimbursed to the Residential Tenancies Branch from the private rental customer. The value of bond guarantees issued and outstanding at 30 June 2006 is $12.861 million ($12.303 million). The value of claims made this financial year is $2.844 million ($2.798 million).

The Trust pays interest at an agreed market determined rate to the Residential Tenancies Branch based on the daily outstanding balance of bond guarantees issued.

Progressive Purchase Scheme

Under this scheme the Trust owns portions of properties as tenant in common with other persons. Where the Trust has signed agreements with lending institutions advancing persons mortgage monies, the Trust can be called upon in cases of default to purchase the defaulter's interest at current market value. Approximately 68 of the properties included in the scheme are subject to mortgages with a collective loan balance of $2.290 million ($2.334 million). The tenants' share of the value of the properties subject to mortgage is estimated to be $6.552 million ($4.731 million), based on the Valuer-General's overall capital value.

Rental Purchase and Sale Under Agreement House Purchase Schemes

The rental purchase and sale under agreement portfolio was transferred to HomeStart Finance on 10 December 1993 and due to conditions in some of the agreements, the Trust remains responsible to make good for loss or damage to the subject properties for specific events. The Trust remains the legal owner of these properties until they are transferred to the purchasers upon completion of this agreement. The properties included in the scheme that are subject to indemnity clauses have a collective estimated replacement value of $3.900 million ($4.480 million). These properties together with the Trust's and the South Australian Aboriginal Housing Authority (AHA) rental properties are subject to an agency agreement with South Australian Government Captive Insurance Corporation (SAICORP) and in the event of a claim will be indemnified by the Treasurer so as to limit the combined exposure of the Trust and the AHA to $1 million.

Properties Subject to Lease Agreement

The South Australian Housing Trust transferred properties to the South Australian Aboriginal Housing Authority (AHA) that are subject to a lease/management agreement. The agreement provides for the Trust to purchase the properties on vacancy of the current AHA tenant. The total value of properties subject to this agreement is $0.145 million ($0.135 million).

Bonding Agreements with Local Government

The South Australian Housing Trust is required by the City of Port Adelaide Enfield to execute Bonding Agreements in relation to the Trust's Gilles Plains and Kilburn South projects. The Council requires the agreements to be supported by a guarantee from the South Australian Government Financing Authority. As at 30 June 2006 the bond stands at $0.882 million ($1.783 million).

32. Cash Flow Reconciliation

	2006	2005
Reconciliation of cash - Cash at year end:	**$'000**	$'000
Cash Flow Statement	**98 114**	93 744
Balance Sheet:		
Deposits with the Treasurer	**25 125**	20 391
Cash held at SAFA Cash Management Fund	**70 940**	71 312
Cash - Development projects	**1 423**	1 193
Deposits at call with other entities	**586**	809
Cash on hand	**40**	39
Total Cash per Balance Sheet	**98 114**	93 744
Reconciliation of Net Cash inflows from Operating Activities to Net Cost of Providing Services:		
Net cash provided by (used in) operating activities	**27 928**	61 399
Less: Revenues from SA Government	**151 361**	163 787
	(123 433)	(102 388)
Add (Less): Non-Cash Items:		
Depreciation and amortisation	**(58 630)**	(56 013)
Net gain from disposal of non-current assets	**28 691**	22 326
Provision for doubtful debts	**20**	(606)
Construction variance, surplus on property	**(103)**	(1 886)
Provision adjustment	**(53)**	170
Revaluation adjustment	**2 326**	1 479
Notional interest on superannuation provision	**(1 207)**	(1 337)
Income tax equivalent	**-**	7 511
Buildings written off	**(8 668)**	(8 371)
	(37 624)	(36 727)
Changes in Assets/Liabilities:		
(Decrease) Increase in Receivables	**(8 140)**	(9 108)
Decrease in Payables	**4 508**	3 008
Decrease in Provisions	**1 323**	1 811
Decrease (Increase) in Other liabilities	**2 696**	(2 658)
	387	(6 947)
Net Cost of Providing Services	**(160 670)**	(146 062)

Deposits with the Treasurer
Relates to working cash held in the Westpac Working account through the Department of Treasury and Finance.

Cash - Development Projects
Relates to ANZ accounts held for Playford and Westwood development projects.

Cash Held at SAFA
In August 2004 a policy decision was made to hold surplus cash in a Cash Management Fund at SAFA.

Deposits at Call with Other Entities
Tenants can make payments through Australia Post. This account relates to monies received by Australia Post on behalf of the Trust that have not been transferred to the Westpac working account as at balance date.

Interest rates applicable at 30 June 2006:

Deposits with the Treasurer:	5.10 percent to 5.40 percent (5.15 percent to 5.35 percent)
Cash - Development Projects:	2.58 percent to 5.67 percent (0.0 percent to 5.50 percent)
Cash held at SAFA Cash Management Fund:	5.60 percent to 5.70 percent (5.42 percent to 5.70 percent)

The cash balance being held includes funds relating to the Affordable Housing Initiative.

33. Events After Balance Date

The Minister for Housing has announced the introduction of the Government's Housing Reform and the restructure of the South Australian Housing system. To facilitate the implementation of the government's housing initiatives, prior to the introduction by the Government of legislative reforms later in 2006-07, the Board of the Trust has entered into a Service Level Agreement with the Department for Families and Communities for the Department to provide Housing and Asset Services on behalf of the Housing Trust effective from 1 July 2006. This arrangement had no material impact on the financial affairs of the Trust for 2005-06.

34. Reconciliation of Non-current Assets

The following table shows the movement of non-current assets (excluding receivables) during 2005-06

	Rental Properties Land $'000	Rental Properties Buildings $'000	Admin Properties Land $'000	Admin Properties Buildings $'000	Admin Properties Leasehold Improve-ments $'000	Vacant Land Land $'000	Vacant Land Improve-ments $'000
Carrying amount at July	2 392 063	2 769 351	650	2 191	2 094	12 625	25
AIFRS adjustments	3 798	3 814	-	-	-	-	-
Additions	31 999	74 277	56	24	3 750	6 930	-
Assets classified as held for sale 2005-06	(2 835)	(3 378)	-	-	-	-	-
Disposals	(106 771)	(53 066)	-	-	(2 731)	(6 583)	-
Revaluation increment (decrement)	531 509	(6 086)	79	(83)	-	2 322	-
Depreciation and amortisation expenses	-	(56 168)	-	(99)	(665)	-	-
Depreciation and amortisation on disposals	-	524	-	-	417	-	-
Depreciation and amortisation on net revaluation decrements	-	55 671	-	97	-	-	-
Other movements	56	(920)	-	-	-	-	-
Carrying Amount at 30 June	2 849 819	2 784 019	785	2 130	2 865	15 294	25

	Plant and Equipment $'000	Capital Work in Progress (17)Land $'000	Capital Work in Progress (17)Buildings $'000	Intangibles Intangibles $'000	Intangibles WIP $'000	Inventories $'000	**Total Non-Current Assets $'000**
Carrying amount at July	780	57 923	46 421	1 233	4 913	2 077	**5 292 346**
AIFRS adjustments	-	-	-	-	(3 033)	-	**4 579**
Additions	222	21 920	-	2 760	6 626	-	**148 564**
Assets classified as held for sale 2005-06	-	-	-	-	-	-	**(6 213)**
Disposals	(139)	-	(7 809)	-	-	(1 350)	**(178 449)**
Revaluation increment (decrement)	-	-	-	-	-	-	**527 741**
Depreciation and amortisation expenses	(147)	-	-	(1 551)	-	-	**(58 630)**
Depreciation and amortisation on disposals	139	-	-	-	-	-	**1 080**
Depreciation and amortisation on net revaluation decrements	-	-	-	-	-	-	**55 768**
Other movements	-	-	-	-	(411)	-	**(1 275)**
Carrying Amount at 30 June	855	79 843	38 612	2 442	8 095	727	**5 785 511**

(17) These movement amounts represent the net movement in Capital Works in Progress accounts.

SOUTH AUSTRALIAN METROPOLITAN FIRE SERVICE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment and Legislative Changes

The South Australian Metropolitan Fire Service (MFS) was established under the *South Australian Metropolitan Fire Service Act 1936*. On 1 October 2005, the *Fire and Emergency Services Act 2005* came into operation. That act repealed the *South Australian Metropolitan Fire Service Act 1936* and established the South Australian Fire and Emergency Services Commission (SAFECOM), however the MFS continues in existence as a body corporate under the new act. SAFECOM, in performing its functions, may give directions to the MFS.

Functions

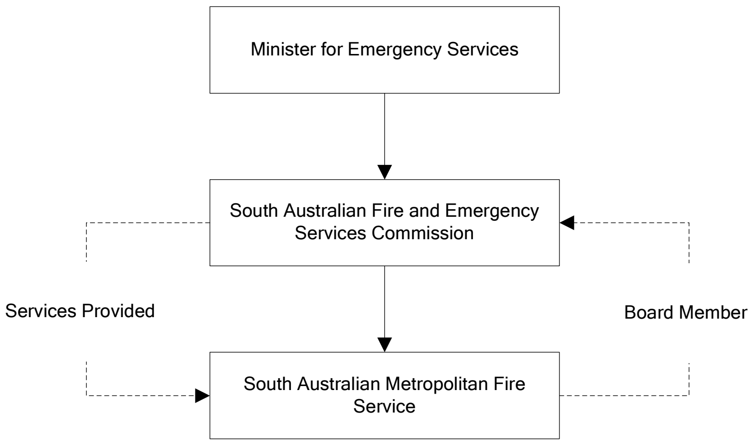
MFS has the following functions:

- To provide services with a view to preventing the outbreak of fires, or reducing the impact of fires in any fire district.
- To provide efficient and responsive services in any fire district for the purpose of fighting fires, dealing with other emergencies or undertaking any rescue.
- To protect life, property and environmental assets from fire or other emergencies in any fire district.
- To develop and maintain plans to cope with the effects of fires or emergencies in any fire district.
- To provide services or support to assist with recovery in the event of a fire or other emergency in a fire district.

Structure

The Chief Officer of MFS is responsible for the management and administration of the MFS and is also a board member of SAFECOM.

The structure of the South Australian Metropolitan Fire Service is illustrated in the following organisation chart.



SAFECOM provides various services in support of the MFS's primary functions, including strategic risk management, financial management and accounting services.

The MFS's financial management is heavily reliant on information and reporting provided by SAFECOM.

The operations of MFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998.*

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 52(2) of the *Fire and Emergency Services Act 2005* and subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provide for the Auditor-General to audit the accounts of MFS 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 MFS during 2005-06 required Audit to direct much of its focus to the audit of the centralised accounting structure maintained by SAFECOM and to test transactions at this level.

During 2005-06, specific areas of audit attention included:

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

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, 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 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 MFS and the related responses are considered herein.

Payroll

MFS is reliant on the services of SAFECOM for the processing of its payroll information. The audit revealed that there was room for improvement in relation to some of the services provided by SAFECOM including the timely processing of payroll information, which may affect items such as employee terminations, and also the timely issue and follow up of bona fide reports. Issues relating to bona fide reports were raised in 2005.

Other areas identified for improvement were the monitoring and management of excessive annual leave balances for certain employees. This issue was raised in 2005.

MFS advised that action will be taken to address the issues raised.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006 $'million	2005 $'million	Percentage Change
INCOME			
Contributions from government	**82**	76	8
Other revenue	**7**	7	-
Total Income	**89**	83	6
EXPENSES			
Employee benefits costs	**64**	64	-
Other	**17**	23	(26)
Total Expenses	**81**	89	(9)
Surplus (Deficit)	**8**	(6)	n/a
Net Cash Flows from Operations	**10**	7	43
ASSETS			
Current assets	**25**	30	(17)
Non-current assets	**114**	90	27
Total Assets	**139**	120	16
LIABILITIES			
Current liabilities	**11**	17	(35)
Non-current liabilities	**16**	19	(16)
Total Liabilities	**27**	36	(25)
EQUITY	**112**	84	33

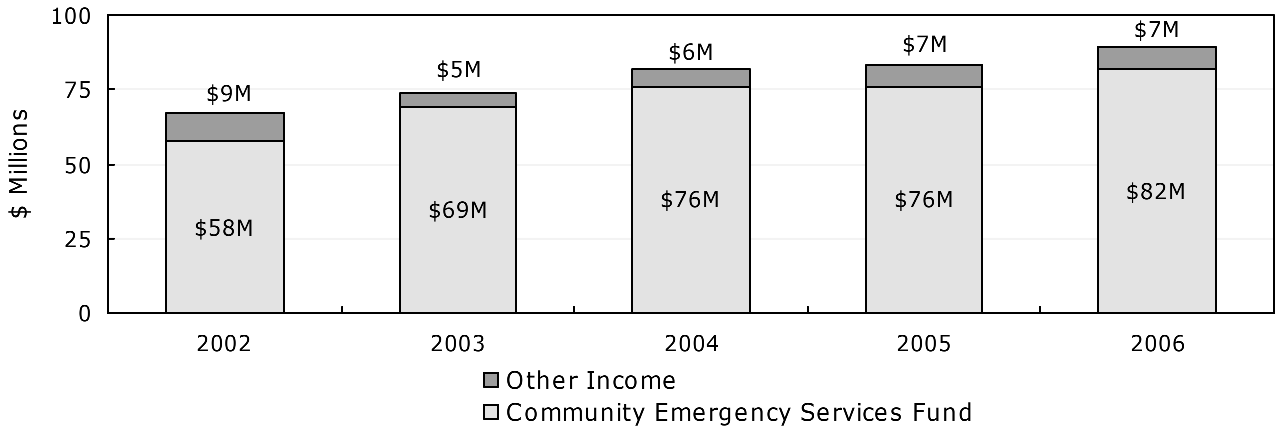
Income Statement

Income

MFS is essentially funded from the contribution from the Community Emergency Services Fund. Income from other sources has typically represented only a small percentage of total income.

The contributions from the Community Emergency Services Fund in 2006 increased by $6.3 million to $82.3 million which represents 92 percent of MFS's total income.

A structural analysis of income for MFS for the five years to 2006 is presented in the following chart.



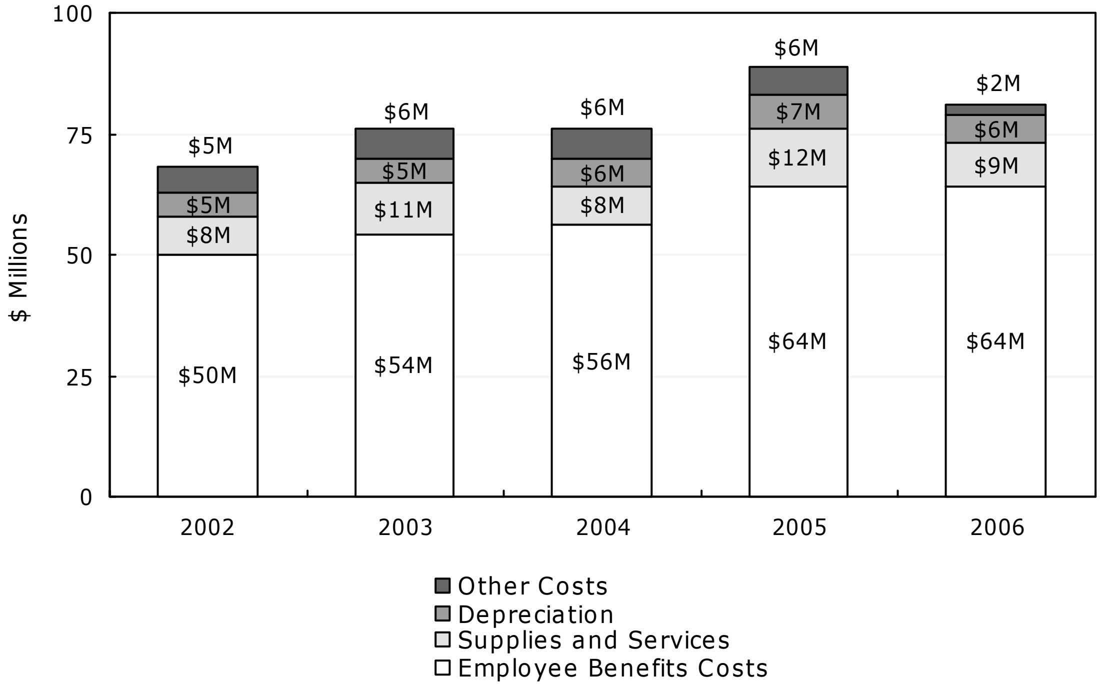
Expenses

Total expenses decreased by $8.2 million to $80.9 million compared to a $12.9 million increase in 2005.

Employee benefits costs decreased by $138 000 to $63.5 million primarily as a result of increased salaries and wages costs (up $1.6 million) offset by a decrease in long service leave costs of $1.4 million. Employee benefits costs account for over 78 percent of the total expenses of MFS.

Supplies and services decreased by $3.4 million due mainly to a decrease in workers compensation costs of $3.5 million. Other expenses also fell due mainly to the Emergency Services Administrative Unit recharge which decreased by $2.9 million as a result of changed administrative and funding arrangements. Depreciation also decreased by $877 000.

For the five years to 2006, a structural analysis of the main operating expense items for MFS is shown in the following chart.



Net Result

MFS has recorded a surplus of $8 million in 2006 following the deficit of $6 million the previous year. As can be seen from the chart the net result for MFS has fluctuated over the past five years with differing factors contributing to the various results. However, the one constant factor is the impact that the level of funding received from the Community Emergency Services Fund (the Fund) has on the net result.

The surplus in 2006 was a result of increased contributions from the Community Emergency Services Fund (up $6.3 million) and a decrease in expenses of $8.2 million mainly as a result of decreased administrative recharge costs (down $2.9 million) following revised operating and funding arrangements and decreased supplies and services (down $3.4 million).

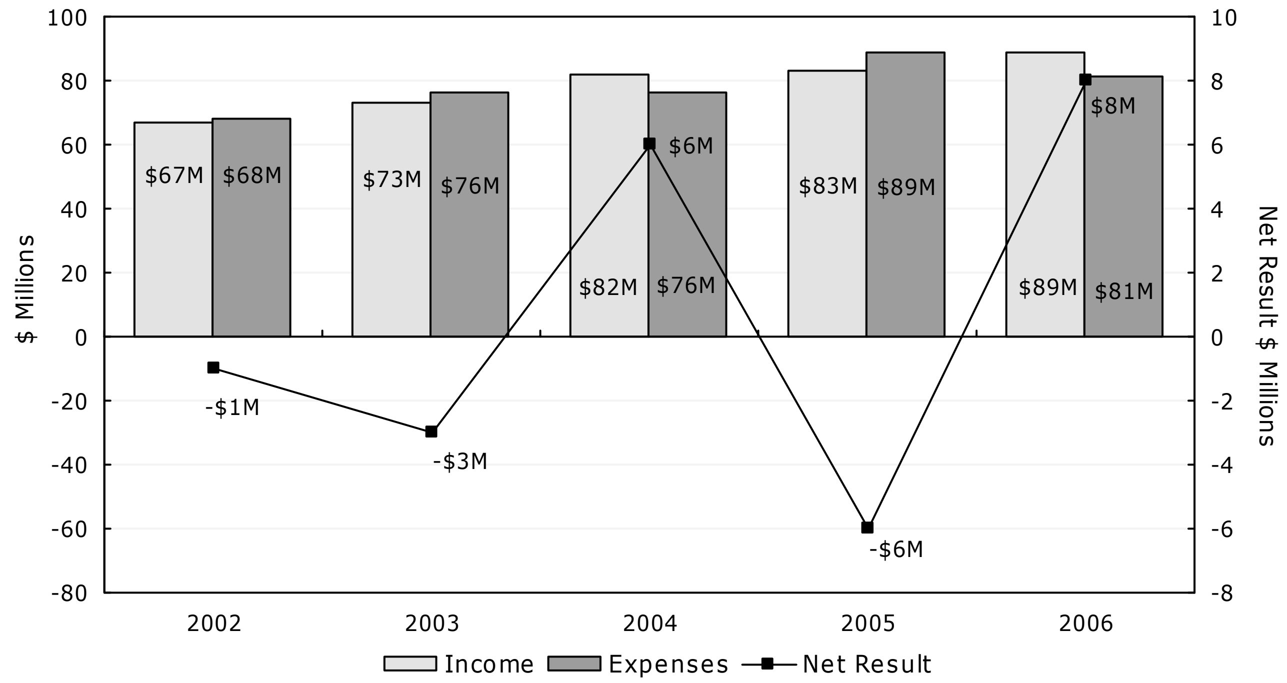
The deficit of $6 million in 2005 came about mainly as a result of increased employee expenses and supplies and services costs.

In 2004 the surplus position was achieved through an increase in revenue from the Community Emergency Services Fund in that year.

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.

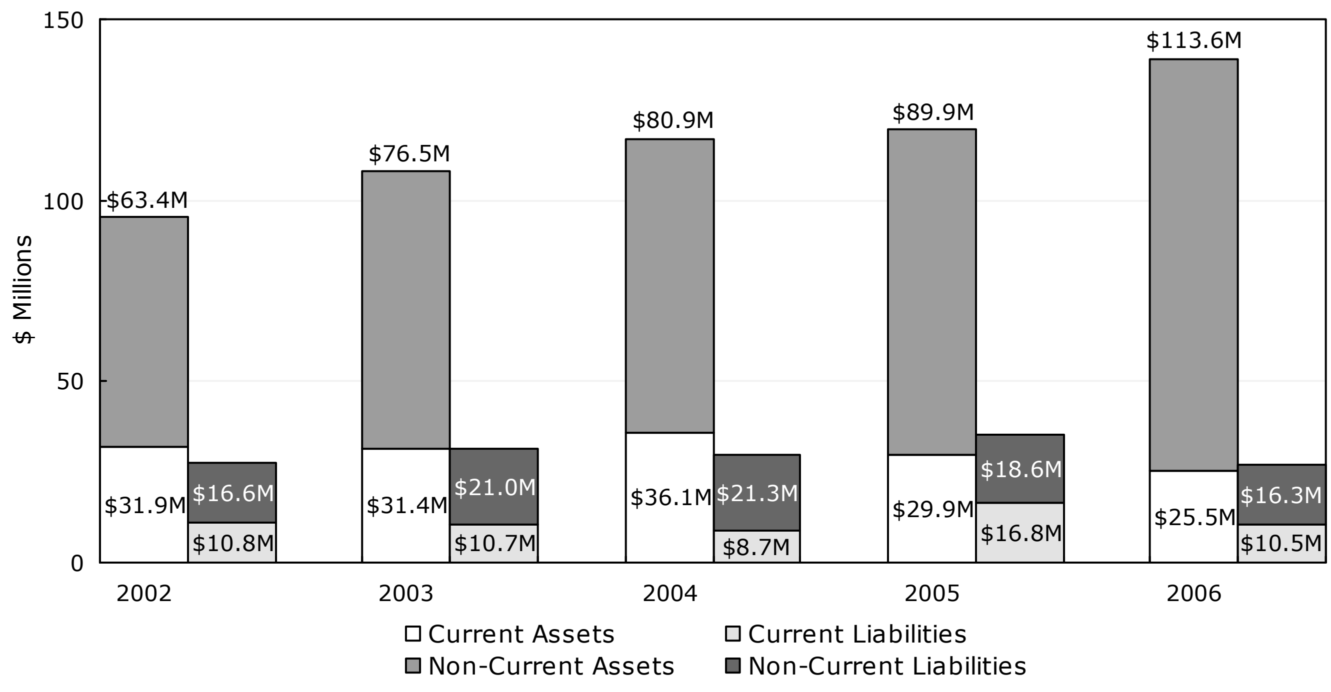
The result in 2002 reflected the budgetary decision to reduce contributions from the Community Emergency Services Fund by $6 million offset by net revenue from restructuring of $5 million arising from the transfer of the former ETSA Skills Centre.

The following chart shows the income, expenses and net result for the five years to 2006.



Balance Sheet

For the five years to 2006, a structural analysis of assets and liabilities is shown in the following chart.



MFS's financial position is dominated by the non-current asset 'property, plant and equipment' which has grown by 80 percent over the five year period primarily as a result of asset purchases and revaluation of assets. Current liabilities decreased by $6.3 million in 2006 due mainly to settlement of an interest bearing liability.

The chart also demonstrates that MFS has had a strong position in relation to its coverage of current assets to current liabilities over the five year period.

Cash Flow Statement

The following table summarises the net cash flows for the five years to 2006.

	2006 $'million	2005 $'million	2004 $'million	2003 $'million	2002 $'million
Net Cash Flows					
Operations	**10.2**	7.5	9.4	5.5	0.5
Investing	**(9.6)**	(11.7)	(5.6)	(6.7)	(5.0)
Financing	**(5.2)**	-	-	-	-
Change in Cash	**(4.6)**	(4.2)	3.8	(1.2)	(4.5)
Cash at 30 June	**24.4**	29.0	33.2	29.4	30.6

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. Although there was little difference between the net cash flows from operations and investing activities in 2006, MFS does have commitments for capital expenditure as at 30 June 2006 totalling $4.1 million which may further reduce the cash holdings.

In 2006 cash flows from financing activities represented the repayment of an outstanding loan held in relation to the MFS Headquarters building. All of MFS's interest bearing liabilities have now been extinguished.

Overall MFS's cash reserves are strong in comparison to annual net cash flows.

Income Statement
for the year ended 30 June 2006

	Note	**2006**	2005
		$'000	$'000
EXPENSES:			
Employee benefits costs	5	**63 452**	63 590
Supplies and services	6	**8 695**	12 045
Government Radio Network costs	8	**1 413**	1 438
Emergency Services Administrative Unit recharge		**983**	3 863
Interest		**-**	751
Depreciation	9	**6 368**	7 245
Net loss from disposal of assets	10	**-**	224
Total Expenses		**80 911**	89 156
INCOME:			
Revenue from fees and charges	11	**2 498**	2 412
Interest		**1 708**	1 827
Other income	12	**1 968**	2 377
Net gain from disposal of assets	10	**275**	-
Total Income		**6 449**	6 616
NET COST OF PROVIDING SERVICES		**74 462**	82 540
REVENUES FROM SA GOVERNMENT:			
Contributions from Community Emergency Services Fund		**82 293**	76 017
NET RESULT BEFORE RESTRUCTURE		**7 831**	(6 523)
Net expense from administrative restructure	21	**115**	-
NET RESULT AFTER RESTRUCTURE		**7 716**	(6 523)

THE NET RESULT AFTER RESTRUCTURE IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

Balance Sheet
as at 30 June 2006

	Note	**2006**	2005
CURRENT ASSETS:		**$'000**	$'000
Cash and cash equivalents	13	**24 418**	29 027
Receivables	14	**1 105**	867
Total Current Assets		**25 523**	29 894
NON-CURRENT ASSETS:			
Property, plant and equipment	15	**113 560**	89 875
Total Non-Current Assets		**113 560**	89 875
Total Assets		**139 083**	119 769
CURRENT LIABILITIES:			
Payables	16	**2 391**	2 575
Interest bearing liabilities		**-**	5 226
Short-term and long-term employee benefits	17	**6 931**	7 515
Short-term provisions	18	**1 215**	1 489
Total Current Liabilities		**10 537**	16 805
NON-CURRENT LIABILITIES:			
Payables	16	**937**	1 467
Long-term employee benefits	17	**10 543**	10 419
Long-term provisions	18	**4 847**	6 738
Total Non-Current Liabilities		**16 327**	18 624
Total Liabilities		**26 864**	35 429
NET ASSETS		**112 219**	84 340
EQUITY:			
Retained earnings		**32 364**	24 648
Asset revaluation reserve		**79 855**	59 692
TOTAL EQUITY		**112 219**	84 340

THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

Commitments	19		

Statement of Changes in Equity
for the year ended 30 June 2006

	Asset Revaluation Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 30 June 2004	55 900	31 171	87 071
Gain on revaluation of property during 2004-05	3 792	-	3 792
Net Result for 2004-05	-	(6 523)	(6 523)
Total Recognised Income and Expense for 2004-05	3 792	(6 523)	(2 731)
Balance at 30 June 2005	59 692	24 648	84 340
Gain on revaluation of property during 2005-06	20 163	-	20 163
Net Result after Restructure for 2005-06	-	7 716	7 716
Total Recognised Income and Expense for 2005-06	20 163	7 716	27 879
Balance at 30 June 2006	**79 855**	**32 364**	**112 219**

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

		2006	2005
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		**(Outflows)**	(Outflows)
CASH OUTFLOWS:	Note	**$'000**	$'000
Employee benefits payments		**(64 027)**	(60 692)
Supplies and services		**(11 623)**	(9 352)
Government Radio Network costs		**(904)**	(1 400)
Emergency Services Administrative Unit recharge		**(982)**	(3 863)
Finance costs		**-**	(751)
GST payments on purchases		**(1 927)**	(2 601)
Cash used in Operations		**(79 463)**	(78 659)
CASH INFLOWS:			
Contributions from Community Emergency Services Fund		**82 293**	76 017
Fees and charges		**2 498**	4 710
Interest received		**1 708**	1 842
GST receipts on receivables		**569**	349
GST input tax credits		**1 755**	1 993
Other receipts		**872**	1 215
Cash generated from Operations		**89 695**	86 126
Net Cash provided by Operating Activities	20	**10 232**	7 467
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(11 667)**	(11 668)
Proceeds from the sale of property, plant and equipment		**2 052**	6
Net Cash used in Investing Activities		**(9 615)**	(11 662)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of loans		**(5 226)**	-
Net Cash used in Financing Activities		**(5 226)**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4 609)**	(4 195)
CASH AND CASH EQUIVALENTS AT 1 JULY		**29 027**	33 222
CASH AND CASH EQUIVALENTS AT 30 JUNE	13	**24 418**	29 027

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

Objectives

The South Australian Metropolitan Fire Service (MFS) continues in existence under the *Fire and Emergency Services Act 2005* (the Act) and under the Act has the following functions:

- to provide services with a view to preventing the outbreak of fires, or reducing the impact of fires, in any fire district;
- to provide efficient and responsive services in any fire district for the purpose of fighting fires, dealing with other emergencies or undertaking any rescue;
- to protect life, property and environmental assets from fire or other emergencies in any fire district;
- to develop and maintain plans to cope with the effects of fires or emergencies in any fire district;
- to provide services or support to assist with recovery in the event of a fire or other emergency in a fire district; and
- to perform any other function assigned to the MFS by or under this or any other Act.

The *South Australian Metropolitan Fire Service Act 1936* was repealed at the proclamation of the new Act.

Funding

Funding of MFS is primarily derived from the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998.*

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 (AASB);
- other mandatory professional reporting requirements in Australia.

These Financial Statements are the first statements to be prepared in accordance with Australian Equivalent to International Financial Reporting Standards (AIFRS). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these statements. Previous Financial Statements were prepared in accordance with Australian Generally Accepted Accounting Principles.

MFS's Income Statement, Balance Sheet and Statement of Changes in Equity 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 Cash Flow Statement has been prepared on a cash basis.

The financial report has been based on a 12 month operating cycle and is presented in Australian currency.

(b) Comparative Information

The presentation and classification of items in the financial report are consistent with the prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change.

(c) Rounding

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

(d) Taxation

MFS is not subject to income tax. MFS is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

In accordance with the requirements of Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*, income, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by MFS 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) Income and Expenses

Income and expense are recognised in MFS's Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured.

Income and expenses have been classified according to their nature in accordance with the Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5 and have not been offset unless required or permitted by a specific accounting standard.

In accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APSs 4.1 and 4.2 the financial report's notes disclose income, expenses, financial assets and financial liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Income from fees and charges are derived from the provision of goods and services to other SA Government agencies and to the public. This income is recognised upon delivery of the service to the clients or by reference to the stage of completion.

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 SA Government annually. (Refer Note 11)

Income from the disposal of assets is recognised when control of the asset has passed to the buyer and is determined by comparing proceeds with the carrying amount.

(e) Income and Expenses (continued)

Resources received free of charge are recorded as income in the Income Statement at their fair value in accordance with the Accounting Policy Framework III *Asset Accounting Framework* APS 2.12.

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

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 South Australian Country Fire Service (SACFS) and MFS. The grant reported as income is the portion received by MFS.

(f) Revenues from SA Government

Contributions from the Community Emergency Services Fund are recognised as income when MFS obtains control over the funding. Control over funding is normally obtained upon receipt.

(g) Cash and Cash Equivalents

For the purposes of the of Cash Flow Statement, cash includes cash on hand and cash at bank. Cash is measured at nominal value.

(h) Receivables

Receivables arise in the normal course of selling goods and services to other agencies and to the public. Receivables are receivable 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 debtors, MFS is able to charge interest at commercial rates until the whole amount is paid.

MFS determines an allowance 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.

(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 Balance Sheet.

In accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 2.15 all non-current tangible assets with a value of $10 000 or greater are capitalised.

(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) Plant and equipment, computer equipment and communications equipment are at historical cost.

(ii) Independent valuations for land, buildings and vehicles were determined in 2005-06 by Liquid Pacific Holdings Pty Ltd on the basis of open market values for existing use.

(iii) Capital works in progress represent costs accumulated during the construction or development of an asset and is valued at cost.

(k) Impairment

All non-current tangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

For revalued assets an impairment loss is offset against the asset revaluation reserve.

Impairment is generally limited to where an asset's depreciation is materially understated or where the replacement cost is falling.

(l) 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	5-25
Plant and equipment	5-10
Computer equipment	5-10
Buildings	30-45

(m) 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 MFS.

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 payables are measured at their nominal amount and are normally settled within 30 days of receipt of the invoice in accordance with TI 11 *Payment of Creditors' Accounts*.

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

(n) Employee Benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remains unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

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.

Liabilities for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. In the unusual event where salaries and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

The liability for long service leave is recognised after an employee has completed 10 years of service as advised in Accounting Policy Framework IV *Financial Asset and Liability Framework.* An actuarial assessment of long service leave undertaken by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector determined that the liability measured using the short-hand method was not materially different from the liability measured using the present value of expected future payments. This calculation is consistent with MFS's experience of employee retention and leave taken.

MFS makes contributions to several SA 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 respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the superannuation funds.

(o) 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. MFS's liability is an allocation of the Justice Portfolio's total assessment.

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

(p) Leases

MFS has entered into operating leases. Operating lease payments are charged to the Income Statement on a basis that is representative of the pattern of benefits derived from the leased assets.

(q) Administrative Restructuring

Pursuant to the Government Gazette (dated 29 September 2005) a number of employees of the former Emergency Services Administrative Unit were transferred to the staff of the South Australian Metropolitan Fire Service (refer to Note 21).

3. Financial Risk Management

MFS has non-interest bearing assets (cash on hand and receivables) and liabilities (payables) and interest bearing assets (cash at bank). MFS's exposure to market risk and cash flow interest risk is minimal.

MFS has no significant concentration of credit risk. MFS has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history.

In relation to liquidity/funding risk, the continued existence of MFS in its present form and with its present programs is dependent on Government policy and on continuing grants from the Community Emergency Services Fund for MFS's administration and programs.

4. Changes in Accounting Policies

Impact of Adopting Australian Equivalents to International Financial Reporting Standards

MFS adopted these standards for the first time in the published financial report for the year ended 30 June 2006. These standards have had no impact on the financial statements.

5. Employee Benefits Costs

Employee benefits costs for the reporting period comprised:	**2006 $'000**	2005 $'000
Salaries and wages	**53 039**	51 461
Payroll tax	**3 280**	3 260
Superannuation	**5 051**	5 382
Long service leave	**1 831**	3 276
Other employee related expenses	**251**	211
Total Employee Benefits Costs	**63 452**	63 590

Average Number of Employees during the Reporting Period

On average, MFS employed 813 (810) full-time equivalent staff throughout the reporting period.

Remuneration of Employees

The number of employees whose remuneration received or receivable, including fringe benefits, vehicle allowance, car parking assessment and superannuation payments made to various superannuation schemes, falling within the following bands were:

	2006 Number of Employees	2005 Number of Employees
$100 000 - $109 999	**23**	17
$110 000 - $119 999	**9**	8
$120 000 - $129 999	**6**	2
$130 000 - $139 999	**1**	1
$140 000 - $149 999	**-**	1
$160 000 - $169 999	**1**	-
$210 000 - $219 999	**-**	1
$270 000 - $279 999	* **1**	-
Total Number of Employees	**41**	30

* The MFS Chief Officer's remuneration includes the components specified above as well as a back payment resulting from a performance review.

The aggregate remuneration for all employees referred to above was $4 710 000 ($3 414 000).

6. Supplies and Services

Supplies and services provided by entities within the SA Government for the reporting period comprised:	**2006 $'000**	2005 $'000
Accommodation	**119**	117
Communication expenses	**-**	22
Consultancy, contractor and legal fees	**73**	19
Consumables and minor purchases	**74**	210
Operating lease costs	**587**	507
Other expenses	**57**	929
Repairs and maintenance	**2**	55
Travel and training	**163**	189
Total Supplies and Services - SA Government Entities	**1 075**	2 048
Supplies and services provided by entities external to the SA Government for the reporting period comprised:		
Accommodation	**63**	64
Communication expenses	**681**	599
Computing costs	**27**	16
Consultancy, contractor and legal fees	**857**	221
Consumables and minor purchases	**1 531**	1 270
Energy	**395**	381
Operating lease costs	**-**	2
Other expenses	**648**	3 378
Repairs and maintenance	**1 506**	1 436
Travel and training	**706**	855
Uniforms and protective clothing	**1 206**	1 775
Total Supplies and Services - Non-SA Government Entities	**7 620**	9 997
Total Supplies and Services	**8 695**	12 045

Consultancies

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

	2006 Number of Consultancies	2005 Number of Consultancies
Less than $10 000	**7**	3
$10 000 - $50 000	**1**	-
Total Number of Consultants	**8**	3

	2006 $'000	2005 $'000
Less than $10 000	**16**	10
$10 000 - $50 000	**51**	-
Total Amount Paid/Payable to Consultants Engaged	**67**	10

7. Remuneration of Auditors

The amount due and payable for audit services provided by the Auditor-General's Department	**19**	19

The auditors provided no other services.

8. Government Radio Network (GRN) Costs

MFS 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.

	2006 $'000	2005 $'000
Contribution towards GRN - Voice	**918**	936
Contribution towards GRN - Paging	**495**	46
Other GRN costs	**-**	456
Total GRN Costs	**1 413**	1 438

9. Depreciation

Depreciation expenses for the reporting period were charged in respect of:		
Buildings	**2 647**	3 931
Computer equipment	**381**	320
Plant and equipment	**683**	646
Communications equipment	**619**	193
Vehicles	**2 038**	2 155
Total Depreciation	**6 368**	7 245

10. Net Gain (Loss) from Disposal of Assets

Proceeds from disposal of assets	**2 052**	6
Less: Written down value of assets	**1 777**	230
Net Gain (Loss) from Disposal of Non-Current Assets	**275**	(224)

11. Revenue from Fees and Charges

Fees and charges received/receivable from entities within the SA Government:		
Fire alarm monitoring fees	**140**	1
Fire attendance fees	**144**	43
Fire safety fees	**7**	10
Other recoveries	**1**	7
Total Fees and Charges - SA Government Entities	**292**	61
Fees and charges received/receivable from entities external to the SA Government:		
Fire alarm monitoring fees	**1 136**	1 186
Fire attendance fees	**598**	561
Fire safety fees	**213**	361
Other recoveries	**259**	243
Total Fees and Charges - Non-SA Government Entities	**2 206**	2 351
Total Fees and Charges	**2 498**	2 412

12. Other Income

Other income comprised:		
Asset received free of charge	**-**	1 126
Transfer of capital funding for GRN	**509**	-
Fuel rebate	**63**	64
Rent received	**-**	39
Other	**458**	417
Receipts from Commonwealth Government	**938**	731
Total Other Income	**1 968**	2 377

	2006	2005
13. Cash and Cash Equivalents	**$'000**	$'000
Cash on hand	**8**	7
Cash at bank	**24 410**	29 020
Total Cash and Cash Equivalents	**24 418**	29 027

Interest Rate Risk

Cash on at hand is non-interest bearing, cash at bank bears a floating interest rate between 5.35 percent and 5.43 percent (5.35 percent to 5.43 percent). The carrying amount of cash approximates fair value.

14. Receivables	**2006**	2005
Current:	**$'000**	$'000
Receivables	**516**	280
Less: Allowance for doubtful debts	**-**	(14)
	516	266
Accrued revenues	**-**	205
GST receivables	**589**	396
Total Current Receivables	**1 105**	867
Government/Non-Government Receivables		
Receivables from SA Government entities:		
Receivables	**176**	130
Accrued revenues	**-**	2
Total Receivables - SA Government Entities	**176**	132
Receivables from Non-SA Government entities:		
Receivables	**340**	136
Accrued revenues	**-**	203
GST receivables	**589**	396
Total Receivables - Non-SA Government Entities	**929**	735
Total Receivables	**1 105**	867

Interest Rate and Credit Risk

Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 30 days. Receivables, prepayments and accrued revenues are non-interest bearing. Other than recognised in the allowance for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. In addition, there is no concentration of credit risk.

15. Non-Current Assets

(a) Property, Plant and Equipment

2006	**Cost/ Valuation $'000**	**Accumulated Depreciation $'000**	**Written Down Value $'000**
Land at independent valuation	**23 172**	**-**	**23 172**
Land at cost	**3 441**	**-**	**3 441**
Buildings at independent valuation	**54 000**	**(1 978)**	**52 022**
Buildings at cost	**1 113**	**(154)**	**959**
Vehicles at independent valuation	**22 121**	**(580)**	**21 541**
Vehicles at cost	**1 157**	**(709)**	**448**
Communications equipment at cost	**5 107**	**(1 774)**	**3 333**
Computer equipment at cost	**2 729**	**(1 803)**	**926**
Plant and equipment at cost	**8 248**	**(4 952)**	**3 296**
Work in progress at cost	**4 422**	**-**	**4 422**
Total Property, Plant and Equipment	**125 510**	**(11 950)**	**113 560**

2005	Cost/ Valuation $'000	Accumulated Depreciation $'000	Written Down Value $'000
Land at independent valuation	17 766	-	17 766
Land at cost	330	-	330
Buildings at independent valuation	49 601	(3 614)	45 987
Buildings at cost	764	(126)	638
Vehicles at independent valuation	17 010	(5 598)	11 412
Vehicles at cost	7 874	(3 603)	4 271
Communications equipment at cost	4 070	(1 161)	2 909
Computer equipment at cost	2 375	(1 463)	912
Plant and equipment at cost	7 327	(4 403)	2 924
Work in progress at cost	2 726	-	2 726
Total Property, Plant and Equipment	109 843	(19 968)	89 875

Impairment

There were no indications of impairment for property, plant and equipment as at 30 June 2006.

(b) Asset Movement Schedule

	Land and Buildings	Vehicles	Communi-cation Equipment	Computer Equipment	Plant and Equipment	Work in Progress	**Total**
				2006			
Carrying amount	$'000	$'000	$'000	$'000	$'000	$'000	**$'000**
at 1 July 2005	64 721	15 683	2 909	912	2 924	2 726	**89 875**
Additions	1 547	-	4	316	1 040	8 760	**11 667**
Disposals	(1 762)	-	-	(4)	(11)	-	**(1 777)**
Transfer of work in progress	3 643	2 273	1 039	83	26	(7 064)	**-**
Net adjustment on revaluation	14 092	6 071	-	-	-	-	**20 163**
Depreciation and amortisation	(2 647)	(2 038)	(619)	(381)	(683)	-	**(6 368)**
Carrying amount at 30 June 2006	79 594	21 989	3 333	926	3 296	4 422	**113 560**

	Land and Buildings	Vehicles	Communi-cation Equipment	Computer Equipment	Plant and Equipment	Work in Progress	Total
				2005			
Carrying amount	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2004	56 543	15 330	1 118	840	2 896	4 227	80 954
Additions	522	69	14	28	654	10 381	11 668
Received free of charge	160	-	966	-	-	-	1 126
Disposals	-	(135)	(50)	(2)	(43)	-	(230)
Transfer of work in progress	7 825	2 574	1 068	366	49	(11 882)	-
Net adjustment on revaluation	3 792	-	-	-	-	-	3 792
Prior year adjustment	(190)	-	(14)	-	14	-	(190)
Depreciation	(3 931)	(2 155)	(193)	(320)	(646)	-	(7 245)
Carrying amount at 30 June 2005	64 721	15 683	2 909	912	2 924	2 726	89 875

16. Payables

Payables comprised the following:	**2006**	2005
	$'000	$'000
Current Liabilities:		
Creditors	**342**	430
Accrued expenses	**849**	650
Employment on-costs	**1 200**	1 495
Total Current Payables	**2 391**	2 575
Non-Current Liabilities:		
Employment on-costs	**937**	1 467
Total Non-Current Payables	**937**	1 467
Total Payables	**3 328**	4 042

Government/Non-Government Payables

Payables to SA Government Entities:		
Creditors	**70**	54
Employment on-costs	**1 051**	1 569
Accrued expenses	**146**	128
Total Payables - SA Government Entities	**1 267**	1 751
Payables to Non-SA Government Entities:		
Creditors	**272**	376
Accrued expenses	**703**	522
Employment on-costs	**1 086**	1 393
Total Payables - Non-SA Government Entities	**2 061**	2 291
Total Payables	**3 328**	4 042

Interest Rate and Credit Risk

Creditors and accruals are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables approximates net fair value due to the amounts being payable on demand.

17. Employee Benefits

	2006	2005
Current Liabilities:	**$'000**	$'000
Annual leave	**5 431**	6 215
Long service leave	**1 500**	1 300
	6 931	7 515
Employment on-costs (included in payables)	**1 200**	1 495
Accrued salaries and wages (included in payables)	**677**	304
Total Current Employee Benefits	**8 808**	9 314
Non-Current Liabilities:		
Long service leave	**10 543**	10 419
Employment on-costs (included in payables)	**937**	1 467
Total Non-Current Employee Benefits	**11 480**	11 886
Total Employee Benefits	**20 288**	21 200

18. Provisions

Current Liabilities:		
Provision for workers compensation	**1 215**	1 489
Total Current Provisions	**1 215**	1 489
Non-Current Liabilities:		
Provision for workers compensation	**4 847**	6 738
Total Non-Current Provisions	**4 847**	6 738
Total Provisions	**6 062**	8 227
Carrying amount at 1 July 2005	**8 227**	7 343
Additional provisions (released) recognised	**(151)**	2 643
Payments	**(2 014)**	(1 759)
Carrying amount at 30 June 2006	**6 062**	8 227

19. Commitments

Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

Within one year	**3 831**	2 900
Later than one year but not later than five years	**273**	-
Total Capital Commitments	**4 104**	2 900

These capital commitments are for fire stations and other equipment.

Operating Leases

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

Within one year	**407**	338
Later than one year but not later than five years	**351**	251
Total Operating Lease Commitment	**758**	589

These operating leases are not recognised in the Balance Sheet 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.

Contractual Commitments

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

	2006	2005
	$'000	$'000
Within one year	**161**	269
Later than one year but not longer than five years	**8**	307
Later than five years	**-**	16
Total Contractual Commitments	**169**	592

Contractual commitments relate to a range of services and supplies including building repairs and maintenance.

20. Cash Flow Reconciliation

	2006	2005
Reconciliation of Cash	**$'000**	$'000
Cash at 30 June as per:		
Cash Flow Statement	**24 418**	29 027
Balance Sheet	**24 418**	29 027

Reconciliation of Net Cash provided by Operating Activities to Net Cost of Providing Services

	2006	2005
Net cash provided by operating activities	**10 232**	7 467
Less: Contribution from Community Emergency Services Fund	**(82 293)**	(76 017)
Add (Less) Non-Cash Items:		
Assets received from Local Government and other sources	**-**	1 126
Depreciation	**(6 368)**	(7 245)
Net gain (loss) from disposal of assets	**275**	(224)
Non-cash expense in supplies and services	**-**	(190)
Changes in Assets and Liabilities:		
Increase (Decrease) in receivables	**237**	(2 018)
Decrease in other current assets	**-**	(3)
Decrease (Increase) in payables	**715**	(772)
Decrease (Increase) in provision for employee benefits	**575**	(3 780)
Decrease (Increase) in provisions	**2 165**	(884)
Net Cost of Providing Services	**(74 462)**	(82 540)

21. Administrative Restructure

Net employee entitlements were transferred from the former Emergency Services Administrative Unit (ESAU) as at 1 October 2005.

The total liabilities transferred to MFS from ESAU were:	$'000
Current Liabilities: Employee benefits	16
Non-Current Liabilities: Employee benefits	99
Total Liabilities Transferred	115

SOUTH AUSTRALIAN MOTOR SPORT BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Motor Sport Board was established pursuant to the S*outh Australian Motor Sport Act 1984*.

Functions

The functions of the South Australian Motor Sport Board are:

- entering into agreements on behalf of the State under which motor sport events, whether promoted by the Board or by some other person approved by the Minister, are held in the State;
- undertaking on behalf of the State the promotion of motor sport events;
- establishing a temporary motor racing circuit and conducting and managing motor racing events promoted by the Board;
- providing advisory, consultancy, management or other services on the conduct of sporting, entertainment or other special events or projects, whether within or outside the State;
- undertaking such other functions as the Minister may from time to time approve.

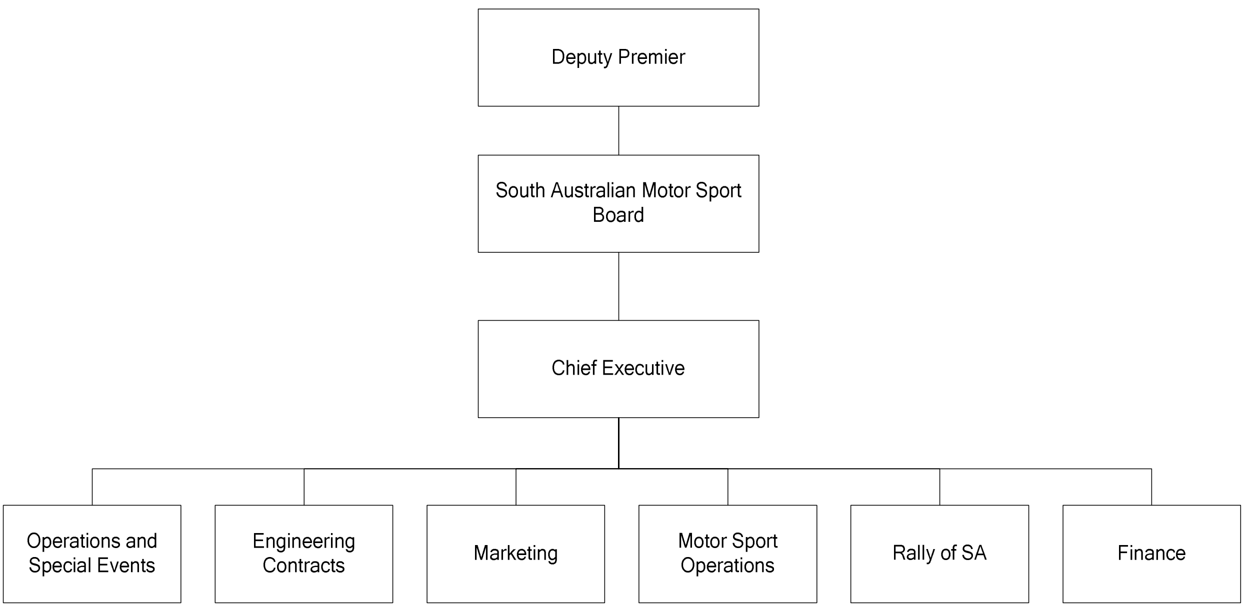
The Board comprises no more than nine members (nine members as at 30 June 2006) appointed by the Governor and is subject to the general control and direction of the Deputy Premier.

The Board secured the right to stage a motor sport event for a period of 10 years, concluding in 2015. Pursuant to a Naming Rights Sponsorship Agreement, the event is known as the 'Clipsal 500 Adelaide'.

In addition, pursuant to a permit issued by the Confederation of Australian Motor Sport, the Board stages the 'Toyota Rally of South Australia'.

Structure

The structure of the South Australian Motor Sport Board is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 18(3) of the *South Australian Motor Sport Act 1984* provide for the Auditor-General to audit the accounts of the South Australian Motor Sport 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 South Australian Motor Sport 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 2005-06, specific areas of audit attention included:

- payroll
- accounts payable
- revenue
- non-current assets.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

The following is an extract from the 2005-06 Independent Audit Report, which details the qualification to the Board's financial report.

> ***Qualification***
>
> ***Amortisation of State Government Grant - Capital***
>
> *As detailed in Note 2.2 to the financial report, the South Australian Motor Sport Board has determined that capital grants received since 1999 and a loan forgiven in 2001-02 should be amortised over a period of five years. The grants and loans have been recognised as a Deferred State Government Grant - Capital liability.*
>
> *As a result, of the total of $9.64 million received by way of capital grants and $2.25 million by way of forgiven loan funds, only $10.27 million has been recognised as revenue with the remaining $1.62 million being recognised as a liability.*
>
> *Accounting Standard AASB 1004 'Contributions' and the Department of Treasury and Finance Accounting Policy Framework APF V 'Income Framework' requires that a contribution to a non-for-profit entity must be recognised as an asset and income when the Authority obtains control of the contributions and the income recognition criteria are met. Also, AASB 1004 'Contributions' requires the gross amount of a liability forgiven by a credit provider be recognised by the borrower as income.*
>
> *The financial effect of the Board not complying with AASB 1004 'Contributions' and APF V 'Income Framework' is as follows:*
>
> *2006*
> *Income and the Operating Surplus are both overstated by $817 000. Total Equity is understated by $1 617 000.*

2005
Income and the Operating Surplus are both overstated by $180 000. Total Equity is understated by $2 434 000.

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraphs, 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 Motor Sport Board as at 30 June 2006, the results of its operations and its cash flows for the year then ended.*

Assessment of Controls

In my opinion, the controls exercised by the South Australian Motor Sport 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 South Australian Motor Sport 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 Chief Executive. Responses to the management letter were considered to be satisfactory.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006	2005	Percentage
	$'000	$'000	Change
INCOME			
State Government grants	**1 900**	2 082	(9)
User charges	**17 686**	15 902	11
Amortisation of capital grants	**1 217**	1 138	7
Other	**356**	274	30
Total Income	**21 159**	19 396	9
EXPENSES			
Supplies and services	**18 242**	16 619	10
Depreciation and amortisation	**1 218**	1 125	8
Salaries, wages and related payments	**805**	808	n/a
Other	**2**	-	n/a
Total Expenses	**20 267**	18 552	9
Surplus	**892**	844	6
Net Cash Generated from Operations	**1 178**	730	61
ASSETS			
Current assets	**4 565**	3 404	34
Non-current assets	**3 355**	3 991	(16)
Total Assets	**7 920**	7 395	7
LIABILITIES			
Current liabilities	**3 827**	3 867	(1)
Non-current liabilities	**1 047**	1 374	(24)
Total Liabilities	**4 874**	5 241	(7)
EQUITY	**3 046**	2 154	41

Income Statement

Income

The Income Statement of the Board for the period ended 30 June 2006 records an Operating Surplus of $892 000 ($844 000).

As explained in Notes 2.1 and 2.2 to the Financial Statements, the Board has applied an International Accounting Standard rather than the mandatory Accounting Policy Framework of the Treasurer and an applicable Australian Accounting Standard, in relation to the financial accounting and reporting treatment of $9.688 million recorded by way of capital grants since 1998-99 and $2.25 million by way of forgiven loan funds in 2001-02.

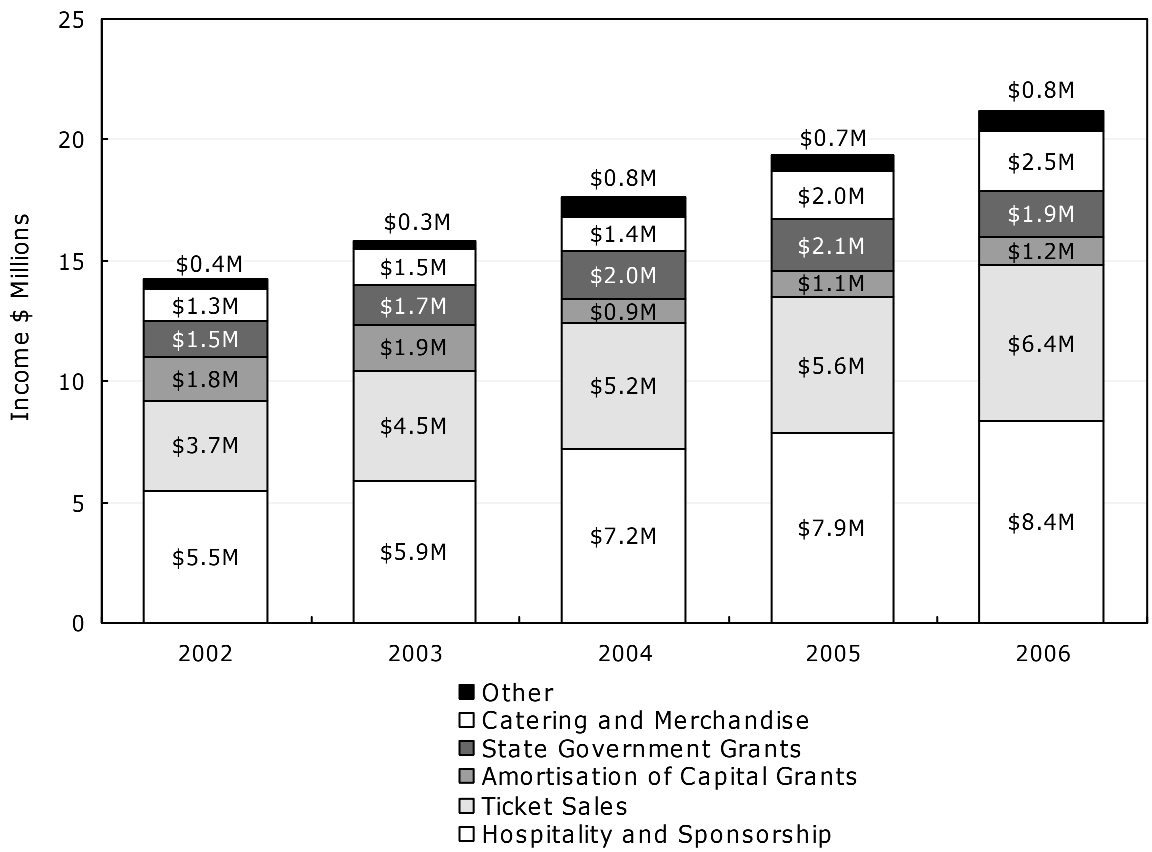
The Board's decision not to apply Accounting Policy Framework V *Income Framework* and Accounting Standard AASB 1004 *Contributions*, but to apply the International Accounting Standard, has resulted in an overstatement of Income and the Operating Surplus by $817 000 and an understatement of Total Equity by $1 617 000. Consequently the Independent Audit Report for 2005-06 has been qualified in respect of these matters (refer to commentary provided under the heading 'Audit Opinions - Audit of the Financial Report'). The financial statements of the Board for prior years were qualified on the same basis.

Total income increased by $1.8 million (9 percent) to $21.2 million.

Income from all sources, excluding State Government Grants and Amortisation of Capital Grants increased, by 11 percent from $16.2 million to $18 million. Notably, revenue from ticket sales increased by $787 000 due primarily to increased attendance for the Clipsal 500. Similarly, hospitality, sponsorship, catering and merchandising income increased by $1 million due primarily to greater activity associated with the 2006 event.

Revenues from the State Government (State Government Grants and Amortisation of Capital Grants) decreased by 3 percent from $3.2 million to $3.1 million.

A structural analysis of income for the Board for the five years to 2006 is presented in the following chart.

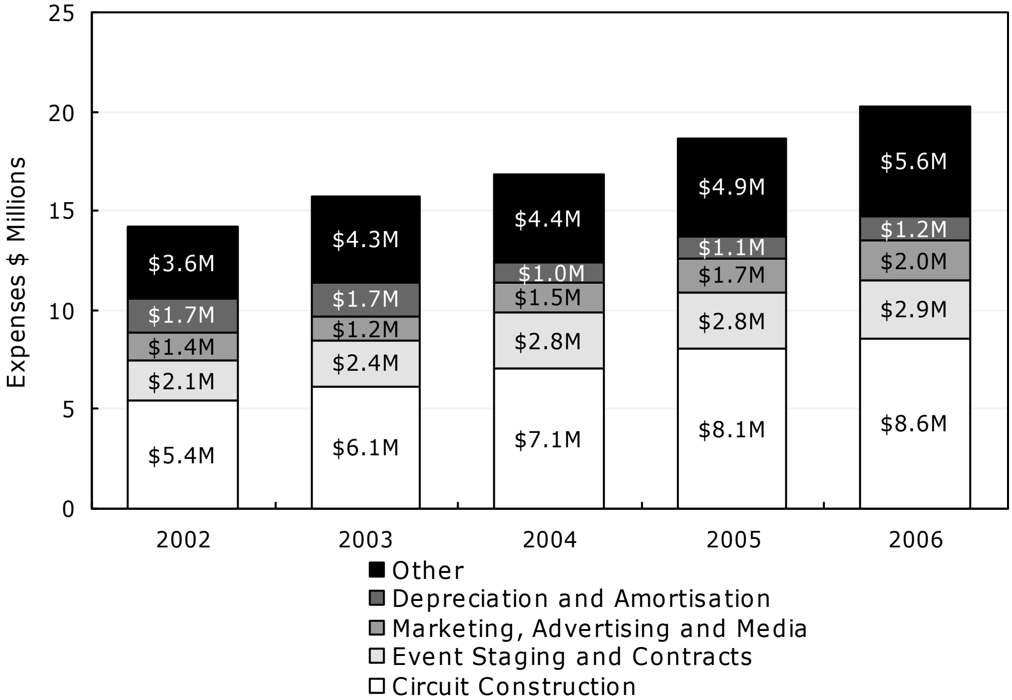


The chart illustrates that income increased each year since 2002.

Expenses

Total expenses increased by $1.7 million (9 percent) to $20.3 million. Notably, Circuit Construction expenses increased by $495 000 (6 percent) to $8.6 million due primarily to changes made to the circuit and facilities for the 2006 Clipsal 500 event.

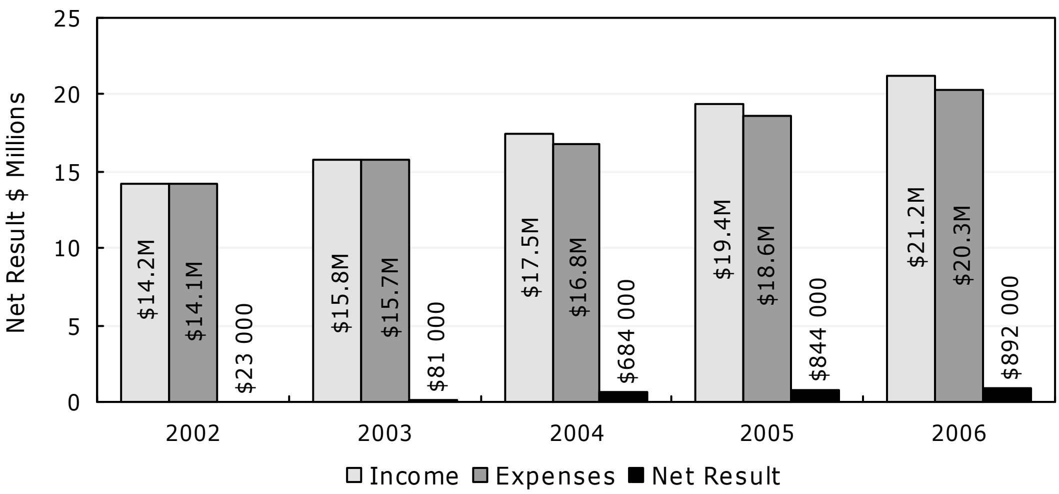
For the five years to 2006, a structural analysis of the main expense items for the Board is shown in the following chart.



The chart demonstrates steady growth for most expense categories over the past five years.

Operating Result

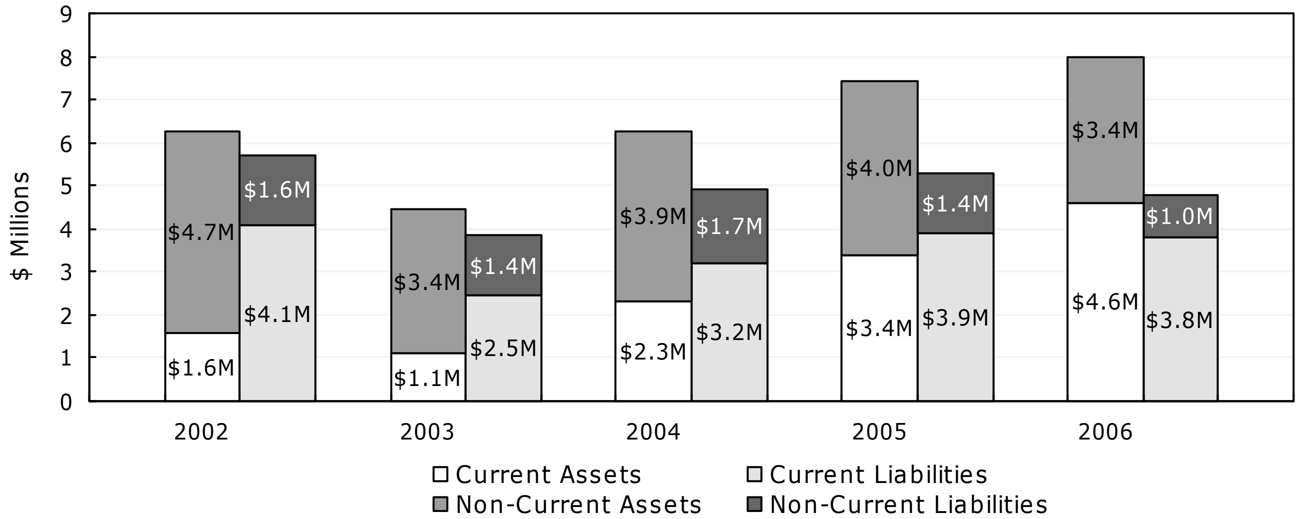
For the five years to 2006 the following chart shows the income, expenses and net result. After recording deficits in 2000 and 2001, the Board achieved surpluses for the following five years.



The impact of the accounting policies adopted by the Board, which do not comply with financial reporting requirements on the reported surplus, is reflected in the qualified independent audit report. Note 2.2 discusses the impact of these accounting policies.

Balance Sheet

The structural analysis of the Board's Balance Sheet shows a gradual decrease in both assets and liabilities for the first two years followed by an increase in assets in 2004, 2005 and 2006.



Cash Flow Statement

The analysis of cash flows highlights that in 2006, 2005 and 2004 the operations of the Board generated a positive cash flow. In contrast, for the preceding year the Board recorded a cash deficit. The Board is reliant upon support from the South Australian Government for its ongoing operations.

The following table summarises the net cash flows for the four years to 2006.

	2006	2005	2004	2003
	$'000	$'000	$'000	$'000
Net Cash Flows				
Operations	**1 178**	730	695	(200)
Investing	**(182)**	(236)	147	33
Financing	**-**	-	-	-
Change in Cash	**996**	494	842	(167)
Cash at 30 June	**2 517**	1 521	1 027	185

Income Statement
for the year ended 30 June 2006

	Note	**2006 $'000**	2005 $'000
INCOME:			
State Government grants	1	**1 900**	2 082
Interest:			
Interest received from SA Government entities		**321**	228
Interest received from non-SA Government entities		**35**	26
User charges	3	**17 686**	15 902
Amortisation of capital grants	1, 2.1, 2.2, 12	**1 217**	1 138
Net gain on disposal of fixed assets		**-**	20
Total Income		**21 159**	19 396
EXPENSES:			
Supplies and services	4	**18 242**	16 619
Depreciation and amortisation	9	**1 218**	1 125
Salaries, wages and related payments	5	**805**	808
Provision for doubtful debts		**2**	-
Total Expenses		**20 267**	18 552
OPERATING SURPLUS		**892**	844
THE OPERATING RESULT IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			

Balance Sheet
as at 30 June 2006

	Note	2006 $'000	2005 $'000
CURRENT ASSETS:			
Cash	7, 15.1	**2 517**	1 521
Receivables	8	**2 048**	1 883
Total Current Assets		**4 565**	3 404
NON-CURRENT ASSETS:			
Concrete safety barriers, racing infrastructure, plant and equipment and leasehold improvements	9	**3 355**	3 991
Total Non-Current Assets		**3 355**	3 991
Total Assets		**7 920**	7 395
CURRENT LIABILITIES:			
Payables	10	**3 075**	2 662
Employee entitlements and related provisions	11	**74**	68
Deferred State Government grant - Capital	12	**678**	1 137
Total Current Liabilities		**3 827**	3 867
NON-CURRENT LIABILITIES:			
Employee entitlements and related provisions	11	**108**	77
Deferred State Government grant - Capital	12	**939**	1 297
Total Non-Current Liabilities		**1 047**	1 374
Total Liabilities and Deferred State Government Grant		**4 874**	5 241
NET ASSETS		**3 046**	2 154
EQUITY:			
Reserves	2.3	**1 000**	1 000
Accumulated surplus		**2 046**	1 154
TOTAL EQUITY		**3 046**	2 154
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER			
Contingent liabilities	13		
Commitments for expenditure	14		

Statement of Changes in Equity
for the year ended 30 June 2006

	Note	2006 $'000	2005 $'000
RESERVES AND ACCUMULATED SURPLUS:			
Reserve for extreme weather:			
Balance at 1 July		**1 000**	515
Transfer from accumulated surplus	2.3	**-**	485
Reserve for Extreme Weather at 30 June		**1 000**	1 000

The basis for the creation of this reserve is contained in Note 2.3

	Note	2006 $'000	2005 $'000
Accumulated surplus at 1 July		**1 154**	795
Operating surplus		**892**	844
Less: Transfer to reserve for extreme weather	2.3	**-**	(485)
Accumulated Surplus at 30 June		**2 046**	1 154
TOTAL RESERVES AND ACCUMULATED SURPLUS		**3 046**	2 154

Cash Flow Statement
for the year ended 30 June 2006

	Note	2006 Inflows (Outflows) $'000	2005 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and sponsors		**15 531**	15 314
Goods and Services Tax receipts		**1 950**	1 742
Payments to suppliers and employees		**(16 609)**	(16 919)
Goods and Services Tax payments		**(1 988)**	(1 844)
Refunds of Goods and Services Tax		**38**	101
Interest received		**356**	254
State Government contributions		**1 900**	2 082
Net Cash provided by Operating Activities	15.2	**1 178**	730
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for racing infrastructure, plant and equipment		**(582)**	(1 214)
Proceeds on disposal of assets		**-**	20
State Government contributions		**400**	958
Net Cash used in Investing Activities		**(182)**	(236)
NET INCREASE IN CASH HELD		**996**	494
CASH AT 1 JULY		**1 521**	1 027
CASH AT 30 JUNE	15.1	**2 517**	1 521

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Organisational Structure, Objectives and Funding

The South Australian Motor Sport Board was established pursuant to the *South Australian Motor Sport Act 1984*.

The principal objectives of the Board are to:

- enter into agreements on behalf of the State under which motor sport events, whether promoted by the Board or by some person approved by the Minister, are held in the State;
- undertake on behalf of the State the promotion of motor sport events;
- establish a temporary motor racing circuit and conduct and manage motor racing events promoted by the Board;
- provide advisory consultancy, management or other services on the conduct of sporting, entertainment or other special events or projects, whether within or outside the State.

The Board has the right to stage a motor sport event for a period of 10 years concluding in 2015. Pursuant thereto the event is known as the 'Clipsal 500 Adelaide'.

Pursuant to a permit issued by the Confederation of Australian Motor Sport, the Board stages the Toyota Rally of South Australia.

The Board received funding from the State Government of $1 900 000 for operating activities and $400 000 for capital in the year (refer Note 2.15). The State Government received signage and other promotional benefits from the event under the 'Sensational Adelaide' logo.

2. Statement 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 applicable Australian Accounting Standards (AAS), the Treasurer's Instructions and Accounting Policy Framework (APF) promulgated under the provisions of the *Public Finance and Audit Act 1987* (PFAA), except as described in Note 2.2 below in relation to the entity's financial accounting and reporting treatment of the Capital Grant funds provided by the State Government and the financial accounting and reporting treatment of the loan forgiven in November 2001.

These financial statements are the first statements to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS). Previous financial statements were prepared in accordance with Australian Generally Accepted Accounting Principles. The adoption of AIFRS has had no effect on the Financial Reports at 1 July 2004 and 30 June 2005.

The Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention and do not take into account changing money values except where it is specifically stated.

The Cash Flow Statement has been prepared on a cash basis.

The financial report has been prepared based on a 12 month operating cycle and presented in Australian currency.

2.2 Amortisation of State Government Grant - Capital

The State Government has since 1999 provided a total of $9.638 million for race staging capital. In addition, in November 2001 Cabinet forgave the $2.250 million loan granted in June 2001.

In accordance with International Accounting Standard IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, grants received and the forgiven loan are being amortised over a period of five years. The grants and loan have been recognised as a deferred State Government Capital Grant liability.

The Treasurer's APF V *Income Framework* requires that a contribution to a not-for-profit entity must be recognised as an asset and income when the Authority obtains control of the contributions or obtains the right to receive the contributions and the income recognition criteria are met (ie the amount can be reliably measured and the flow of resources is probable). The Board believes that application of this policy would incorrectly report the trading result. If APF V had been applied, the result for the reporting period would have been as follows:

	2006		2005	
	APF V	**Board Policy**	APF V	Board Policy
	$'000	**$'000**	$'000	$'000
Revenue - State Government Grant - Capital	**400**	**767**	958	688
Revenue - Forgiven loan	**-**	**450**	-	450
Operating Surplus	**75**	**892**	664	844
Assets	**7 920**	**7 920**	7 395	7 395
Liabilities	**3 257**	**4 874**	2 807	5 241
Equity	**4 663**	**3 046**	4 588	2 154

Therefore the application of APF V would result in an operating surplus for the year of $75 000. The application of IAS 20 results in an operating surplus of $892 000 which the Board believes to be a true reflection of the result for the year.

2.3 Reserve for Extreme Weather

The Directors believe that rain or excessive heat over the period of the event will have a significant impact on the financial position of the organisation. The Board have considered that it is prudent and commercially sound to create a Reserve for Extreme Weather at future events. This Reserve ($1 million) has been created by transfers from Accumulated Surplus and will be utilised at events adversely affected by rain or extreme heat.

2.4 Revenue Recognition

Except as described in Note 2.2 above, revenues are recorded in the Income Statement at the time they are earned or at the time control passes to the Board. Interest revenues are recognised as they accrue.

2.5 Non-Current Assets

The Board does not own any land or permanent buildings.

All non-current assets controlled by the Board are reported in the Balance Sheet. The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Board. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets at their fair value at the date of acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

In accordance with APF III *Asset Accounting Framework*:

- all non-current tangible assets are valued at written down current cost (a proxy for fair value); and
- 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.

Every three years, the South Australian Motor Sport Board revalues its non-current assets. 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 tangible assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value. In June 2004 the concrete safety barriers and debris fencing were valued based on fair value. The difference between the valuation and the carrying amount of the assets was not considered to be material and therefore no adjustment has been made in the Balance Sheet.

2.6 Depreciation and Amortisation

Depreciation is calculated on a straight line basis to write off the assets over their useful economic lives.

Racing Infrastructure, Plant and Equipment useful lives range from 1-10 years. Lease improvements are amortised over the period of the lease.

Concrete Safety Barriers' useful life is determined by reference to their likely rate of deterioration, namely 20 years. This is supported by independent valuation of Concrete Barriers and Debris Fencing obtained by the Board as reported in Note 2.5.

2.7 Recoverable Amounts of Non-Current Assets

All non-current assets are reviewed at least annually to determine whether their carrying amounts require write down to recoverable amount.

2.8 Principles of Consolidation

There were no controlled entities during the reporting period.

2.9 Income Tax

The entity is exempt from income tax.

2.10 Leased Assets

The entity has no finance leases. In respect of Operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to the ownership of the leased assets. Operating lease payments are recognised as an expense on the basis that it is representative of the pattern of benefits derived from the leased assets.

2.11 Employee Entitlements

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long term employee benefits are measured at present value and short term employee benefits are measured at nominal amounts.

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 salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

2.11 Employee Entitlements (continued)

The liability for long service leave is recognised after an employee has completed seven years of service in accordance with APF IV *Financial Asset and Liability Framework*. An actuarial assessment of long service leave undertaken by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector determined that the liability measured using the short hand method was not materially different from the liability measured using the present value of expected future payments. This calculation is consistent with South Australian Motor Sport Board's experience of employee retention and leave taken.

2.12 Cash on Hand and on Deposit

For purposes of the Cash Flow Statement, cash includes cash deposits, which are used in the cash management function on a day to day basis. Interest revenues are recognised as they accrue. The average interest rate for the reporting period was 5.3 (5.2) percent.

2.13 Financial Instruments

The Board's accounting policies, including the terms and conditions of each class of financial asset and financial liability recognised at 30 June 2006, are as follows:

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 comprises Cash on hand and at Bank and Deposits at call. Cash is recorded at nominal amounts. Interest on cash is credited to revenue as it accrues.

Receivables are recognised at the nominal amounts due less provision for bad or doubtful debts (maximum credit risk). Included in trade debtors is an amount of $255 000 owing by Panoz Motorsport Australia Pty Ltd recovery of which is subject to legal action. The Board has made a full provision against this debt.

Credit terms, other than those specified in contractual agreements, are net 14 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.

Payables are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. With the exception of employee on-costs, payables are normally settled within 30 days. It is policy to effect early payment where a discount can be achieved.

Borrowings are recognised at their principal amounts. Interest is expensed as it accrues.

Interest Rate Risk
The Board's only exposure to interest rate risk relates to Cash. The average interest rate in relation to Cash is 5.3 percent. All other Financial Assets and Financial Liabilities of the Board have no exposure to interest rate risk.

Credit Risk
The Board does not have any significant credit risk exposure to any single debtor.

The carrying amount of financial assets recorded in the financial statements, net of provisions for doubtful debts, represent the Board's maximum exposure to credit risk.

Net Fair Value
The carrying amount of financial assets and financial liabilities recorded in the financial statements represent their respective net fair values.

2.14 Goods and Services Tax

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

- where the amount of GST incurred by the Board as a purchaser is not recoverable from the Australian Taxation Office;
- receivables and payables are stated with the amount of GST included.

The net GST receivable from the Australian Taxation Office is included as part of receivables in the Balance Sheet.

2.15 Economic Dependency

The ongoing activities of the Board in promoting and staging motor sport events within South Australia are dependent on the ongoing financial support by the South Australian Government.

2.16 International Financial Reporting Standards

The adoption of AIFRS has not resulted in any material adjustments to the Income Statement or Cash Flow Statement.

In addition, a number of new or amended Australian Accounting Standards are applicable to the Board but are not yet effective. The Board has assessed the impact of the new and amended Standards and there will be no impact on the accounting policies of the Board.

2.17 Rounding

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

2.18 Segment Information

The principal activity of the Board is to stage motor sport events in South Australia.

3. User Charges

	2006	2005
User charges received/receivable from entities within the SA Government:	**$'000**	$'000
Hospitality and sponsorship	**26**	20
Other income	**11**	-
Total User Charges - SA Government Entities	**37**	20
User charges received/receivable from entities external to the SA Government:		
Hospitality and sponsorship	**8 333**	7 849
Ticketing sales	**6 409**	5 622
Catering and merchandise	**2 489**	1 968
Entry fees	**311**	279
Asset hire	**5**	51
Other	**102**	113
Total User Charges - Non-SA Government	**17 649**	15 882
Total User Charges	**17 686**	15 902

4. Supplies and Services

Supplies and Services provided by entities within the SA Government:		
Hospitality, sponsorship and ticketing costs	**204**	204
Administration	**124**	128
Event staging and contracts	**56**	45
Marketing, advertising and media	**105**	-
Circuit construction net of recoveries	**58**	31
Total Supplies and Services - SA Government Entities	**547**	408
Supplies and Services provided by entities external to the SA Government:		
Circuit construction net of recoveries	**8 546**	8 078
Hospitality, sponsorship and ticketing costs	**1 216**	1 027
Catering and merchandise costs	**1 110**	1 001
Event staging and contracts	**2 819**	2 782
Non-motor sport entertainment	**701**	510
Security and ground staff	**794**	780
Administration	**582**	339
Marketing, advertising and media	**1 927**	1 694
Total Supplies and Services - Non-SA Government	**17 695**	16 211
Total Supplies and Services	**18 242**	16 619

5. Salaries, Wages and Related Payments

Salaries, wages and related payments comprise:		
Salaries, wages, annual and sick leave	**655**	685
Long service leave	**32**	14
Superannuation (refer Note 6)	**65**	66
Other employee on-costs	**53**	43
Total	**805**	808

Total number of full time equivalent employees at reporting date was 6.2 (7.0).

6. Superannuation

The superannuation costs included in the Financial Statements relate to the Commonwealth Government's Superannuation guarantee legislation. The payments of $65 000 ($66 000) have been made to externally managed funds.

7. Cash on Hand and at Bank

	2006	2005
	$'000	$'000
Cash on deposit with SAFA	**2 027**	1 416
Cash on hand and at bank - Other	**490**	105
	2 517	1 521

8. Receivables

	2006	2005
Current:	**$'000**	$'000
Trade debtors	**490**	572
Amount owing by BASS (Adelaide Festival Centre Trust) for funds held in trust (refer Note 10)	**1 823**	1 574
Allowance for doubtful debts	**(265)**	(263)
	2 048	1 883
SA Government/Non-SA Government Receivables:		
Receivables from SA Government entities	**1 823**	1 585
Receivables from non-SA Government entities	**225**	298
	2 048	1 883

9. Concrete Safety Barriers, Racing Infrastructure, Plant and Equipment and Leasehold Improvements

	2006	2005
Concrete Safety Barriers:		
Gross Carrying Amount:		
Balance at 1 July	**1 441**	1 458
Additions	**-**	35
Disposals	**-**	(52)
Balance at 30 June	**1 441**	1 441
Accumulated Depreciation:		
Balance at 1 July	**(664)**	(643)
Depreciation expense	**(100)**	(73)
Disposals	**-**	52
Balance at 30 June	**(764)**	(664)
Net Carrying Amount	**677**	777
Other Racing Infrastructure, Plant and Equipment:		
Gross Carrying Amount:		
Balance at 1 July	**10 097**	8 941
Additions	**375**	1 179
Disposals and write off of irrecoverable amounts	**-**	(23)
Balance at 30 June	**10 472**	10 097
Accumulated Depreciation:		
Balance at 1 July	**(6 883)**	(5 854)
Depreciation expense	**(1 108)**	(1 052)
Disposals and write off of irrecoverable amounts	**-**	23
Balance at 30 June	**(7 991)**	(6 883)
Net Carrying Amount	**2 481**	3 214
Leasehold Improvements:		
Gross Carrying Amount:		
Additions	**207**	-
Balance at 30 June	**207**	-
Accumulated Amortisation:		
Amortisation expense	**(10)**	-
Balance at 30 June	**(10)**	-
Net Carrying Amount	**197**	-
Total Concrete Safety Barriers, Racing Infrastructure, Plant and Equipment and Leasehold Improvements	**3 355**	3 991

10. Payables

	2006	2005
Current:		
Trade creditors	**444**	381
Other creditors and accruals	**936**	815
Funds held in trust[(i)]	**1 695**	1 466
	3 075	2 662

(i) Advance ticket sales exclusive of GST for Year 2007 event.

11. Employee Benefits and Related On-Cost Liabilities

	2006		2005	
	$'000	**$'000**	$'000	$'000
Annual leave:				
Included in other creditors - Current (Note 10)	**11**		10	
Provision for employee benefits - Current	**70**		64	
		81		74
Long service leave:				
Included in other creditors - Current (Note 10)	**15**		11	
Provision for employee benefits - Current	**4**		4	
Provision for employee benefits - Non-Current	**108**		77	
		127		92
Aggregate Employee Benefit and Related On-Cost Liabilities		**208**		166

12. Deferred State Government Grant - Capital

	2006 $'000	2005 $'000
Deferred State Government Grant - Capital	**11 888**	11 488
Less: Accumulated amortisation	**10 271**	9 054
	1 617	2 434
Reconciled to:		
Current	**678**	1 137
Non-current	**939**	1 297
	1 617	2 434

13. Contingent Liabilities

Contingent obligations are items in the nature of liabilities, which at the reporting date, are not recognised in the Balance Sheet because they have been assessed as being dependent on certain events taking place before a present obligation for the Board to make payments in respect of them will arise.

The Board is currently contesting a claim concerning the staging of 'The Race of 1000 Years'. It is not possible to estimate the amounts payable, if any, with respect to this claim.

14. Commitments for Expenditure

Operating Lease Commitments

Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:

	2006 $'000	2005 $'000
Within one year	**130**	-
Later than one year but not longer than five years	**565**	-
Later than five years	**232**	-
Total Operating Lease Commitments	**927**	-

The leases are for office accommodation leased from Perpetual Trustee Company Limited.

The leases are non-cancellable with a term of seven years, having the right of renewal and rent is payable monthly in advance.

15. Notes to the Cash Flow Statement

15.1 Reconciliation of Cash

	2006 $'000	2005 $'000
Cash on hand	**3**	5
Cash at bank	**2 514**	1 516
	2 517	1 521

15.2 Reconciliation of Net Cash provided by Operating Activities to Operating Surplus

	2006 $'000	2005 $'000
Operating surplus	**892**	844
Adjustments for non-cash income and expense items:		
Depreciation and amortisation	**1 218**	1 125
Amortisation of State Government grant - Capital	**(1 217)**	(1 138)
Net gain on disposal of fixed assets	**-**	(20)
Transfers to (from) provisions:		
Employee entitlements	**37**	15
Doubtful debts	**2**	-
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Receivables	**(167)**	(589)
Prepayments	**-**	21
Increase (Decrease) in liabilities:		
Payables	**413**	472
Net Cash provided by Operating Activities	**1 178**	730

16. Financing Arrangements

The State Government pledges financial support for the entity.

17. Employee Remuneration

The number of officers who received or were due to receive total remuneration of $100 000 or more:	2006 Number of Employees	2005 Number of Employees
$100 000 - $110 000	**-**	1
$110 000 - $120 000	**1**	-
$210 000 - $220 000	**-**	1
$220 000 - $230 000	**1**	-

The total remuneration (including superannuation and motor vehicles) paid amounted to $341 000 ($329 000).

18. Auditors' Remuneration

Amounts due and receivable by the Auditor-General's Department for the audit of the Board for the reporting period total $20 000 ($19 000).

19. Related Parties

19.1 Directors

The *South Australian Motor Sport Act 1984* requires two members to be nominated by the Corporation of the City of Adelaide, and one member to be nominated by the Confederation of Australian Motor Sport. The following persons held the position of director during the reporting period:

R Cook - Chairman
G Boulton - Deputy Chairman
B Carter
A Ford
R Hayward
C Magasdi (resigned 10 September 2005)
A Moran (appointed 10 September 2005)
T Schenken
C Smerdon
J Turbill

19.2 Directors' Loans

There are no loans to directors.

19.3 Other Director Transactions

Directors of the economic entity and directors of its related parties, or their director related entities, conduct transactions with entities within the economic entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arms length in similar circumstances. These transactions include the following and have been quantified below where transactions are considered likely to be of interest to the users of these financial statements:

T Schenken	CAMS Ltd	$116 404	License fees, permit fees and insurance
T Schenken	CAMS Ltd	$2 500	Sponsorship of CAMS award
C Smerdon	Kangaroo Island Sealink Pty Ltd	$31 776	Travel wholesaler commission
C Smerdon	Vectra Corporation	$2 236	Hospitality revenue
R Hayward, A Moran	Adelaide City Council	$56 545	Sponsorship revenue and signage
R Hayward, A Moran	Adelaide City Council	$109 183	Circuit construction and sponsor costs

All corporate facilities purchased by directors or by related entities are at arms-length rates.

20. Remuneration of Directors of the Board

	2006	2005
The number of directors who received, or were due to receive, remuneration (including superannuation) were:	**Number of Directors**	Number of Directors
$1 - $10 000	**2**	2
$10 001 - $20 000	**8**	8

The total remuneration of the Directors was $101 000 ($101 000).

21. Consultants

There were no consultants engaged where individual amounts exceeded $10 000.

SOUTH AUSTRALIAN STATE EMERGENCY SERVICE

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian State Emergency Service (SASES) was established as a Body Corporate under the *Fire and Emergency Services Act 2005* (the Act) on 1 October 2005. Prior to the enactment of this legislation the State Emergency Service was in operation as an operating unit within the Emergency Services Administrative Unit (ESAU). The Act provided for the State Emergency Service to continue in operation as the SASES. Upon dissolution of ESAU the assets and liabilities in relation to the operation of the former State Emergency Service were transferred to the SASES.

The Act also established the South Australian Fire and Emergency Services Commission (SAFECOM). SAFECOM, in performing its functions, may give directions to the SASES except in matters relating to the handling of emergency situations.

Functions

The functions of the SASES are as follows:

- To assist the Commissioner of Police in dealing with any emergency.
- To assist the State Co-ordinator, in accordance with the State Emergency Management Plan, in carrying out prevention, preparedness, response or recovery operations under the *Emergency Management Act 2004*.
- To assist the South Australian Metropolitan Fire Service and the South Australian Country Fire Service in dealing with any emergency.
- To deal with any emergency:
  - where the emergency is caused by flood or storm damage; or
  - where there is no other body or person with lawful authority to assume control of operations for dealing with the emergency.
- To deal with any emergency until such time as any other body or person that has lawful authority to assume control of operations for dealing with the emergency has assumed control.
- To respond to emergency calls and, where appropriate, provide assistance in any situation of need whether or not the situation constitutes an emergency.
- To undertake rescues.

Structure

The Chief Officer of SASES is responsible for the management, administration and operations of the SASES and is also a board member of SAFECOM.

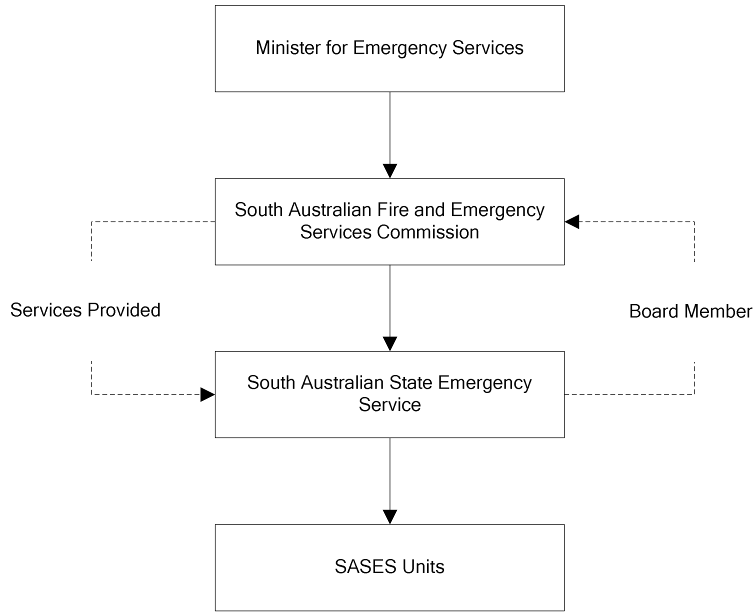
SAFECOM provides various services in support of SASES's primary functions, including strategic risk management, financial management and accounting services.

SASES's financial management is heavily reliant on information and reporting provided by SAFECOM.

The operations of SASES are financed by the Community Emergency Services Fund, established by the *Emergency Services Funding Act 1998*.

SA State Emergency Service

The structure of the SASES is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 120(2) of the *Fire and Emergency Services Act 2005* provide for the Auditor-General to audit the accounts of the South Australian State Emergency Service 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 State Emergency 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 SASES during 2005-06 required Audit to direct much of its focus to the audit of the 'centralised accounting' structure maintained by SAFECOM and to test transactions at this level.

During 2005-06, specific areas of audit attention included:

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

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 State Emergency Service as at 30 June 2006 and the results of its operations and cash flows for the period then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian State Emergency Service 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 South Australian State Emergency Service have been conducted properly and in accordance with law.

Audit Communications with 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 SASES and the related responses are considered herein.

Risk Management

Review of processes in relation to risk management indicated that there was room for improvement in relation to the monitoring of the risk management plan and reporting of achievements against the plan.

In response SASES indicated that action would be taken to facilitate improvements in the areas noted.

Expenditure

The audit of the expenditure function highlighted the need for formalisation of arrangements between SASES and certain organisations which provided services to it and also the need for improvement in documentation provided to support payments made.

SASES indicated that action would be taken to address the issues raised.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	*** 2006 $'million**
EXPENSES	
Employee benefits costs	**2**
Supplies and services	**5**
Other expenses	**2**
Total Expenses	**9**
INCOME	
Other income	**1**
Total Income	**1**
Net Cost of Providing Services	**8**
REVENUES FROM SA GOVERNMENT	
Contributions from Community Emergency Services Fund	**8**
Net Result before Restructure	**-**
Net revenue from administrative restructure	**16**
Net Result after Restructure	**16**
Cash Generated from Operations	**2**
ASSETS	
Current assets	**2**
Non-current assets	**18**
Total Assets	**20**
LIABILITIES	
Current liabilities	**2**
Non-current liabilities	**1**
Total Liabilities	**3**
EQUITY	**17**

* The SASES commenced operations from 1 October 2005. The figures shown represent transactions for the nine month period to 30 June 2006.

Income Statement

The main source of income for the SASES is the contribution from the Community Emergency Services Fund which accounts for 91 percent of total income.

As part of the restructuring of the emergency services sector, assets and liabilities were transferred from the former Emergency Services Administrative Unit to SASES. The net revenue from this transfer totalled $16 million (refer to Note 19 to the financial statements).

Balance Sheet

The Balance Sheet is dominated by the non-current asset property, plant and equipment which totalled $18.3 million. The written-down value of the main asset classes held by the SASES were land and buildings ($6.1 million) and vehicles ($7.4 million).

Income Statement
for the period ended 30 June 2006

	Note	01.10.05 to 30.06.06 $'000
EXPENSES:		
Employee benefits costs	4	**2 107**
Supplies and services	5	**4 909**
Government Radio Network costs	7	**1 416**
Depreciation	8	**844**
Total Expenses		**9 276**
INCOME:		
Net gain from disposal of assets	9	**94**
Interest revenues		**68**
Other income	10	**653**
Total Income		**815**
NET COST OF PROVIDING SERVICES		**8 461**
REVENUES FROM SA GOVERNMENT:		
Contributions from Community Emergency Services Fund		**8 587**
Total Revenues from Government		**8 587**
NET RESULT BEFORE RESTRUCTURE		**126**
Net revenue from administrative restructure	19	**16 584**
NET RESULT AFTER RESTRUCTURE		**16 710**

THE NET RESULT AFTER RESTRUCTURE IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

Balance Sheet
as at 30 June 2006

	Note	2006 $'000
CURRENT ASSETS:		
Cash and cash equivalents	11	**1 252**
Receivables	12	**446**
Total Current Assets		**1 698**
NON-CURRENT ASSETS:		
Property, plant and equipment	13	**18 350**
Total Non-Current Assets		**18 350**
Total Assets		**20 048**
CURRENT LIABILITIES:		
Payables	14	**1 423**
Short-term and long-term employee benefits	15	**273**
Short-term provisions	16	**99**
Total Current Liabilities		**1 795**
NON-CURRENT LIABILITIES:		
Payables	14	**54**
Long-term employee benefits	15	**614**
Long-term provisions	16	**339**
Total Non-Current Liabilities		**1 007**
Total Liabilities		**2 802**
NET ASSETS		**17 246**
EQUITY:		
Retained earnings		**16 710**
Asset revaluation reserve		**536**
TOTAL EQUITY		**17 246**
THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER		
Commitments	17	
Contingent Liabilities	20	

Statement of Changes in Equity
for the period ended 30 June 2006

	Asset Revaluation Reserve $'000	Retained Earnings $'000	01.10.05 to 30.06.06 Total $'000
Balance at 1 October 2005	-	-	-
Gain on revaluation of property, plant and equipment for the period ended 30 June 2006	536	-	536
Net Result after Restructure for 2005-06	-	16 710	16 710
Total Recognised Income and Expense for the Period ended 30 June 2006	536	16 710	17 246
Balance at 30 June 2006	**536**	**16 710**	**17 246**

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the period ended 30 June 2006

	Note	**01.10.05 to 30.06.06 Inflows (Outflows) $'000**
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH OUTFLOWS:		
Employee benefit payments		**(2 183)**
Supplies and services		**(2 995)**
Government Radio Network costs		**(1 366)**
GST payments on purchases		**(529)**
Cash used in Operations		**(7 073)**
CASH INFLOWS:		
Contributions from Community Emergency Services Fund		**8 587**
Interest received		**68**
GST receipts on receivables		**65**
GST input tax credits		**463**
Other receipts		**279**
Cash generated from Operations		**9 462**
Net Cash provided by Operating Activities	18	**2 389**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment		**(3 518)**
Proceeds from the sale of property, plant and equipment		**118**
Net Cash used in Investing Activities		**(3 400)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Transfer from Emergency Services Administrative Unit		**2 263**
Net Cash provided by Financing Activities		**2 263**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1 252**
CASH AND CASH EQUIVALENTS AT 1 OCTOBER 2005		**-**
CASH AND CASH EQUIVALENTS AT 30 JUNE 2006	11	**1 252**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

Objectives

The South Australian State Emergency Service (SASES) was established on 1 October 2005 under the *Fire and Emergency Services Act 2005* (the Act) with the following objectives:

- To assist the Commissioner of Police, South Australian Metropolitan Fire Service and South Australian Country Fire Service in dealing with any emergency.
- To assist the State Co-ordinator, in accordance with the State Emergency Management Plan, in carrying out prevention, preparedness, response or recovery operations under the *Emergency Management Act 2004*.
- To deal with any emergency where the emergency is caused by flood or storm damage, or where there is no other body or person with lawful authority to assume control of operations for dealing with the emergency.
- To deal with any emergency until such time as any other body or person that has lawful authority to assume control of operations for dealing with the emergency has assumed control.
- To respond to emergency calls and where appropriate, provide assistance in any situation of need whether or not the situation constitutes an emergency.
- To undertake rescues.

The *State Emergency Service Act 1987* was repealed at the proclamation of the new Act.

Funding Arrangements

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

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 (AASB);
- other mandatory professional reporting requirements in Australia.

These financial statements are the first statements to be prepared in accordance with Australian Equivalent to International Financial Reporting Standards (AIFRS).

SASES's Income Statement, Balance Sheet and Statement of Changes in Equity 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 Cash Flow Statement has been prepared on a cash basis.

The financial report has been prepared based on a 12 month operating cycle and is presented in Australian currency.

(b) Rounding

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

(c) Taxation

SASES is not subject to income tax. SASES is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

In accordance with the requirements of Interpretation 1031 *Accounting for the Goods and Services Tax*, income, expenses and assets are recognised net of the amount of GST except that:

- the amount of GST incurred by SASES 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.

(d) Income and Expenses

Income and expenses are recognised in SASES's Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured.

Income and expenses have been classified according to their nature in accordance with the Accounting Policy Framework II *General Purpose Financial Reporting Framework* APS 3.5 and have not been offset unless required or permitted by a specific accounting standard.

In accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* APSs 4.1 and 4.2 the financial report's notes disclose income, expenses, financial assets and financial liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Income from fees and charges are derived from the provision of goods and services to other SA Government agencies and to the public. This income is recognised upon delivery of the service to the clients or by reference to the stage of completion.

Income from the disposal of non-current assets is recognised when control of the asset has passed to the buyer and is determined by comparing proceeds with the carrying amount.

Resources received free of charge are recorded as revenue in the Income Statement at their fair value in accordance with the Accounting Policy Framework III *Asset Accounting Framework* APS 2.12.

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

(e) Revenues from SA Government

Contributions from the Community Emergency Services Fund are recognised as income when SASES obtains control over the funding. Control over funding is normally obtained upon receipt.

(f) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash includes cash on hand and cash at bank. Cash is measured at nominal value.

(g) Receivables

Receivables include amounts receivable from debtors, prepayments and other accruals.

Receivables arise in the normal course of selling goods and services to other agencies and to the public. Receivables are receivable 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 debtors, SASES is able to charge interest at commercial rates until the whole amount is paid.

SASES determines an allowance 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.

(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 Balance Sheet.

In accordance with Accounting Policy Framework III *Asset Accounting Framework* APS 2.15 all non-current tangible assets with a value of $10 000 or greater are capitalised.

(i) Revaluation of Non-Current Assets

Property, plant and equipment are brought to account at fair value:

(i) independent valuations for new and updated land and buildings were obtained in 2005-06 from Liquid Pacific Holdings Pty Ltd and were determined on the basis of open market values for existing use;

(ii) an independent valuation of vehicles was obtained in 2005-06 for current operational vehicles from Liquid Pacific Holdings Pty Ltd and represents the written down current cost of vehicles;

(iii) capital work in progress represents 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) Impairment

All non-current tangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

(j) Impairment (continued)

For revalued assets an impairment loss is offset against the asset revaluation reserve.

Impairment is generally limited to where an asset's depreciation is materially understated or where the replacement cost is falling.

(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	30-45

(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 SASES.

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 payables are measured at their nominal amount and are normally settled within 30 days of receiving an invoice in accordance with Treasurer's Instruction 11 *Payment of Creditors' Accounts*.

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

These benefits accrue for employees as a result of services provided up to the reporting date that remains unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

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.

Liabilities for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. In the unusual event where salaries and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

The liability for long service leave is recognised after an employee has completed 10 years of service as advised in Accounting Policy Framework IV *Financial Asset and Liability*. An actuarial assessment of long service leave undertaken by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector determined that the liability measured using the short hand method was not materially different from the liability measured using the present value of expected future payments. This calculation is consistent with SASES's experience of employee retention and leave taken.

SASES makes contributions to several SA 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 respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the superannuation funds.

(n) 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. SASES's liability is an allocation of the Justice Portfolio's total assessment.

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

(o) 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 Income Statement on a basis which is representative of the pattern of benefits derived from the leased assets.

(p) *Administrative Restructuring*

Pursuant to the Government Gazette (dated 29 September 2005) a number of employees of the former Emergency Services Administrative Unit (ESAU) were transferred to the SASES. After the final financial statements of ESAU were audited the remaining assets and liabilities were transferred to SAFECOM and SASES (refer to Note 19).

3. Financial Risk Management

SASES has non-interest bearing assets (cash on hand and receivables) and liabilities (payables) and interest bearing assets (cash at bank). SASES's exposure to market risk and cash flow interest risk is minimal.

SASES has no significant concentration of credit risk. SASES has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history.

In relation to the liquidity/funding risk, the continued existence of SASES in its present form and with its present programs is dependent on Government policy and on continuing grants from the Community Emergency Service Fund for SASES administration and programs.

4. Employee Benefits Costs

	01.10.05 to 30.06.06
Employee expenses for the reporting period comprised:	$'000
Salaries and wages	1 713
Payroll tax	91
Superannuation	197
Long service leave expenses	74
Other employee related costs	32
Total Employee Benefits Costs	**2 107**

Average Number of Employees during the Reporting Period

On average, SASES employed 34 people throughout the reporting period.

Remuneration of Employees

The number of employees whose remuneration received or receivable fell within the following bands were:	01.10.05 to 30.06.06 Number of Employees
$170 000 - $179 999	1
Total Number of Employees	**1**

The aggregate remuneration for all employees referred to above was $172 000.

5. Supplies and Services

	01.10.05 to 30.06.06
Supplies and services provided by entities within the SA Government:	$'000
Accommodation	2
Communication expenses	31
Computing costs	34
Consultancy, contractor and legal fees	19
Consumables and minor purchases	12
Energy	6
Operating lease costs	61
Other expenses	48
Repairs and maintenance	4
Travel and training	4
Total Supplies and Services - SA Government Entities	**221**
Supplies and services provided by entities external to the SA Government:	
Accommodation	14
Communication expenses	261
Computing costs	7
Consultancy, contractor and legal fees	509
Consumables and minor purchases	1 277
Energy	43
Operating lease costs	416
Other expenses	433
Repairs and maintenance	513
Travel and training	435
Uniforms and protective clothing	325
Workers compensation	455
Total Supplies and Services - Non-SA Government Entities	**4 688**
Total Supplies and Services	**4 909**

Consultancies

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

	01.10.05 to 30.06.06 Number of Consultants	01.10.05 to 30.06.06 $'000
Less than $10 000	**2**	**8**
$10 000 - $50 000	**1**	**19**
	3	**27**

6. Remuneration of Auditors

Audit fees paid/payable to the Auditor-General's Department	**19**

The auditors provided no other service.

7. Government Radio Network (GRN) Costs

SASES has been charged by the Department for Administrative and Information Services (DAIS) for costs associated with the provision of emergency communications services, including voice, paging and data transmission using the GRN.

	01.10.05 to 30.06.06 $'000
Contribution towards GRN - Voice	**1 292**
Contribution towards GRN - Paging	**124**
	1 416

8. Depreciation

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

Communications equipment	**99**
Vehicles	**416**
Plant and equipment	**77**
Buildings	**159**
Computer equipment	**93**
	844

9. Net Gain from Disposal of Assets

Proceeds from disposal of assets	**118**
Written down value of assets	**(24)**
	94

10. Other Income

Other income comprised:

Fundraising by SASES units	**46**
Commonwealth revenue	**548**
Transfer of capital funding for GRN	**50**
Other	**9**
	653

11. Cash and Cash Equivalents

Cash on hand	**2**
Cash at bank - SASES Units	**749**
Cash at bank	**501**
	1 252

Interest Rate Risk

Cash on hand is non-interest bearing, cash at bank bears a floating interest rate between 5.35 percent and 5.43 percent. The carrying amount of cash approximates fair value.

12. Receivables

	01.10.05 to 30.06.06 $'000
Current:	
Receivables	**89**
GST receivables	**357**
Total Current Receivables	**446**
Government/Non-Government Receivables	
Receivables from SA Government Entities:	
Receivables	**67**
Total Receivables - SA Government Entities	**67**
Receivables from Non-SA Government Entities:	
Receivables	**22**
GST receivable	**357**
Total Receivables - Non-SA Government Entities	**379**
Total Receivables	**446**

Interest Rate and Credit Risk

Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 30 days. Receivables, prepayments and accrued revenues are non-interest bearing. Other than recognised in the allowance for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. In addition, there is no concentration of credit risk.

13. Non-Current Assets

Property, Plant and Equipment

	Cost/ Valuation $'000	Accumulated Depreciation $'000	01.10.05 to 30.06.06 Written Down Value $'000
Land at independent valuation	**857**	**-**	**857**
Buildings at independent valuation	**4 243**	**20**	**4 223**
Buildings at cost	**1 061**	**73**	**988**
Vehicles at independent valuation	**6 657**	**-**	**6 657**
Vehicles at cost	**738**	**15**	**723**
Communications equipment at cost	**2 191**	**1 174**	**1 017**
Computer equipment at cost	**1 404**	**648**	**756**
Plant and equipment at cost	**1 875**	**571**	**1 304**
Work in progress at cost	**1 825**	**-**	**1 825**
	20 851	**2 501**	**18 350**

Impairment

There were no indications of impairment for property, plant and equipment as at 30 June 2006.

Reconciliation of Non-Current Assets

The following table shows the movement of Non-Current Assets during 2005-06.

	01.10.05 to 30.06.06						
	Land and Buildings $'000	Vehicles $'000	Communi-cations Equipment $'000	Computer Equip-ment $'000	Plant and Equip-ment $'000	Work in Progress $'000	**Total $'000**
Carrying amount at 1 October 2005	-	-	-	-	-	-	**-**
Additions	7	39	-	145	-	3 031	**3 222**
Disposals	-	(22)	(1)	-	(1)	-	**(24)**
Transfer from work in progress	295	1 250	58	-	343	(1 946)	**-**
Revaluation	430	106	-	-	-	-	**536**
Depreciation	(159)	(416)	(99)	(93)	(77)	-	**(844)**
Acquisition through administrative restructuring	5 495	6 423	1 059	704	1 039	740	**15 460**
Carrying Amount at 30 June 2006	6 068	7 380	1 017	756	1 304	1 825	**18 350**

14. Payables

	01.10.05 to 30.06.06 $'000
Payables comprise the following:	
Current:	
Creditors	**1 195**
Accrued expenses	**180**
Employment on-costs	**48**
	1 423
Non-Current:	
Employment on-costs	**54**
	54
Total Payables	**1 477**

Government/Non-Government Payables

Payables to SA Government Entities:	
Creditors	**967**
Employment on-costs	**52**
Accrued expenses	**87**
Total Payables - SA Government Entities	**1 106**
Payables to Non-SA Government Entities:	
Creditors	**228**
Accrued expenses	**93**
Employment on-costs	**50**
Total Payables - Non-SA Government Entities	**371**
Total Payables	**1 477**

Interest Rate and Credit Risk

Creditors and accruals are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying about of payables approximates net fair value due to the amounts being payable on demand.

15. Employee Benefits

	01.10.05 to 30.06.06 $'000
Current:	
Annual leave	203
Long service leave	70
	273
Accrued salaries and wages (included in payables)	31
Employment on-costs (included in payables)	48
	352
Non-Current:	
Long service leave	614
Employment on-costs (included in payables)	54
	668
Total Employee Benefits	**1 020**

16. Provisions

Current:	
Provision for workers compensation	99
Total Current Provisions	**99**
Non-Current:	
Provision for workers compensation	339
Total Non-Current Provisions	**339**
Total Provisions	**438**
Carrying amount at 1 October 2005	-
Additional provisions recognised	452
Payments	(14)
Carrying Amount at 30 June 2006	**438**

17. Commitments

Operating Leases Commitment

Commitments under non-cancellable operating leases at the reporting date are payable as follows:	
Within one year	487
Later than one year by not longer than five years	954
Later than five years	26
Total Operating Lease Commitment	**1 467**

These operating leases are not recognised in the Balance Sheet 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.

18. Cash Flow Reconciliation

	01.10.05 to 30.06.06 $'000
Reconciliation of Cash	
Cash at 30 June as per:	
Cash Flow Statement	1 252
Balance Sheet	1 252
Reconciliation of Net Cash Provided by Operating Activities to Net Cost of Providing Services	
Net cash provided by operating activities	2 389
Contributions from Community Emergency Services Fund	(8 587)
Add/Less: Non-cash items:	
Depreciation	(844)
Net gain from disposal of non-current assets	94
Change in Assets and Liabilities:	
Increase receivables	446
Increase in payables	(1 477)
Increase in provision for employee benefits	(45)
Increase in provisions	(437)
Net Cost of Providing Services	**(8 461)**

19. Administrative Restructure

Net assets and liabilities were transferred from the Emergency Services Administrative Unit (ESAU) to the South Australian State Emergency Service as at 31 December 2005.

The total assets and liabilities transferred to SASES from ESAU were:	$'000
Current assets - Cash	2 263
Current assets - Receivables	121
Non-current assets - Property, plant and equipment	15 460
Current liabilities - Employee benefits	(413)
Non-current liabilities - Employee benefits	(847)
Total Net Revenue from Administrative Restructure	16 584

20. Contingent Liabilities

The SASES has one contingent liability resulting from the Virginia flood that occurred in November 2005. A claim of approximately $500 000 has been submitted but no legal action has commenced. The claim has been referred to the Crown Solicitor who is of the opinion that there is a defence to the claim. The claim has also been referred to SASES's insurer, namely SAICORP. If the claim was successful, SASES would have a maximum liability of $10 000.

SOUTH AUSTRALIAN SUPERANNUATION BOARD

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Superannuation Board (the Board) is a body corporate established pursuant to subsection 6(2) of the *Superannuation Act 1988* (the Act).

Functions

The Board is responsible for the administration of two separate superannuation schemes. From 1 July 2006, the Board also became responsible for any superannuation schemes which are declared Administered Schemes under the Act. The functions and responsibilities for each scheme, established by separate Acts of Parliament, are as follows.

South Australian Superannuation Scheme

The Act provides for the establishment of an employer sponsored voluntary superannuation scheme to provide superannuation benefits for persons employed by the Government of South Australia and other prescribed persons, and makes provisions for families of such persons. The Act does not apply to Members of Parliament, the judiciary or police officers who are provided for under separate legislation.

Pursuant to subsection 7(1) of the Act, the Board is responsible to the Minister for the administration of the Act except for the management and investment of the South Australian Superannuation Fund (the Fund). This responsibility includes the maintenance of:

- accounts in the name of all members of the South Australian Superannuation Scheme (the Scheme);
- proper accounts for each financial year on receipts of contributions and payment of benefits.

The Scheme has the following components:

- Old Scheme Division — For the provision of pension based benefits.
- New Scheme Division — For the provision of lump sum benefits.

In addition, Employer Contribution Accounts have been established to record the employer contributions towards their share of the emerging liability for benefit payments of the Scheme.

The Superannuation Funds Management Corporation of South Australia (Funds SA) has statutory responsibility for the investment and management of the Fund. This Fund comprises the contributions of employees and income derived from investment of those funds, less the Fund portion of benefits payable and administration expenses. Funds SA also invests and manages the employer contributions on behalf of the Board.

The Old Scheme and the New Scheme Divisions were closed to new membership in May 1986 and June 1994, respectively. The Scheme was replaced by the Southern State Superannuation Scheme (the Triple S Scheme) effective 1 July 1995.

Southern State Superannuation Scheme

The *Southern State Superannuation Act 1994* (Triple S Act) established the Triple S Scheme to provide an employer sponsored contributory superannuation scheme for persons employed in the public sector. The Triple S Scheme replaced the South Australian Superannuation Scheme as the Government sponsored scheme available to public sector employees. The Triple S Scheme also includes members of the benefit scheme established by the *Superannuation (Benefits Scheme) Act 1992* and police officers who commenced employment from 1 July 1995.

The Triple S Scheme provides employer benefits for public sector employees who are not actively contributing to an employer sponsored superannuation scheme, in order to satisfy the minimum level required under the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. The Triple S Scheme also allows employees to make contributions.

The Board is responsible under the Triple S Act for the maintenance of:

- accounts in the name of all members of the Triple S Scheme;

- proper accounts for each financial year on the receipt of member contributions and payments to members.

The Triple S Act establishes the Southern State Superannuation Fund (Triple S Fund) and the Southern State Superannuation (Employers) Fund (Triple S Employers Fund). The Triple S Fund comprises contributions of employees whereas the Triple S Employers Fund comprises employer contributions. Both Funds include income derived from investments of those funds, less the Funds' portion of benefits paid. Funds SA is responsible for the investment and management of both Funds.

Post Retirement Investment

Pursuant to subsection 47(B) of the Triple S Act, from 1 April 2005 the Board introduced two post-retirement investment products. These were:

- Super SA Allocated Pension: an investment product for retired members who want to maintain their money in a superannuation fund which provides a regular income stream rather than withdrawing money in a lump sum.

- Super SA Flexible Rollover: an investment product for retired members to maintain their money in a superannuation fund while giving access at any time (subject to preservation rules).

The funds held in these products comprise the member's superannuation funds; other monies as determined by the Board; and income derived from investment of those funds less any benefits paid and administration expenses. These funds are managed and invested by Funds SA.

Service Provision Arrangements

The Board utilises the services of the Department of Treasury and Finance - Superannuation Office (Super SA) in carrying out its functions. Super SA maintains individual member records, processes contributions and determines and processes benefit payments. The Board has a service level contract with the Department of Treasury and Finance for the provision of superannuation administration services. The contract includes performance standards for services, management reporting and internal control.

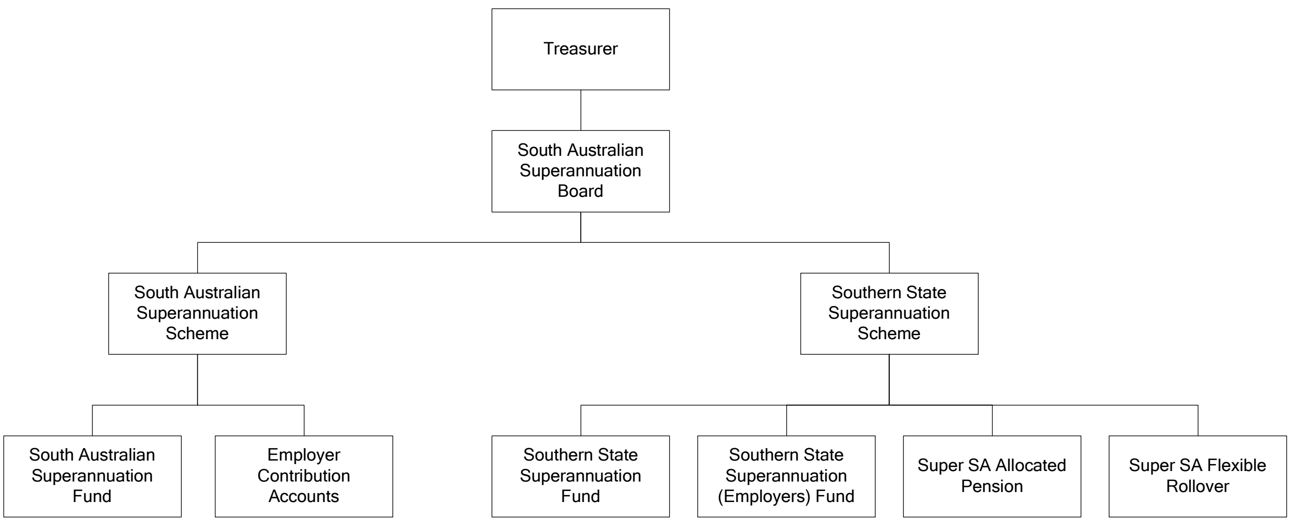
For further information on the investment and management of superannuation monies reference should be made to comments under 'Superannuation Funds Management Corporation of South Australia' elsewhere in Part B of this Report.

Changes to Functions

On 23 June 2006 Parliament amended the *Superannuation Act 1988* which: established the framework for qualifying superannuation schemes to have its administrative functions transferred to Super SA; enables the Trustees to elect to have the superannuation fund's assets invested and managed by Funds SA and the responsibility of the scheme to be taken over by the Board.

On 30 June 2006, the Treasurer declared the South Australian Ambulance Service Superannuation Scheme a scheme and fund established under the Act and the Board became responsible for the fund and scheme from 1 July 2006.

Structure



Audit Committee

The Board established an Audit Committee which comprises three members and operates within the framework of a Terms of Reference. The Audit Committee's primary function is to assist the Board in exercising due care, diligence and skill in discharging its oversight and monitoring responsibility. Audit representatives attended Audit Committee meetings throughout the year.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* provides for the Auditor-General to audit the accounts of the Board for each financial year. The activities of the Board are reflected in the two schemes it administers. Details of the audit mandate for the audit of the financial report of these two schemes is provided under the 'South Australian Superannuation Scheme' and 'Southern State Superannuation Scheme' which directly follows this section of Part B of this Report.

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 form audit opinions on the financial reports of the superannuation schemes and the Board's internal controls.

AUDIT FINDINGS AND COMMENTS

Audit Opinion

Information on the audit coverage, findings and audit opinion on the financial reports of the individual superannuation schemes is provided under the 'South Australian Superannuation Scheme' and 'Southern State Superannuation Scheme' which directly follows this section of Part B of this Report.

The following provides commentary on overall issues that are not covered in the comments on the individual schemes.

Assessment of Controls

In my opinion, 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 are sufficient to provide reasonable assurance that the financial transactions of the Board have been conducted properly and in accordance with law.

Audit Communications to Management

General Controls

The audit indicated that the internal controls over the Board's administration of the schemes were generally satisfactory. Matters arising during the course of the audit were detailed in a management letter to the Chairman. A satisfactory response to the management letter has been received.

Superb and ePass Computer Processing Environment Review

The 2004-05 Report included matters arising from the audit of the Board's Superb and ePass computing environment and operations.

The Superb system is the principal superannuation fund and management regulatory system and its functions include the processing of member contributions. The ePass system allows agencies to electronically transfer membership contribution data and members to directly access certain information via the internet.

The main matters requiring attention in last year's Report were:

- Improvement in user and system documentation
- Implementation of transaction logging and review process
- Aspects of Business Continuity Planning.

In 2004-05 the Board responded to the audit findings in a satisfactory manner. A follow-up audit in 2006 confirmed satisfactory action was taken to address the matters requiring attention.

In May 2006 the Board's Information Technology function and resources were transferred to the Corporate Services Branch of the Department of Treasury and Finance. The Department is in the process of finalising arrangements for an off-site Disaster Recovery Site. The Site will accommodate recovery arrangements for the Board's systems. Audit will review these arrangements in 2006-07.

SOUTH AUSTRALIAN SUPERANNUATION SCHEME

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 20AB(2) of the *Superannuation Act 1988* (the Act) provides for the Auditor-General to audit, for each financial year, the accounts kept by the South Australian Superannuation Board (the Board) of receipts and payments relating to the payment of benefits under the Act.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an audit opinion on the financial report and internal controls.

During 2005-06, specific areas of audit attention included:

- receipting and banking of employer and employee contributions
- processing of contributions data
- maintenance of member accounts
- benefit payments
- liability for accrued benefits.

The audit did not include a review of the investment and management of the Scheme assets as these areas were reviewed as part of the audit of the Superannuation Funds Management Corporation of South Australia (Funds SA).

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 Superannuation Scheme as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Audit Communications to Management

The audit indicated that the internal controls over the Scheme's operations were satisfactory. No significant issues were raised as a result of the audit. For information on other matters raised with the Board reference should be made to the comments under the 'South Australian Superannuation Board' elsewhere in Part B of this Report.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006 $'million	2005 $'million	Percentage Change
OPERATING REVENUE			
Contribution Revenue	**440**	383	15
Net Investment Revenue	**696**	471	48
Other	**532**	67	n/a
Total Operating Revenue	**1 668**	921	81

	2006 $'million	2005 $'million	Percentage Change
OPERATING EXPENDITURE			
Benefits expense	**907**	1 350	(33)
Other expenses	**16**	13	23
Total Expenses	**923**	1 363	(32)
Operating result	**745**	(442)	n/a
Net Cash Flows from Operations	**452**	(49)	n/a
ASSETS			
Investments	**4 722**	3 574	32
Other assets	**18**	11	64
Total Assets	**4 740**	3 585	32
LIABILITIES			
Liability for Accrued benefits	**9 059**	8 654	5
Current liabilities	**21**	16	31
Non-current liabilities	**9**	10	(10)
Total Liabilities	**9 089**	8 680	5
EXCESS OF LIABILITIES OVER NET ASSETS	**(4 349)**	(5 095)	15

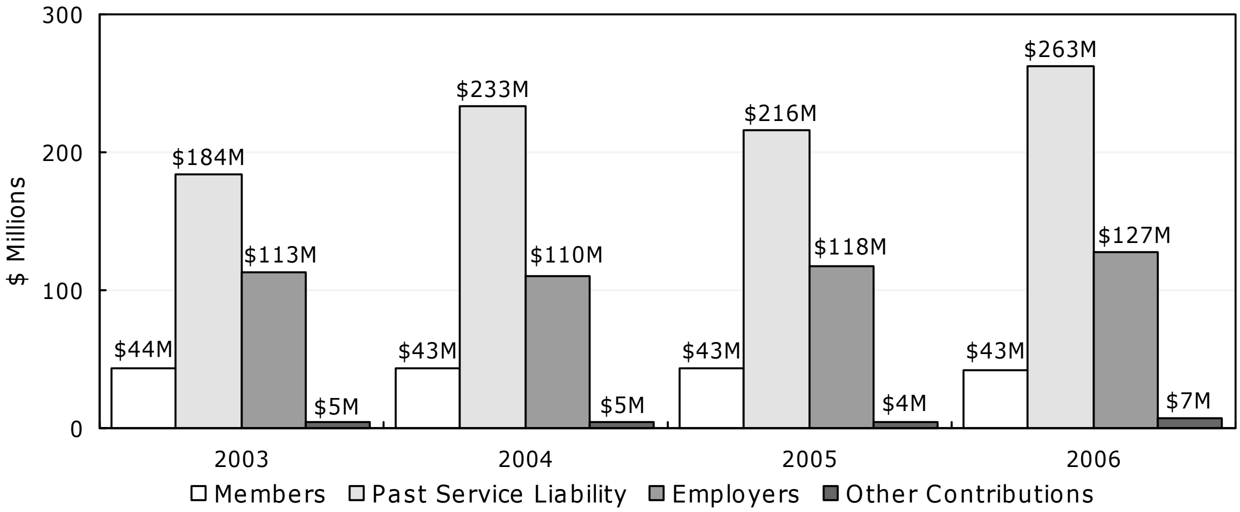
Operating Statement

Revenues

Investment activity for the year resulted in a net return of $696 million compared to $471 million in the previous year. Investment returns are further discussed in the commentary for Funds SA.

Contribution revenue increased by $57 million to $440 million, due mainly to an increase of $46.6 million in contributions for past service liability. During the year the Government transferred $261 million ($215 million) into the 'South Australian Superannuation Scheme Contribution Account' for past service liability funding. Employer contributions increased by $8.7 million to $127.3 million, due mainly to an increase in the employer contribution rate for both divisions of the Scheme. Refer to Note 1(d) of the financial report.

A structural analysis of contribution revenues of the Scheme for the four years to 2006 is presented in the following chart.



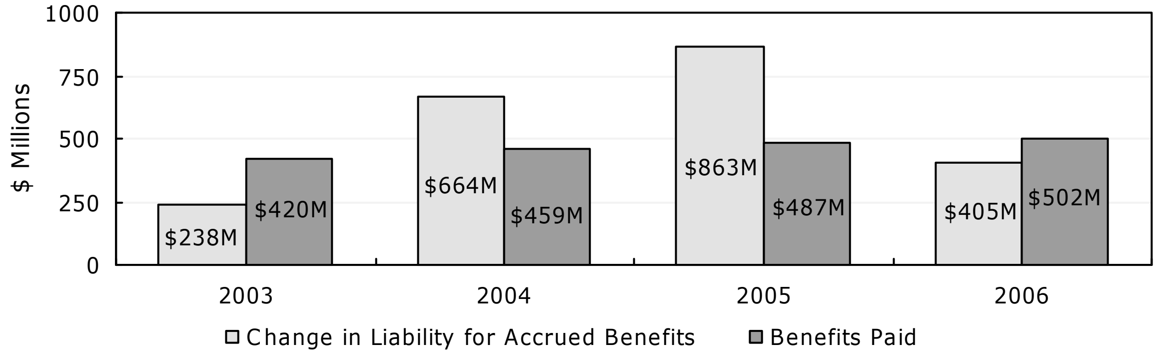
The chart shows that over the last four years employer and member contributions have remained relatively constant. This is expected as the new and old schemes are closed schemes and therefore, there are no new contributors. Past service liability payments represent funding from the Government (since 1994) to meet accrued superannuation liabilities. The Government expects to fully fund liabilities by 30 June 2034.

Other Revenue increased by $465.4 million to $532.5 million, mainly due to $464 million from the Commonwealth Government. An agreement between the Commonwealth and State Governments required the Commonwealth to fund an agreed portion of superannuation benefits of former state railway employees. In June 2006, the Commonwealth paid $464 million to the State to fully extinguish its superannuation liability. The amount was deposited in the SA Employer Account. Refer to Note 1(d)(iii) of the financial report.

Expenses

The Scheme's dominant expenditure item is benefits expense which decreased by $442.2 million (33 percent) to $907.5 million for the year.

For the four years to 2006 a structural analysis of the benefits expense item for the Scheme is shown in the following chart.



Benefits expense comprises the benefits paid and the change in the liability for accrued benefits. The above chart demonstrates that benefits expense can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. An actuarial review is undertaken every three years but the assumptions from this review are used to calculate the accrued liability in years between reviews. Further details of the liability is provided below under 'Statement of Financial Position'.

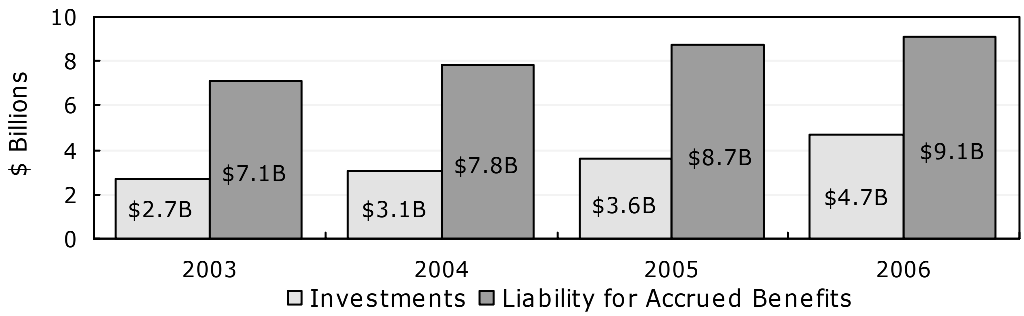
Over the period of review there has been a steady increase in benefits paid. This is expected as the benefits paid are effected by increases in final salary and inflation adjustments to pensions.

Statement of Financial Position

The estimated liability for accrued benefits increased by $405 million to $9.1 billion ($8.7 billion) for which net assets of $4.7 billion ($3.6 billion) were available to pay benefits. This has resulted in an excess of liabilities over net assets of $4.4 billion ($5.1 billion). The 2004 triennial actuarial review resulted in revised assumptions. The most significant change was a reduction in the pensioner mortality rates resulting in a further increase in the Liability for Accrued Benefits. In 2006 the same assumptions were applied, increasing the Liability for Accrued Benefits by $405 million ($863 million). The liability has increased as there is an additional year of past service which has accrued at reporting date. Refer to Note 7 'Liability for Accrued Benefits' to the financial report for further details.

Although a portion of the total superannuation liability is currently unfunded, members' entitlements to benefits are required to be paid out of the Consolidated Account, or a Special Deposit Account established for that purpose, pursuant to the Act.

For the four years to 2006 a structural analysis of investments and liability for accrued benefits is shown in the following chart. Over the period of review there has been a steady growth in investments as a result of: the decision by the Government to move to full funding of the public sector superannuation liability; increase in contributions; and accumulation of investment earnings.



Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2006.

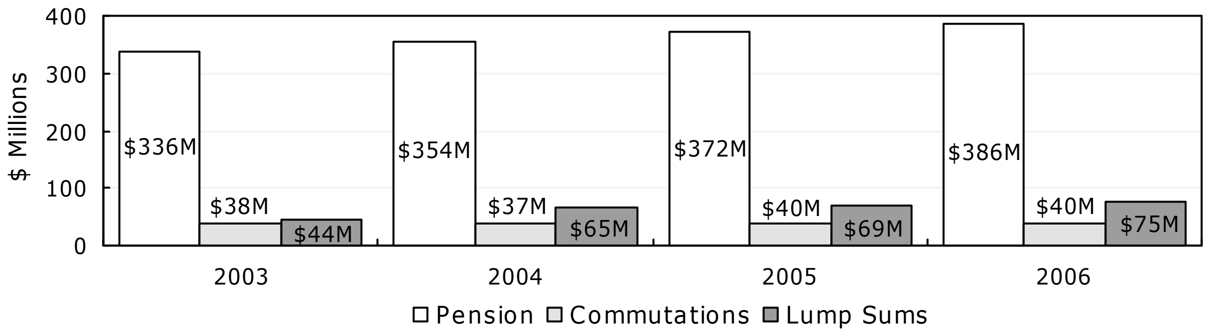
	2006	2005	2004	2003
	$'million	$'million	$'million	$'million
Net Cash Flows				
Operations	**452.0**	(49.0)	(32.1)	(6.2)
Investing	**(450.8)**	48.2	24.8	10.2
Change in Cash	**1.2**	(0.8)	(7.3)	4
Cash at 30 June	**3.7**	2.5	3.3	10.6

The operating cash flows increased in 2005-06 due to the $464 million received from the Commonwealth Government, as previously mentioned. Consequently, these monies were paid to Funds SA to invest resulting in the significant decrease in net cash flows from investing activities.

Although benefits paid increased in 2005-06, contributions received increased by a greater amount. As a result, excluding the amount received from the Commonwealth Government, net cash from operating activities increased in 2005-06.

In 2005-06 total benefits paid amounted to $500 million ($484 million), which included $386 million ($372 million) paid as pensions. Details of benefits paid/payable are disclosed in Note 6 of the Financial Report.

The following chart analyses benefits paid for the four years to 2006.

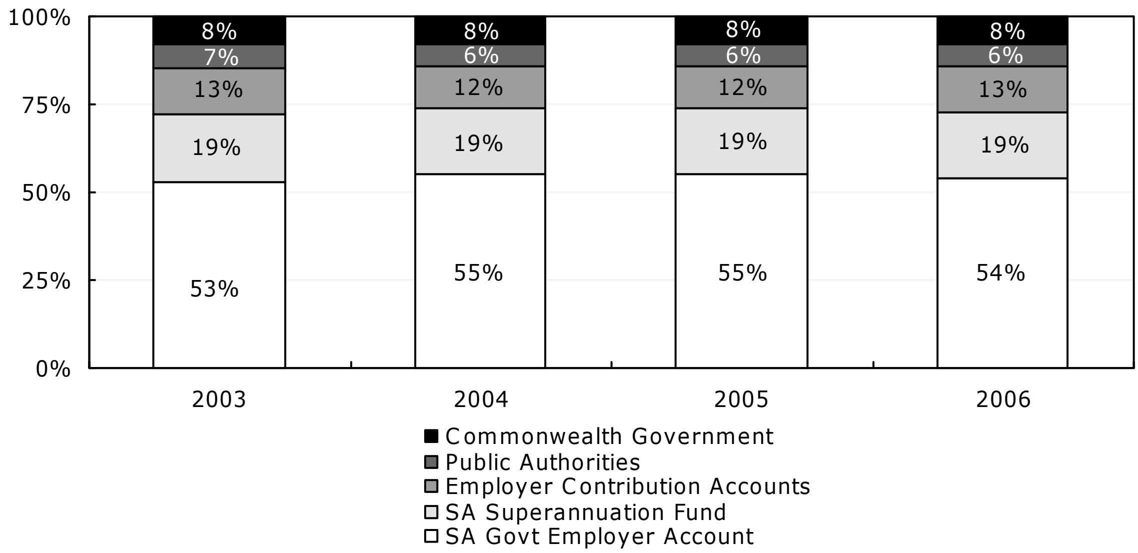


The chart shows an increasing amount of pensions paid as more members reach retirement age and pensions are adjusted for increases in inflation.

FURTHER COMMENTARY ON OPERATIONS

Funding of Benefit Payments

Benefit payments are funded from a number of sources. Benefits paid by funding source for the last four years are depicted in the following chart.



The funding sources have remained relatively consistent over the last four years.

The SA Superannuation Fund portion of a benefit is fully funded. Member contributions are deposited with Funds SA and on payment of a benefit, a proportion of the amount is charged against the Fund. The amount charged is determined by legislation and regulation.

There are numerous arrangements covering the funding of the employer liability for accrued superannuation benefits. Depending on the employer's arrangement with the Board they may either make provisions for superannuation liabilities in their own accounts and pay for benefits as they emerge; they may contribute fortnightly to Employer Contribution Accounts managed by Funds SA, in this way funding their accruing liability; or they may make cash contributions to the Treasurer, who in turn forwards these monies to Funds SA.

In addition, the Commonwealth Government meets an agreed portion of benefits payable where the employer portion relates to former State Government employees. As previously mentioned, in June 2006 the Commonwealth Government fully extinguished its liability.

Note 1(d) to the financial report provides details of the various funding arrangements.

As previously mentioned, although a portion of the total superannuation liability is currently unfunded, members' entitlements to benefits are required to be paid out of the Consolidated Account, or a Special Deposit Account established for that purpose, pursuant to the Act.

Pensioners

The number of pensioners, and pensions paid for the past four years, was:

	2006	2005	2004	2003	2002
Pensioners	**14 842**	14 855	14 713	14 629	14 672
Pensions paid ($'million)	**386**	372	354	336	318

Contributions by Members

The number of contributors, and contributions received from members for the past three years, was:

		2006			
	Old	**New**		2005	2004
	Scheme	**Scheme**	**Total**	Total	Total
Contributors (excludes preserved members)	**4 450**	**6 912**	**11 362**	11 999	12 585
Contributions received ($'000)	**16 778**	**25 712**	**42 490**	43 468	43 027

Operating Statement
for the year ended 30 June 2006

	Note	2006 $'000	2005 $'000
INVESTMENT REVENUE:			
Investment revenue	4	**720 778**	471 187
CONTRIBUTION REVENUE:			
Contribution for past service liability	1(d)	**262 942**	216 343
Contributions by employers	1(d)	**127 336**	118 557
Contributions by members		**42 490**	43 468
Rollovers from other schemes		**4 437**	3 692
Government Co-contributions	18	**2 578**	700
		439 783	382 760
OTHER REVENUE	17	**532 471**	67 045
DIRECT INVESTMENT EXPENSE	4	**(25 167)**	-
CO-CONTRIBUTIONS TRANSFERRED TO OTHER SCHEME	18	**(2 578)**	(700)
HIGHER EDUCATION SUPERANNUATION COSTS	20	**(8 008)**	(7 790)
ADMINISTRATION EXPENSE	4	**(4 368)**	(4 133)
AUDIT EXPENSE	21	**(120)**	(118)
CONSULTANCY EXPENSE		**(11)**	(46)
BENEFITS EXPENSE	7	**(907 499)**	(1 349 720)
OPERATING RESULT FOR THE PERIOD		**745 281**	(441 515)

Statement of Financial Position
as at 30 June 2006

	Note	**2006** **$'000**	2005 $'000
INVESTMENTS:	2(b),9		
Inflation linked securities		**403 258**	361 950
Property		**445 969**	283 446
Australian equities		**1 577 972**	1 244 137
International equities		**1 580 296**	1 233 565
Fixed interest		**206 509**	205 366
Diversified Strategies - Growth		**161 377**	64 475
Diversified Strategies - Income		**174 097**	93 319
Cash		**172 227**	87 979
		4 721 705	3 574 237
FIXED ASSETS		**191**	210
OTHER ASSETS:			
Cash and deposits at Treasury	11	**3 667**	2 497
Cash and deposits at Treasury - Funds SA		**893**	232
Contributions receivable	3	**9 065**	3 971
Interest, dividends and rent due - Funds SA		**162**	359
Prepaid expenses - Funds SA		**-**	2
Other income receivable	15	**4 151**	4 116
Sundry debtors	16	**76**	122
		18 014	11 299
Total Assets		**4 739 910**	3 585 746
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		**518**	645
Benefits payable	19	**12 712**	10 481
Sundry creditors	12	**7 892**	5 124
PAYG withholding tax	13	**118**	7
		21 240	16 257
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		**8 759**	9 759
Total Liabilities		**29 999**	26 016
NET ASSETS AVAILABLE TO PAY BENEFITS	5	**4 709 911**	3 559 730
Less: **LIABILITY FOR ACCRUED BENEFITS**	7	**9 059 100**	8 654 200
RESERVES	22	**651**	649
EXCESS OF LIABILITIES OVER NET ASSETS		**(4 349 840)**	(5 095 119)

Statement of Cash Flows
for the year ended 30 June 2006

		2006	2005
		Inflows	Inflows
		(Outflows)	(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES:	Note	**$'000**	$'000
Contributions received:			
Contributions for past service liability	1(d)	**262 892**	216 343
Contributions by employers		**122 517**	116 092
Rollovers from other schemes		**4 437**	3 692
Government co-contributions		**2 578**	700
Contributions by members		**42 266**	42 539
		434 690	379 367
Other income:			
Reimbursement from other sources:			
Commonwealth Government and Public Authorities		**532 091**	66 999
Temporary disability reimbursements		**81**	302
		532 172	67 301
Refund of reserves		**-**	649
Bank account interest		**378**	328
		532 550	68 278
GST recoup received		**313**	330
Benefits paid:			
Pensions		**(386 050)**	(372 057)
Commutation of pension benefits		**(39 520)**	(39 977)
Lump sums		**(74 791)**	(69 292)
PAYG withholding tax		**111**	(2 733)
		(500 250)	(484 059)
Administration expense		**(4 606)**	(4 362)
Audit expense		**(118)**	-
Co-contributions transferred to other scheme		**(2 578)**	(700)
Higher Education Superannuation costs		**(8 008)**	(7 790)
Consultancy expense		**(23)**	(38)
Net Cash provided by (used in) Operating Activities	10	**451 970**	(48 974)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts from Funds SA		**294 750**	316 700
Payments to Funds SA		**(745 550)**	(268 500)
Net Cash (used in) provided by Investing Activities		**(450 800)**	48 200
NET INCREASE (DECREASE) IN CASH HELD		**1 170**	(774)
CASH AT 1 JULY		**2 497**	3 271
CASH AT 30 JUNE	11	**3 667**	2 497

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

(a) South Australian Superannuation Scheme

The South Australian Superannuation Scheme (the Scheme) is a voluntary superannuation scheme which exists pursuant to the *Superannuation Act 1988* (the Act). It previously existed in different forms under various other legislation. The Act provides for superannuation benefits for persons employed by the Government of South Australia and other prescribed persons and makes provisions for the families of such persons. It is not available to Members of Parliament, the judiciary or to police officers who are each provided for under separate legislation.

Contributors to the Scheme may be either old scheme contributors, who are entitled to a pension based benefit, or new scheme contributors who are entitled to a lump sum based benefit. The old scheme contributors segment of the Scheme was closed to new members in May 1986. The new scheme contributors segment of the scheme was closed to new members in May 1994.

Contributors make contributions from after tax salary based on a percentage of their salary, with the standard contribution rate being between 5 and 6 percent. Contributors may elect to vary their contribution rate in accordance with section 23 of the Act. A contribution account is maintained for each contributor. If a member ceases to contribute they will be automatically covered by the Southern State Superannuation Scheme, to meet the minimum requirements of the Commonwealth legislation.

Since October 1989, the Act has required that contributions be paid to the Treasurer, who in turn deposits those contributions into the South Australian Superannuation Fund (the Fund) which is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

The Act requires the Fund to be treated as being made up of two divisions, being the Old Scheme Division and the New Scheme Division. Each division consists of the contributions and the accretions arising from the investment of those contributions in respect of relevant old or new scheme contributors. Consistent with the accounts of the Fund the accounts of the Scheme are also maintained in respect of each division.

(b) South Australian Superannuation Board

The Act charges the South Australian Superannuation Board (the Board), a body corporate, with responsibility for all aspects of the administration of the Act except for the management and investment of the Fund. The Act also provides the Board with the necessary powers to administer the Scheme. The Board, with the approval of the Treasurer, has contracted the Under Treasurer to provide the administrative services.

Under the terms of the Act, the Board is required to determine rates of return to be credited to each division of the Fund, with those rates being credited to each contribution account at the end of the financial year. In determining the rate to be applied, the Act requires that the Board have regard to the net rate of return achieved by Funds SA for each division of the Fund.

(c) Superannuation Funds Management Corporation of South Australia

Funds SA is established under the Superannuation Funds Management Corporation of *South Australia Act 1995* (the Funds SA Act). Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Fund and the South Australian Superannuation Scheme Contribution Account (the Account), reference should be made to the financial report of Funds SA. The investment assets, liabilities, income and expense contained in these financial statements are related to the investment activities of Funds SA, an SA Government entity.

(d) Funding Arrangements

Under section 20B of the Act, any payment made to a contributor must be made out of the Consolidated Account, (which is then appropriated to the necessary extent) or a Special Deposit Account established for that purpose. The Treasurer may subsequently reimburse the Consolidated Account or Special Deposit Account from the Fund the proportion of any such payment charged against the contributor's contribution account. The prescribed proportion of that payment or benefit payments to be charged to the old scheme contributor's accounts is determined by the Board in accordance with section 43A of the Act. During the year ended 30 June 2006 payments were made from a Special Deposit Account.

The Treasurer may also seek reimbursement of the employer portion of any such payments from certain employer bodies under agreements made between the Treasurer and/or the Board and those employer bodies. The employer portion of benefits is met from the Account established by the Treasurer to record employer superannuation contributions. The employer portion of payments may be in relation to State Government Departments, Statutory Authorities and former State Government employees now employed by the Commonwealth Government. Employer contributions for these agencies were 24 percent (21.5 percent) in respect of old scheme contributors and 13.5 percent (13 percent) in respect of new scheme contributors.

(d) Funding Arrangements (continued)

Funding for the employer portion of payments met from the Account is from monies deposited under arrangements with respective employers. Monies deposited in the Account are invested and managed by Funds SA but do not form part of the Fund. The Treasurer seeks reimbursement from the Account balances as benefits are paid. The arrangement with employers are:

(i) State Government Departments

State Government Departments pay fortnightly employer contributions to the Treasurer for their emerging superannuation liabilities which are deposited by the Treasurer into the Account. During the reporting period $94.8 million ($87.3 million) was received or receivable from State Government Departments.

Since 30 June 1994 the Government has commenced a process of funding its accrued past service superannuation liabilities. During the year ended 30 June 2006 the Government transferred a total of $260.9 million ($215 million) into the Account. The Government will continue to pay contributions to the Account to meet the accrued past service liability so that the liability will be fully funded by 30 June 2034.

Where a payment relates to a temporary disability benefit, the Treasurer seeks reimbursement from the Account in the first instance and simultaneously seeks reimbursement of the Account directly from the Government Department as the benefit is paid. During the reporting period $81 000 ($282 000) was received or receivable from State Government Departments.

(ii) Statutory Authorities

Where the employer proportion of a payment relates to Statutory Authorities, three different funding arrangements exist. These arrangements are made by the Board, which has entered into agreements with individual authorities pursuant to section 5 of the Act. The terms agreed in any such arrangements must be approved by the Minister. The three arrangements are:

- *State Government Liability for Statutory Authorities*
  These authorities have made arrangements with the Board to fund their emerging superannuation liabilities by making regular payments, based on actuarial assessment, to the Treasurer. These monies are deposited in the Account. In addition, the Government has commenced a process of funding the past service superannuation liability for these authorities as outlined in Note 1(d)(i).

- *Employer Contribution Accounts*
  Certain public sector employers have made arrangements with the Board to fund their superannuation liabilities by making regular payments to the Treasurer based on an actuarial assessment. The Treasurer deposits these monies in the Account into what are referred to as the Employer Contribution Accounts. The Treasurer seeks reimbursement from the Employer Contribution Account balances as benefits are paid.

  The South Australian Housing Trust has implemented a 30 year program of funding its accrued superannuation liabilities. An amount of $1.324 million ($1.273 million) was received during 2006 representing accrued past service superannuation liabilities. Additional contributions of $718 000 have also been received from WorkCover and Forestry SA to fund their accrued superannuation liabilities. Arrangements are in progress for SA Water to make additional contributions from 1 July 2006.

- *Public Authorities Accounts (Universities)*
  Some public authorities make provisions in their own accounts for their future superannuation liabilities and no balances are maintained in the Account. The Treasurer seeks reimbursement from the Account in the first instance and simultaneously seeks reimbursement directly from these authorities as benefits are paid.

Of the total contributions received from Statutory Authorities, $31.9 million ($30.6 million) relates to amounts received or receivable from SA Government entities and $626 000 ($628 000) relates to amounts received from non-SA Government entities.

(iii) Commonwealth Government

The Commonwealth Government meets an agreed portion of benefits where the employer proportion of a payment relates to former State Government (railways) employees. The Commonwealth contribution is made pursuant to the Rail Transfer Agreement between the Commonwealth and State Governments. No balances are maintained in the Account for this purpose and the Treasurer seeks reimbursement directly from the Commonwealth Government as benefits are paid. In June 2006, the State Government accepted a payment of $464 million from the Commonwealth Government to fully extinguish the Commonwealth Government's superannuation liability in respect of former State Rail employees. The Treasurer has deposited these monies into the SA Government Employer Account.

(d) Funding Arrangements (continued)

The liability for future benefits is funded to the extent of benefits to be reimbursed from the Fund, the Account, and the Public Authorities Accounts referred to in Note 1(d)(ii) above. The liability for future benefits is only partially funded in respect of benefits to be reimbursed from State Government Departments and the State Government liability for Statutory Authorities. The net assets figure shown in these statements represents the amount available to meet these future benefits.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with applicable Australian Accounting Standards, Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements, except as provided below.

This is the first financial report prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AAS 25 *Financial Reporting by Superannuation Plans* is the principal standard applied in preparing this financial report. Other Accounting Standards are also applied where necessary except to the extent that they differ from AAS 25. There has been no material impact to the financial report in the transition to AIFRS. In addition, a number of Australian Accounting Standards have been issued or amended and may be applicable to the Scheme but are not yet effective. The impact of the new and amended standards has been assessed and there will be no impact on the accounting policies.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of AAS 25 where relevant. The Directors of Funds SA believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The Inflation Linked Securities portfolio comprises two sub-sectors:

- *Internally Managed*
  These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at balance date was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*
  The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly Held Property*
  The value of Funds SA's directly held property has been determined having regard to the contractual arrangements in place over the property.

- *Listed Property Trusts*
  The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at balance date.

- *Unlisted Property Vehicles*
  The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.

(iii) Australian Equities

The Australian Equities portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.

(iv) *International Equities*
The International Equities portfolio comprises investments in equities listed on international share markets, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid rates applicable at the balance date where applicable.

(v) *Fixed Interest*
The Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.

(vi) *Diversified Strategies – Growth*
The Diversified Strategies (Growth) portfolio comprises investments in domestic and overseas private equity funds and domestic and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers. Both domestic and international funds valuations are generally in accordance with the International Private Equity Venture Capital Valuation Guidelines (November 2005). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(vii) *Diversified Strategies – Income*
The Diversified Strategies (Income) portfolio comprises investments in both domestic (Australian) and overseas pooled funds, and is invested and managed by external managers. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(viii) *Cash*
Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.

(ix) *Fixed Assets*
Fixed assets have been valued at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. It is considered that this provides a reasonable estimate of net market value.

(x) *Other Assets and Liabilities*
These items have been assessed and it is considered that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying at the balance date.

(c) Taxation
The Scheme is constitutionally protected under the Regulations to the *Income Tax Assessment Act 1936* and is exempt from income tax. Therefore no income tax has been brought to account in this financial report.

(d) Operation of Investment Portfolio
Funds SA operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds. For the year ending 30 June 2006, Funds SA managed six separate investment options distinguished by differing strategic asset allocations, namely:

- High Growth;
- Growth;
- Balanced;
- Conservative;
- Capital Defensive; and
- Cash.

During the financial year all of the above investment options were available to members for assets invested in the South Australian Superannuation Fund Account (New Scheme Division). The assets of the South Australian Superannuation Fund Account (Old Scheme Division) and the South Australian Superannuation Scheme Contribution Account are invested in the Growth option.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to each of the investment options discussed in the preceding paragraphs.

(d) Operation of Investment Portfolio (continued)

Each public sector superannuation fund holds units in an investment option, which in turn holds units in each of the sector funds according to the target strategic asset allocation for the investment option. Units are issued and redeemed periodically as transactions occur at unit prices calculated having regard to the net market value of underlying investments.

The interest which the Fund and the Account holds in the unitised investment portfolio is disclosed in the respective Statement of Net Assets Under Management in Note 25 of the Financial Report of Funds SA. The allocation of total net investment income is disclosed in the respective Statement of Changes in Net Assets Under Management in Note 25 of the Financial Report of Funds SA.

(e) Revenue

Superannuation contributions are brought to account on an accrual basis. Transfers and rollovers from other schemes are brought to account when received. Other revenue is brought to account on an accruals basis.

(f) Receivables and Payables

Contributions receivable are contributions relating to the 2005-06 financial year received by the Scheme after 30 June 2006.

Other receivables are carried at nominal amounts due which approximate fair value. Other payables are recognised when the Scheme is obligated to make future payments for services received and are carried at the amount payable on demand.

Benefits payable relate to members who have ceased employment and provided the Scheme with appropriate notification prior to 30 June 2006 but who had not been paid until after 30 June 2006.

(g) Goods and Services Tax

GST incurred that is not recoverable from the ATO has been recognised as part of the cost of acquisition of the asset or as part of the expense to which it relates. Receivables and payables are stated with the amount of GST included in the value. The amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

3. Contributions Receivable

	2006	2005
	$'000	$'000
Contributions by members	**1 229**	1 004
Contributions by employers	**7 836**	2 967
	9 065	3 971

4. Administration and Investment Expenses

Costs of administering the Scheme comprise those costs incurred by Funds SA (Investment Expense) and the Department of Treasury and Finance (Administration Expense).

Investment Expense has not been reported separately in prior financial years, but had been deducted from revenue ie investment revenue was reported net of direct investment expense. For the year ended 30 June 2006 these costs are now shown separately as Direct Investment Expense. The comparative has not been changed as the information was not readily available.

Administration Expense comprises the costs incurred by the Department of Treasury and Finance in administering the Scheme, which are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Scheme. The cost is recovered in two components:

- Subsection 17(7) of the Act requires that the Fund meet a prescribed portion of these costs, currently 30 percent.
- 70 percent of costs were deducted from the employer contributions received during the year.

The administration cost met by the Scheme is as follows:

	2006		**Total**	
	Old Scheme Division	**New Scheme Division**	**2006**	2005
	$'000	**$'000**	**$'000**	$'000
Administration charged to the Fund (30 percent)	**717**	**586**	**1 303**	1 240
Administration deducted from employer contributions	**1 577**	**1 368**	**2 945**	2 777
Administration deducted from employer contributions: SA Water	**88**	**-**	**88**	84
Administration deducted from employer contributions: WorkCover	**18**	**-**	**18**	19
Administration deducted from employer contributions: Forestry SA	**14**	**-**	**14**	13
Total Administration Expenses	**2 414**	**1 954**	**4 368**	4 133

5. Net Assets available to Pay Benefits

Net assets available to pay benefits consist of the combined balances of the South Australia Superannuation Fund and the South Australian Superannuation Scheme Contribution Account. Movements in the balances of these accounts are detailed below:

(a) ***SA Superannuation Fund Account (Employee Component)***

		2006			
		Old Scheme Division	**New Scheme Division**	Total **2006**	Total 2005
		$'000	**$'000**	**$'000**	$'000
Funds held at 1 July		**1 316 642**	**495 227**	**1 811 869**	1 619 296
Add:	Contributions	**16 778**	**25 712**	**42 490**	43 468
	Rollovers from other schemes	**555**	**3 882**	**4 437**	3 692
	Investment income	**259 920**	**100 224**	**360 144**	241 792
	Government co-contributions	**493**	**2 085**	**2 578**	700
	Other income - Bank account interest	**62**	**51**	**113**	98
	Other income - Refund of Reserves (ii)	**-**	**-**	**-**	195
		277 808	**131 954**	**409 762**	289 945
Less:	Benefits paid (i)	**69 686**	**25 611**	**95 297**	95 397
	Direct Investment expense	**9 076**	**3 521**	**12 597**	-
	Co-contributions transferred to other scheme	**493**	**2 085**	**2 578**	700
	Administration expenses	**717**	**586**	**1 303**	1 240
	Audit expenses	**20**	**16**	**36**	35
		79 992	**31 819**	**111 811**	97 372
	Funds held at 30 June	**1 514 458**	**595 362**	**2 109 820**	1 811 869

(i) Refer to Note 6.
(ii) Refer to Note 22.

(b) ***SA Superannuation Scheme Contribution Account (Employer Component)***

		2006	2005
		$'000	$'000
Funds held at 1 July		**1 747 861**	1 518 849
Add:	Employer contributions:		
	State Government Departments	**94 785**	87 311
	Statutory Authorities (i)	**32 551**	31 246
	Contribution for past service liability (i)	**262 942**	216 343
		390 278	334 900
Investment revenue		**360 634**	229 395
Other income - Commonwealth and public Authorities		**532 012**	65 786
Other income - Temporary disability		**81**	282
Other income - Bank account interest		**265**	230
Other income - Refund of Reserves (iv)		**-**	454
		1 283 270	631 047
Less:	Benefits paid: (iii)		
	Old Scheme contributors	**361 630**	351 863
	New Scheme contributors	**45 672**	39 360
Direct Investment expense		**12 570**	-
Higher Education Superannuation costs (ii)		**8 008**	7 790
Consultancy expenses		**11**	46
Administration expenses		**3 065**	2 893
Audit expenses		**84**	83
		431 040	402 035
Funds held at 30 June		**2 60 091**	1 747 861
Total Net Assets		**4 709 911**	3 559 730

(i) Refer to Note 1(d).
(ii) Refer to Note 20.
(iii) Refer to Note 6.
(iv) Refer to Note 22.

6. Benefits Paid/Payable

The SA Superannuation Scheme Contribution Account recovers monies from the relevant agencies for the total benefits paid on account of Public Authorities, Commonwealth Government and various agencies for Temporary Disability Pensions.

	2006			2005		
Pensions:	**Old Scheme Division**	**New Scheme Division**	**Total**	Old Scheme Division	New Scheme Division	Total
Funded from:	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000
SA Superannuation Fund	**61 808**	**87**	**61 895**	65 582	105	65 687
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**41 826**	**447**	**42 273**	35 991	460	36 451
Public authorities	**26 282**	**1**	**26 283**	25 452	1	25 453
Commonwealth Government	**34 539**	**-**	**34 539**	35 581	-	35 581
SA Government employer account	**222 085**	**331**	**222 416**	215 659	191	215 850
Gross Scheme Costs	**386 540**	**866**	**387 406**	378 265	757	379 022

6. Benefits Paid/Payable (continued)

	2006 Old Scheme Division	2006 New Scheme Division	2006 Total	2005 Old Scheme Division	2005 New Scheme Division	2005 Total
Commutations:						
Funded from:	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000
SA Superannuation Fund	**6 372**	**-**	**6 372**	7 304	-	7 304
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**6 668**	**-**	**6 668**	6 637	-	6 637
Public authorities	**2 645**	**-**	**2 645**	1 473	-	1 473
Commonwealth Government	**3 532**	**-**	**3 532**	3 989	-	3 989
SA Government employer account	**20 535**	**-**	**20 535**	21 577	-	21 577
Gross Scheme Costs	**39 752**	**-**	**39 752**	40 980	-	40 980
Lump Sums:						
Funded from:						
SA Superannuation Fund	**1 309**	**25 415**	**26 724**	1 551	19 618	21 169
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**555**	**16 597**	**17 152**	598	13 366	13 964
Public authorities	**-**	**339**	**339**	101	465	566
SA Government employer account	**2 416**	**27 780**	**30 196**	3 693	24 094	27 787
Gross Scheme Costs	**4 280**	**70 131**	**74 411**	5 943	57 543	63 486
Retrenchments:						
Funded from:						
SA Superannuation Fund	**9**	**55**	**64**	2	-	2
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**58**	**-**	**58**	78	-	78
Public authorities	**16**	**109**	**125**	-	-	-
Gross Scheme Costs	**83**	**164**	**247**	80	-	80
Targeted Separation Packages:						
Funded from:						
SA Superannuation Fund	**188**	**54**	**242**	411	824	1 235
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**473**	**-**	**473**	293	140	433
SA Government employer account	**-**	**68**	**68**	741	643	1 384
Gross Scheme Costs	**661**	**122**	**783**	1 445	1 607	3 052
Total Benefit Payments	**431 316**	**71 283**	**502 599**	426 713	59 907	486 620

7. Liability for Accrued Benefits

The accrued liabilities of the Scheme as determined by the State Superannuation Office of the Department of Treasury and Finance are shown below.

For the old scheme contributors and the employer funded defined benefit component in respect of new scheme contributors, the accrued liabilities are the present values of expected future benefit payments arising from membership of the Scheme up to 30 June 2006 based on membership data as at 30 June 2005.

For the employee funded, defined contribution component for new scheme contributors, the accrued liability is the balance of the employees' contribution accounts as at 30 June 2006.

The expected future benefit payments have been determined using the 2004 triennial review assumptions relating to mortality, disability, withdrawal, preservation and retirement. The review salary promotion scale and economic assumptions have also been used, while general salary increases of 1.5 percent per annum above the Adelaide Consumer Price Index (CPI) have been allowed for. In accordance with AAS 25, the expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate. A discount rate of 4.5 percent per annum above the CPI has been applied.

Changes in the liability for accrued benefits:	2006 Old Scheme Division $'000	2006 New Scheme Division $'000	2006 Total $'000	2005 Old Scheme Division $'000	2005 New Scheme Division $'000	2005 Total $'000
Liability for accrued benefits at 1 July	**7 336 000**	**1 318 200**	**8 654 200**	6 634 900	1 156 200	7 791 100
Add: Benefits expense(i)	**649 916**	**257 583**	**907 499**	1 127 813	221 907	1 349 720
Less: Benefits paid(ii)	**431 316**	**71 283**	**502 599**	426 713	59 907	486 620
Liability for Accrued Benefits at 30 June	**7 554 600**	**1 504 500**	**9 059 100**	7 336 000	1 318 200	8 654 200

7. Liability for Accrued Benefits (continued)

	2006			2005		
	Old Scheme Division	**New Scheme Division**	**Total**	Old Scheme Division	New Scheme Division	Total
Represented by:	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000
SA Superannuation Fund	**1 271 200**	**595 400**	**1 866 600**	1 377 900	495 100	1 873 000
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**935 700**	**286 400**	**1 222 100**	841 300	267 200	1 108 500
SA Government employer account	**5 057 400**	**609 700**	**5 667 100**	4 439 400	543 800	4 983 200
Public authorities	**290 300**	**13 000**	**303 300**	278 500	12 100	290 600
Commonwealth Government	**-**	**-**	**-**	398 900	**-**	398 900
Total	**7 554 600**	**1 504 500**	**9 059 100**	7 336 000	1 318 200	8 654 200

(i) This figure represents the change in Liability for Accrued Benefits plus Benefits Paid for the year.
(ii) Refer to Note 6.

Although the total liability for accrued benefits shown above is $9.1 billion, the SA Government is only responsible for funding a portion of the liability, which comprises the SA Government Employer Account and a portion of the Employer Contribution Accounts. On 26 June 2006, the Commonwealth Government made a lump sum payment to extinguish its liability in respect of former State Rail employees. For further details refer to Note 1(d).

Pursuant to the Act, actuarial reviews of the Scheme must be conducted on a three yearly basis to address the cost of the Scheme to the Government and the proportion of future benefits that can be met from the Fund. The last review was carried out as at 30 June 2004 by Mr Laurie Brett, Fellow of the Institute of Actuaries of Australia. His report, dated 27 June 2005, to the Minister was tabled in Parliament on 19 October 2005. These reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation.

8. Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any factor other than resignation from the Scheme) and include benefits which contributors would be entitled to receive on termination of their Scheme membership.

When contributors resign they have two options in the Old Scheme Division (Pension Scheme) and three options in the New Scheme Division (Lump Sum Scheme). Firstly, they can elect to take a cash refund of their own contributions, accumulated with interest, with their employer Superannuation Guarantee entitlement preserved in the Scheme. Secondly, they can elect to take a fully vested, preserved benefit which will be based on their full accrued entitlement as the date of resignation and will be increased during preservation in line with increases in investment earnings and the CPI. Alternatively, Lump Sum members can transfer their benefit to another scheme where the employer benefit is equal to twice the member balance (at standard rates) plus a productivity component.

The vested benefits shown below assume that all resignation benefits will be taken in the form of preserved or transferred benefits. The value of vested benefits has been calculated using the same actuarial and economic assumptions as for the calculation of accrued benefits.

As for accrued benefits, vested benefits have been calculated as at 30 June 2006 based on membership data as at 30 June 2005.

	2006			2005		
	Old Scheme Division	**New Scheme Division**	**Total**	Old Scheme Division	New Scheme Division	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
SA Superannuation Fund	**1 234 800**	**595 400**	**1 830 200**	1 319 900	495 100	1 815 000
SA Superannuation Scheme Contribution Account:						
Employer contribution accounts	**888 900**	**309 700**	**1 198 600**	790 900	288 400	1 079 300
SA Government employer account	**4 863 200**	**687 600**	**5 550 800**	4 235 100	605 000	4 840 100
Public authorities	**287 800**	**8 200**	**296 000**	275 900	7 200	283 100
Commonwealth Government	**-**	**-**	**-**	398 900	-	398 900
Total	**7 274 700**	**1 600 900**	**8 875 600**	7 020 700	1 395 700	8 416 400

9. Summary of Investment Holdings

The interests of the Fund and the South Australian Superannuation Scheme Contribution Account in the unitised investment portfolio of Funds SA are as follows:	**2006** **Fund - Old Scheme Division** **$'000**	**Fund -New Scheme Division** **$'000**	**Scheme Contribution Accounts** **$'000**	Total **2006** **$'000**	2005 $'000
Inflation linked securities	**129 414**	**50 407**	**223 437**	**403 258**	361 950
Property	**143 010**	**56 049**	**246 910**	**445 969**	283 446
Australian equities	**505 915**	**198 579**	**873 478**	**1 577 972**	1 244 137
International equities	**506 660**	**198 873**	**874 763**	**1 580 296**	1 233 565
Fixed interest	**65 641**	**27 536**	**113 332**	**206 509**	205 366
Diversified Strategies - Growth	**51 693**	**20 434**	**89 250**	**161 377**	64 475
Diversified Strategies - Income	**55 696**	**22 240**	**96 161**	**174 097**	93 319
Cash	**54 968**	**22 355**	**94 904**	**172 227**	87 979
Total	**1 512 997**	**596 473**	**2 612 235**	**4 721 705**	3 574 237

10. Reconciliation of Operating Result to Net Cash provided by (used in) Operating Activities

	2006	2005
	$'000	$'000
Operating result	**745 281**	(441 515)
Increase in liability for accrued benefits	**404 900**	863 100
Investment revenue	**(720 778)**	(471 187)
Direct investment expense	**25 167**	-
(Increase) Decrease in other income receivable	**(35)**	1 233
Increase in contributions receivable	**(5 094)**	(3 395)
Increase (Decrease) in PAYG withholding tax	**111**	(2 720)
Increase in benefits payable	**2 231**	5 301
Decrease in other debtors	**27**	85
Increase in other creditors	**160**	124
Net Cash provided by (used in) Operating Activities	**451 970**	(48 974)

11. Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

	2006	2005
	$'000	$'000
Cash and deposits at Treasury	**3 667**	2 497

12. Summary of Sundry Creditors

Audit fees	**120**	118
Consultancy expense	**-**	11
Administration expense (i)	**57**	2
Other income refundable to Commonwealth	**113**	-
Funds SA sundry creditors	**7 602**	4 993
	7 892	5 124

(i) This amount represents administration fees underpaid to the Department of Treasury and Finance as at 30 June 2006.

13. PAYG Withholding Tax

The PAYG Withholding Tax represents taxation due on benefit payments made in June 2006 which had not been remitted to the Commissioner of Taxation as at 30 June 2006. This amount was forwarded to the Commissioner of Taxation early in the 2006-07 financial year.

14. Guaranteed Benefits

Contributors' benefit entitlements are specified by the *Superannuation Act 1988*.

15. Other Income Receivable

	2006	2005
	$'000	$'000
Temporary disability debtors	**57**	56
Commonwealth and public authorities	**4 094**	4 060
	4 154	4 116

16. Sundry Debtors

Refund from Tax Office for GST	**24**	21
Bank fees (reimbursement receivable)	**-**	23
Funds SA accrual	**8**	27
Other debtors	**44**	51
	76	122

17. Other Revenue

Bank account interest	**378**	328
Commonwealth and public authorities(i)	**532 012**	65 786
Temporary disability	**81**	282
Refund of reserves(ii)	**-**	649
	532 471	67 045

(i) Refer to Note 1.
(ii) Refer to Note 22.

The Other Revenue relating to Temporary disability and Refund of Reserves relates to amounts received or receivable from SA Government entities.

18. Government Co-contributions

During the 2005-06 financial year, the Scheme received Co-contributions from the ATO amounting to $2.6 million ($700 000). Whilst members of the Scheme are eligible to receive the Co-contribution, the contributions are not retained in the Scheme and are immediately transferred to the Southern State Superannuation Scheme upon receipt for crediting to members' existing or newly created accounts.

19. Benefits Payable

	2006	2005
	$'000	$'000
Benefits payable by SA Superannuation Fund	**2 581**	2 250
Benefits payable by SA Superannuation Scheme Contribution Account	**10 131**	8 231
	12 712	10 481

20. Higher Education Superannuation Costs

An amount of $8.008 million ($7.790 million) was paid to the Commonwealth Government which related to the South Australian share of the 2005-06 higher education superannuation costs under the Commonwealth – State agreement. This provides that the employer component of the superannuation benefits payable to former employees of a South Australian University who were members of one of the main State Schemes, be shared.

21. Audit Expense

Amounts paid or due and payable to the Auditor-General's Department (an SA Government Entity) for the audit of the Scheme for the reporting period totalled $119 900 ($118 000).

22. Reserves

The Board Reserve account is included in the excess of liabilities over net assets value and represents amounts which have been put aside for the provision for future capital and development costs ($520 000) and a provision for three yearly board election costs ($58 000) and an Administration Reserve ($73 000). These amounts are to be used on the approval of the Board for the purposes specified above. These reserves were previously held by the Department of Treasury and Finance and have been returned to the Scheme during the 2004-05 financial year, as shown in Note 17.

23. Related Parties

(a) Board Members

The following are members of the Super SA Board who served during the course of the 2005-06 financial year, along with the period served.

Hedley Bachmann	Presiding Member	1 July 2005 - 30 June 2006
Kevin Cantley (John Wright - Deputy)	Appointed by the Governor	1 July 2005 - 30 June 2006
Virginia Deegan (Liz Hlipala - Deputy)	Appointed by the Governor	1 July 2005 - 30 June 2006
Jan McMahon (Leah York - Deputy)	Elected by the Members	1 July 2005 - 30 June 2006
Ros Sumner (Joslene Mazel - Deputy)	Elected by the Members	1 July 2005 - 30 June 2006

(b) Board Members' Remuneration

Board members' remuneration includes fees and superannuation benefits. Board members' fees are approved by the Treasurer on the recommendation of the Commissioner for Public Employment.

The Board is responsible for the administration of the South Australian Superannuation Scheme and the Southern State Superannuation Scheme. The remuneration of the Board members of $75 000 ($81 100) is met by both superannuation schemes. Of this amount, $32 500 ($34 200) was met by the South Australian Superannuation Scheme which is included in the administration expense. The total remuneration includes superannuation contributions of $6 700 ($6 500).

	2006 Number of Directors	2005 Number of Directors
$1 - $10 000	**1**	1
$20 001 - $30 000	**2**	2
$30 001 - $40 000	**1**	1

Board and deputy members who are SA public sector employees do not receive fees for their Super SA Board membership.

The Board members who are members of the Fund contribute on the same terms and conditions as other members.

24. Financial Instruments

The specific disclosure requirements of Australian Accounting Standard AASB 132 *Financial Instruments: Presentation* are fully set out in the Notes to the Financial Report of Funds SA and have not been repeated in this financial report.

SOUTHERN STATE SUPERANNUATION SCHEME

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Section 8 of the *Southern State Superannuation Act 1994* (Triple S Act) provides for the Auditor-General to audit the accounts of the Southern State Superannuation Scheme (the Scheme) for each financial year.

Scope of Audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an audit opinion on the financial report and internal controls.

During 2005-06, specific areas of audit attention included:

- receipting and banking of employer and employee contributions
- processing of contributions data to the system
- completeness and accuracy of interest amounts credited to member accounts
- maintenance of member accounts
- benefit payments
- liability for accrued benefits.

The audit did not include a review of the investment and management of the Scheme assets as these areas were reviewed as part of the audit of the Superannuation Funds Management Corporation of South Australia (Funds SA).

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 Southern State Superannuation Scheme as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised over the Southern State Superannuation 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 Southern State Superannuation Scheme have been conducted properly and in accordance with law.

Audit Communications to Management

The audit indicated that internal controls over the Scheme's operations were satisfactory. No significant issues were raised as a result of the audit. For information on other matters raised with the Board reference should be made to the comments under the 'South Australian Superannuation Board' elsewhere in Part B of this Report.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006 $'million	2005 $'million	Percentage Change
OPERATING REVENUE			
Net investment revenue	**645**	425	52
Contribution revenue	**575**	438	31
Other revenue	**1**	1	0
Total Operating Revenue	**1 221**	864	41

	2006 $'million	2005 $'million	Percentage Change
OPERATING EXPENDITURE			
Other expenses	**11**	6	83
Total Operating Expenses	**11**	6	83
Benefits Accrued as a Result of Operations	**1 210**	858	41
Net Cash Flows from Operations	**448**	332	35
ASSETS			
Investments	**4 584**	3 494	31
Other assets	**25**	16	56
Total Assets	**4 609**	3 510	31
LIABILITIES			
Current liabilities	**15**	10	50
Non-current liabilities	**8**	8	(8)
Total Liabilities	**23**	18	28
NET ASSETS AVAILABLE TO PAY BENEFITS	**4 586**	3 492	31
LIABILITY FOR ACCRUED BENEFITS	**4 586**	3 492	31

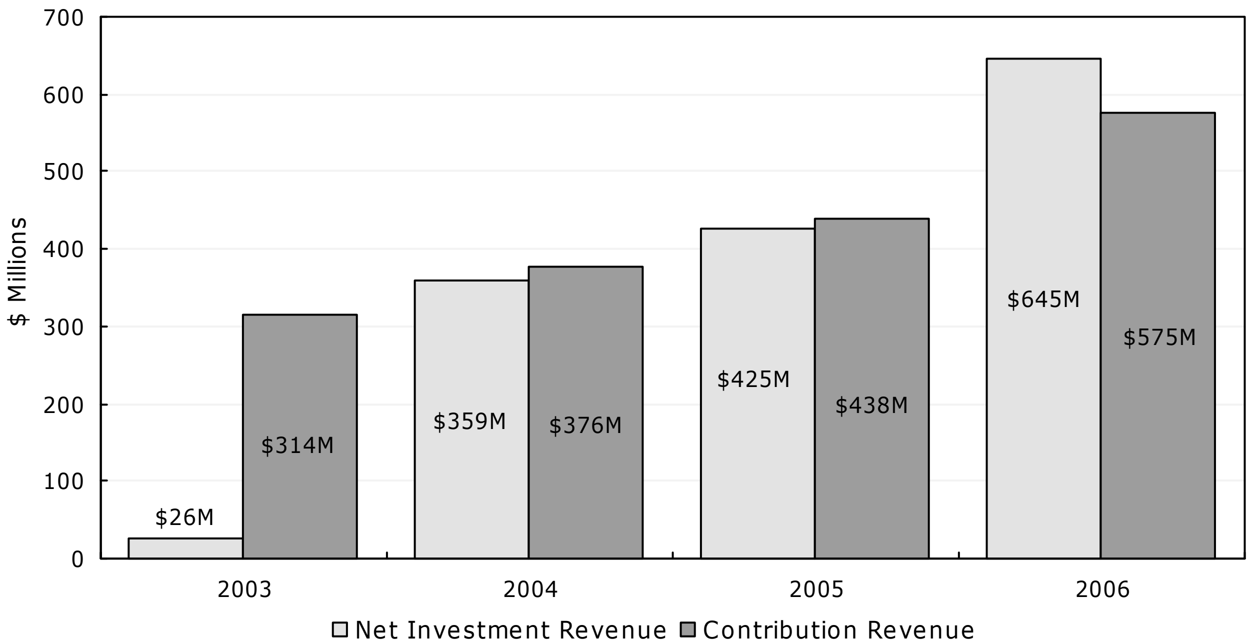
Operating Statement

Operating Revenues

Total operating revenue increased by $357 million. This included increases of:

- $220 million in Net Investment Revenue;
- $137 million in Contribution Revenue.

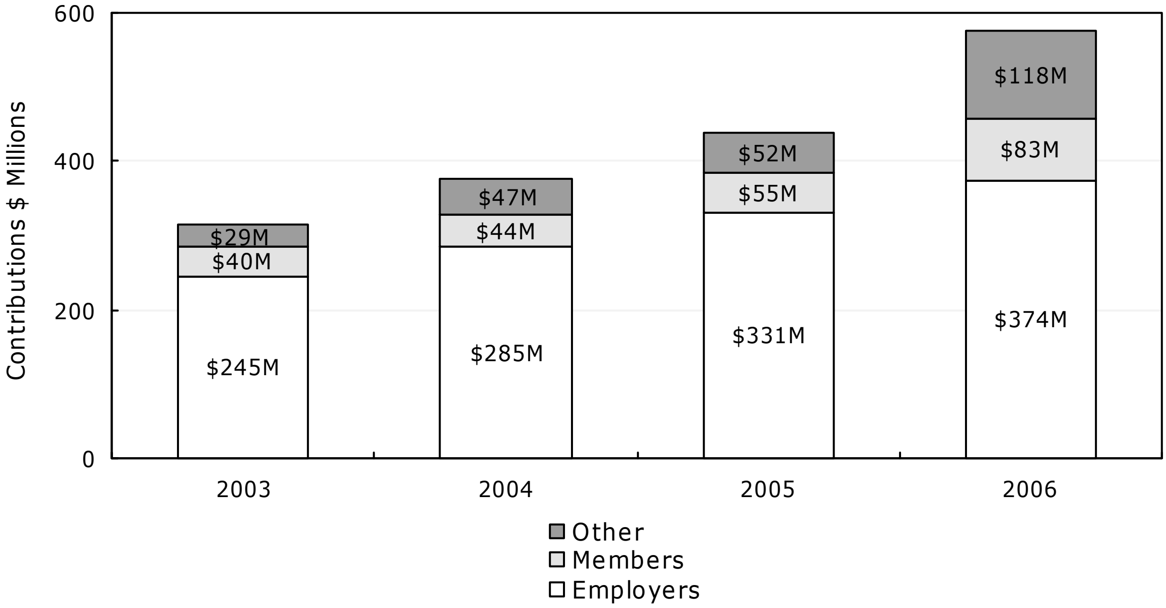
A structural analysis of operating revenues of the Scheme for the four years to 2006 is presented in the following chart.



The chart indicates that revenue from contributions has risen rapidly over the last four years due to an increase in both the value of contributions and number of contributors to the Scheme. Net investment revenue has generally fluctuated, experiencing high returns over the past three years. Investment returns are further discussed in the commentary for Funds SA.

Contribution Revenue

Members of the Scheme can elect to make contributions. Employers are required to make contributions for all members of the Scheme, regardless of whether the members make contributions. An analysis of amounts contributed by members and employers for the four years to 2006 is presented in the following chart.



The chart indicates that the value of contributions by employers has increased over the four year period by $129 million (53 percent). This is predominantly a result of increased number of members in the Scheme along with salary increases. Contributions by members has increased over the same period by $43 million due mainly to increases in the numbers of members contributing.

The number and proportion of contributory to non-contributory members for the last three years is depicted in the following table. Over the period of review, the proportions remain relatively constant as the number of members continues to increase.

	2006	2005	2004
	Numbers	Numbers	Numbers
Contributory	**25 665**	23 271	22 102
Non-contributory	**71 052**	66 674	64 702

	2006	2005	2004
	Percent	Percent	Percent
Contributory	**26.5**	25.9	25.5
Non-contributory	**73.5**	74.1	74.5

In 2006 other contributions has increased by $66.9 million, due to:

- an increase of $58.3 million in rollovers from other schemes. Of this amount, $33.8 million represents an increase in funds made to the Post Retirement Products which were introduced in April 2005;

- an increase of $8.7 million in Government co-contributions. These payments are made pursuant to the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003*. The co-contribution applies to members who make after-tax contributions post 1 July 2003. The co-contribution amount has been paid straight into the member's superannuation account.

Benefits Accrued as a Result of Operations

Benefits accrued as a result of operations increased by $352 million (41 percent), due mainly to increases in Net Investment Revenue and Contribution Revenue (refer to the Operating Revenues section).

Statement of Financial Position

Over the past four years there has been a steady growth in investments and liability for accrued benefits. This is indicative of the accumulative nature of the Scheme where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. The accumulative nature of the Scheme means that it is fully funded. The asset/liability position over the last four years was:

Year	$'billion
2003	2.1
2004	2.7
2005	3.5
2006	**4.6**

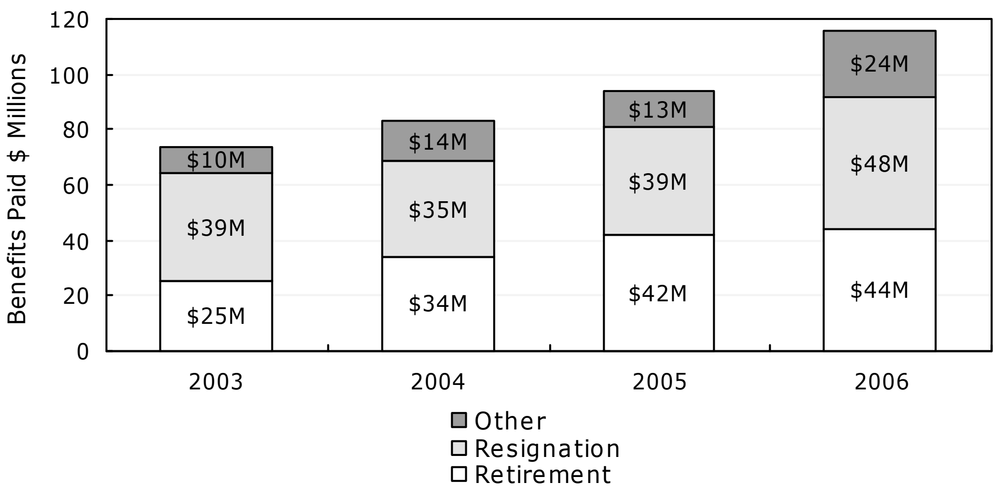
Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2006.

	2006 $'million	2005 $'million	2004 $'million	2003 $'million
Net Cash Flows				
Operations	**448.3**	331.6	288	234.7
Investing	**(443)**	(327.2)	(293.4)	(236.1)
Change in Cash	**5.3**	4.4	(5.4)	(1.4)
Cash at 30 June	**11.4**	6.1	1.7	7.1

The analysis of cash flows shows that the Scheme maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to Funds SA for investment.

Total benefits paid amounted to $115.7 million ($94 million). The following chart analyses benefits paid for the four years to 30 June 2006 and shows an increasing trend in benefits paid. This is expected in an open scheme which was established 11 years ago.



FURTHER COMMENTARY ON OPERATIONS

Pursuant to subsection 47(B) of the Triple S Act, from 1 April 2005 the Board introduced two post retirement investment products, Super SA Allocated Pension and Super SA Flexible Rollover Product. Further details of these products are provided under the 'South Australian Superannuation Board' elsewhere in Part B of this Report.

As at 30 June 2006 there were 114 members in the Super SA Allocated Pension and 361 members in the Super SA Flexible Rollover Product. Refer to Note 6 to the financial report for further details of the total funds held in each product.

Operating Statement
for the year ended 30 June 2006

	Note	2006 $'000	2005 $'000
INVESTMENT REVENUE	7	**670 109**	425 236
CONTRIBUTION REVENUE:			
Contributions by members	1(a)	**83 121**	55 406
Contributions by employers	1(a)	**373 757**	331 327
Government co-contributions		**12 959**	4 308
Rollovers from other schemes		**105 516**	47 218
		575 353	438 259
OTHER REVENUE		**543**	824
DIRECT INVESTMENT EXPENSE	7	**(24 620)**	-
INSURANCE ADMINISTRATION	8	**(388)**	(39)
ADMINISTRATION EXPENSE	7	**(5 708)**	(5 682)
AUDIT EXPENSE	19	**(75)**	(73)
BENEFITS ACCRUED		**1 215 214**	858 525
INCOME TAX EXPENSE	11(a), (b)	**(5 076)**	(490)
BENEFITS ACCRUED AS A RESULT OF OPERATIONS		**1 210 138**	858 035

Statement of Financial Position
as at 30 June 2006

	Note	2006 $'000	2005 $'000
INVESTMENTS:	2(d)		
Inflation linked securities		**408 302**	363 558
Property		**387 398**	242 126
Australian equities		**1 370 208**	1 091 624
International equities		**1 366 564**	1 080 830
Fixed interest		**533 414**	453 516
Diversified strategies:			
Growth		**158 732**	65 976
Income		**177 024**	97 318
Cash		**181 913**	99 173
		4 583 555	3 494 121
FIXED ASSETS		**201**	237
OTHER ASSETS:			
Cash and deposits at Treasury	13	**11 457**	6 115
Cash and deposits at Treasury - Funds SA		**943**	262
Contributions receivable	3	**12 395**	9 252
Interest, dividends and rent due - Funds SA		**159**	377
Prepaid expense		**-**	2
Deferred tax assets	11(e)	**21**	2
Sundry debtors	15	**97**	66
		25 072	16 076
Total Assets		**4 608 828**	3 510 434
CURRENT LIABILITIES:			
Rent paid in advance - Funds SA		**525**	647
Benefits payable	4	**4 114**	4 234
Sundry creditors	16	**6 910**	4 646
PAYG withholding tax		**110**	102
Current tax liabilities	11(c)	**2 863**	492
		14 522	10 121
NON-CURRENT LIABILITIES:			
Loan and finance facilities - Funds SA		**7 655**	8 394
Deferred tax liabilities	11(d)	**180**	-
Total Liabilities		**22 357**	18 515
NET ASSETS AVAILABLE TO PAY BENEFITS	6	**4 586 471**	3 491 919
REPRESENTED BY:			
LIABILITY FOR ACCRUED BENEFITS:			
Allocated to members' accounts	10, 17	**4 473 816**	3 398 004
Not Allocated to members' accounts	18	**10 201**	8 190
		4 484 017	3 406 194
Reserves:			
Death, invalidity and income protection insurance reserve	8	**95 349**	80 862
Other reserves	9	**7 105**	4 863
		102 454	85 725
	5	**4 586 471**	3 491 919

Statement of Cash Flows
for the year ended 30 June 2006

		2006	2005
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		**(Outflows)**	(Outflows)
Contributions received:	Note	**$'000**	$'000
Contributions by members		**82 805**	54 468
Contributions by employers		**370 933**	324 556
Government co-contributions		**12 956**	4 311
Rollovers from other schemes		**105 516**	47 218
		572 210	430 553
GST recoup received		**441**	447
Bank interest and other revenue		**543**	824
Benefits paid:			
Retirement		**(43 961)**	(41 592)
Resignation		**(47 862)**	(39 373)
Retrenchment		**(6)**	(200)
Invalidity - Balance of account		**(5 824)**	(5 257)
Invalidity - Insurance		**(3 766)**	(2 580)
Death - Balance of account		**(3 836)**	(2 681)
Death - Insurance		**(2 530)**	(1 557)
Payments to Unclaimed Monies		**(9)**	(27)
Base pension		**(1 162)**	(694)
Allocated pension payments		**(781)**	(23)
Allocated pension commutations		**(191)**	(47)
Flexible rollover product retirement		**(1 402)**	-
Flexible rollover product partial withdrawals		**(4 365)**	(22)
		(115 695)	(94 053)
Insurance Administration		**(417)**	(42)
Administration expense		**(6 171)**	(6 093)
Audit expense		**(73)**	-
Income tax expense		**(2 545)**	-
Net Cash provided by Operating Activities	12	**448 293**	331 636
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipts from Funds SA		**528**	542
Payments to Funds SA		**(443 479)**	(327 711)
Net Cash used in Investing Activities		**(442 951)**	(327 169)
NET INCREASE IN CASH HELD		**5 342**	4 467
CASH AT 1 JULY		**6 115**	1 648
CASH AT 30 JUNE	13	**11 457**	6 115

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives and Funding

(a) Southern State Superannuation Scheme

The Southern State Superannuation Scheme (the Scheme) is both a contributory and non-contributory superannuation scheme established pursuant to the *Southern State Superannuation Act 1994* (the Act). The Scheme, commonly referred to as the Triple S Scheme, commenced from 1 July 1995 for contributory members only. Effective 1 July 1998, the *Southern State Superannuation (Merger of Schemes) Amendment Act 1998* merged the schemes established under the Act and the *Superannuation (Benefit Scheme) Act 1992*. At that time, all members of the State Superannuation Benefit Scheme were effectively transferred into the Scheme and the State Superannuation Benefit Scheme ceased to exist.

Members can elect to make contributions to the Scheme based on a percentage of their salary ranging from 1 percent to 10 percent, under section 25 of the Act. A member of the police force must contribute at a rate of at least 4.5 percent of salary. A separate contribution account is maintained for each member. Member contributions are deposited by the Treasurer into the Southern State Superannuation Fund (the Employee Fund) which is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

An employer is required to pay contributions to the Treasurer under section 26 of the Act. The employer contributes 9 percent of salary where the member has elected to contribute less than 4.5 percent of salary. Where the member has elected to contribute 4.5 percent or more of salary, the employer must contribute at a rate of 10 percent. A separate employer contribution account is maintained for each member. Employer contributions are deposited by the Treasurer into the Southern State Superannuation (Employers) Fund (the Employers Fund) which is managed and invested by Funds SA.

Benefits, represented by the balances of member accounts, are available for employees who retire, resign, are retrenched or die and for those who terminate their employment because of invalidity. The balance of individual member entitlements is provided on annual statements forwarded to each member.

In accordance with Section 47(B) of the Act the Board introduced the Super SA Flexible Rollover Product and the Super SA Allocated Pension from 1 April 2005. These products form part of and are consolidated with the Scheme for financial reporting purposes at 30 June 2006. From 1 July 2006 a Non-Commutable Allocated Pension option will also be available to members.

(b) South Australian Superannuation Board

The purpose of this financial report is to discharge the responsibilities of the South Australian Superannuation Board (the Board) under section 13 of the Act to keep accounts of receipts and payments.

The Act charges the Board with responsibility for all aspects of the administration of the Act except for the management and investment of the Employee Fund, the Employers Fund, the Allocated Pension and the Flexible Rollover Product. The Act also provides the Board with the necessary powers to administer the Scheme.

The Board determines a rate of return to be credited to member accounts pursuant to section 7A of the Act. In determining the rate the Board considers the net rate of return achieved by the investment of the Employee Fund.

Pursuant to sections 7A and 11, where a member or members have nominated a class of investments, or combination of classes of investments, the Board determines a rate of return on the investments of their class, or combination of classes.

The Board is required under sections 7A and 27, respectively, to credit interest earnings to member accounts and employer contribution accounts based on the earnings of the Employee Fund, the Employers Fund, the Allocated Pension and the Flexible Rollover Product. Since the introduction of investment choice, the amount of interest credited is determined by the change in unit price.

(c) Superannuation Funds Management Corporation of South Australia

Funds SA is established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Funds SA Act). Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA.

The Treasurer had directed that the Southern State Superannuation (Employers) Fund also be managed and invested by Funds SA.

For further information on investment activities, reference should be made to the financial report of Funds SA. The financial report of Funds SA disclose the investment assets, liabilities, income and expenses relating to the investment activities of Funds SA, an SA Government Entity.

(d) Funding Arrangements

The Act requires that member contributions, rollovers and transfers from other schemes be paid to the Treasurer, who in turn deposits these amounts into the Employee Fund.

The Act requires that employer payments be made to the Treasurer, who in turn deposits these amounts into the Employers Fund. All employer contributions are received from SA Government Entities.

Under section 12 of the Act, any payment to a member must be made out of the Consolidated Account (which is appropriated to the necessary extent) or from a Special Deposit Account established for that purpose. During the current reporting period payments were made from a Special Deposit Account.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with applicable Australian Accounting Standards, Treasurer's Instructions issued pursuant to the *Public Finance and Audit Act 1987* and other mandatory professional reporting requirements, except as provided below.

This is the first financial report prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AAS 25 *Financial Reporting by Superannuation Plans* is the principal standard applied in preparing this financial report. Other Accounting Standards are also applied where necessary except to the extent that they differ from AAS 25. There has been no material impact to the financial report in the transition to AIFRS. In addition, a number of Australian Accounting Standards have been issued or amended and may be applicable to the Scheme but are not yet effective. The impact of the new and amended standards has been assessed and there will be no impact on the accounting policies.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of AAS 25 where relevant. The Directors of Funds SA believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The Inflation Linked Securities portfolio comprises two sub-sectors:

- *Internally Managed*
  These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at 30 June 2006 was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*
  The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly Held Property*
  The value of Funds SA's directly held property has been determined having regard to the contractual arrangements in place over the property.

- *Listed Property Trusts*
  The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

- *Unlisted Property Vehicles*
  The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.

(iii) Australian Equities

The Australian equities portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.

(iv) International Equities

The International Equities portfolio comprises investments in equities listed on international share markets, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(v) Fixed Interest

The Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vi) Diversified Strategies (Growth)

The Diversified Strategies (Growth) portfolio comprises investments in domestic and overseas private equity funds and domestic and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers. Both domestic and international funds valuations are generally in accordance with the International Private Equity Venture Capital Valuation Guidelines (November 2005). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(vii) Diversified Strategies (Income)

The Diversified Strategies (Income) portfolio comprises investments in both domestic (Australian) and overseas pooled funds, and is invested and managed by external managers. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(viii) Cash

Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.

(ix) Fixed Assets

Fixed assets have been valued at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. It is considered that this provides a reasonable estimate of net market value.

(x) Other Funds SA Assets and Liabilities

These items have been assessed and it is considered that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying at the balance date.

(c) Income Tax

The Board is a body corporate established under the *Superannuation Act 1988* (SA) and is responsible for the administration of a number of schemes that are constitutionally protected superannuation funds under Section 267 of the *Income Tax Assessment Act 1936*, Regulation 177 and Schedule 14 of the Regulations to that Act. The constitutionally protected superannuation funds are exempt from income tax.

The Super SA Flexible Rollover Product and Super SA Allocated Pension commenced on 1 April 2005 and are entitled to concessional tax treatment at the rate of 15 percent.

Current Tax

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable benefits accrued for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affect neither taxable income nor accounting profit.

(c) Income Tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Fund expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its current tax assets and liabilities on a net basis.

(d) Operation of Investment Portfolio

Funds SA operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds. For the year ending 30 June 2006, Funds SA managed six separate investment options distinguished by differing strategic asset allocations, namely:

- High Growth;
- Growth;
- Balanced;
- Conservative;
- Capital Defensive; and
- Cash.

During the financial year all of the above investment options were available to members of the Southern State Superannuation Scheme. From 1 July 2006 a seventh investment option, called Moderate, will be available to members.

Members of the post-retirement products, the Super SA Flexible Rollover Product and the Super SA Allocated Pension, have the same six investment options as other members, but the asset allocations differ slightly.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to each of the investment options discussed in the preceding paragraphs.

Each public sector superannuation fund holds units in an investment option, which in turn holds units in each of the sector funds according to the target strategic asset allocation for the investment option. Units are issued and redeemed periodically as transactions occur at unit prices calculated having regard to the net market value of underlying investments.

The interest which the Fund and the Account holds in the unitised investment portfolio is disclosed in the respective Statement of Net Assets Under Management in Note 25 of the financial report of Funds SA. The allocation of total net investment income is disclosed in the respective Statement of Changes in Net Assets Under Management in Note 25 of the financial report of Funds SA.

(e) Revenue

Superannuation contributions are brought to account on an accrual basis. Transfers and rollovers from other schemes are brought to account when received. Other revenue is brought to account on an accrual basis.

(f) Receivables and Payables

Contributions receivable are contributions relating to the 2005-06 financial year received by the Scheme after 30 June 2006.

Other receivables are carried at nominal amounts due which approximate fair value. Other payables are recognised when the Scheme is obligated to make future payments for services received and are carried at the amount payable on demand.

Benefits payable comprises the entitlements of members who ceased employment and had provided the Scheme with appropriate notification, but where the benefits had not been paid prior to year end.

(g) Goods and Services Tax

GST incurred that is not recoverable from the ATO has been recognised as part of the cost of acquisition of the asset or as part of the expense to which it relates. Receivables and payables are stated with the amount of GST included in the value. The amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

3. Contributions Receivable

	2006	2005
	$'000	$'000
Contributions from members	**1 414**	1 098
Contributions from employers	**10 981**	8 157
Less: Refund of Government co-contributions payable	**-**	(3)
	12 395	9 252

4. Benefits Payable

	2006	2005
	$'000	$'000
Benefits payable by Southern State Superannuation (Employee) Fund	**836**	574
Benefits payable by Southern State Superannuation (Employers) Fund	**3 256**	3 660
Benefits payable by Allocated Pension	**22**	-
	4 114	4 234

5. Liability for Accrued Benefits

The liability for accrued benefits is the obligation to pay benefits to members and beneficiaries, calculated as the balance of member accounts plus the value of reserves and amounts not allocated to member accounts.

	2006	2005
	$'000	$'000
Liability for accrued benefits at 1 July	**3 491 919**	2 730 328
Add: Increase in accrued benefits	**1 210 138**	858 035
Less: Benefits paid and payable	**115 586**	96 444
Liability for Accrued Benefits at 30 June	**4 586 471**	3 491 919

6. Net Assets Available to Pay Benefits

(a) Southern State Superannuation (Employee) Fund

		2006	2005
Funds held at 1 July		**530 982**	383 868
Add:	Contributions by members	**71 428**	55 005
	Government co-contributions	**12 945**	4 308
	Rollovers from other schemes	**68 362**	43 889
	Investment income	**106 175**	62 327
	Other revenue	**54**	34
		258 964	165 563
Less:	Benefits paid and payable	**17 584**	17 217
	Internal transfers (i)	**9 478**	1 232
	Direct investment expense	**3 956**	-
		31 018	18 449
	Funds held at 30 June	**758 928**	530 982

(b) Southern State Superannuation (Employers) Fund

		2006	2005
Funds held at 1 July		**2 955 234**	2 346 460
Add:	Employer contributions	**373 757**	331 327
	Investment income	**559 634**	362 723
	Other revenue	**489**	790
		933 880	694 840
Less:	Benefits paid and payable	**91 241**	79 136
	Internal transfers (i)	**11 370**	1 430
	Direct investment expense	**20 484**	-
	Administration expense	**5 494**	5 388
	Audit expense	**75**	73
	Insurance administration	**388**	39
		129 052	86 066
	Funds held at 30 June	**3 760 062**	2 955 234

(c) Allocated Pension

		2006	2005
Funds held at 1 July		**2 051**	-
Add:	Rollovers from other schemes	**6 486**	846
	Internal transfers (i)	**12 921**	1 569
	Investment income	**1 318**	79
		20 725	2 494
Less:	Benefits paid and payable	**994**	69
	Direct investment expense	**60**	-
	Administration expense	**151**	228
	Income Tax	**904**	146
		2 109	443
	Funds held at 30 June	**20 667**	2 051

(d) ***Flexible Rollover Product***		**2006** **$'000**	2005 $'000
Funds held at 1 July		**3 652**	-
Add:	Contributions by members	**9 558**	379
	Government co-contributions	**14**	-
	Rollovers from other schemes	**30 668**	2 483
	Internal transfers [(i)]	**15 313**	1 705
	Spouse contributions	**2 135**	22
	Investment income	**2 982**	107
		60 670	4 696
Less:	Benefits paid and payable	**5 767**	22
	Direct investment expense	**120**	-
	Administration expense	**63**	66
	Internal transfers [(i)]	**7 386**	612
	Income Tax	**4 172**	344
		17 508	1 044
	Funds held at 30 June	**46 814**	3 652
	Total Net Assets	**4 586 471**	3 491 919

(i) Internal transfers relates to transfers between the Employee Fund, the Employer Fund, the Allocated Pension and the Flexible Rollover Product and do not appear in the Operating Statement as they are within the Scheme.

7. Administration and Investment Expenses

Costs of administering the Scheme comprise those costs incurred by Funds SA (Investment Expense) and the Department of Treasury and Finance (Administration Expense).

Investment Expense has not been reported separately in prior financial years, but had been deducted from revenue ie investment revenue was reported net of direct investment expense. For the year ended 30 June 2006 these costs are now shown separately as Direct Investment Expense. The comparative has not been changed as this information was not readily available.

Section 27 of the Act provides for an administrative charge to be debited each year to members' employer contribution accounts and section 9 of the Act requires the amount to be paid from the Southern State Superannuation (Employers) Fund. The purpose of this charge is to provide for existing and future costs of administering the Scheme. The amount of the charge is determined by the Board. For the year ended 30 June 2006 the charge is $1 per week ($1 per week) per member for all members, active and non-active. The charge for a member with an aggregate balance of $1 000 or less, is the lesser of the charges applicable to members, or the amount of interest credited to the member's Employer Account with a minimum of $10. This charge is included on member annual statements. For the year ended 30 June 2006 the amount charged to members' employer contribution accounts was $7.1 million ($6.8 million).

Administration expenses incurred by the Board in administering the Scheme are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Board monthly. The charge for the year ended 30 June 2006, based on actual costs of administering the Scheme, amounted to $5.7 million including GST ($5.7 million). Of this amount, $40 000 represents payments to consultants for taxation advice.

8. Death, Invalidity and Income Protection Insurance Reserve

The Scheme provides an insurance benefit based on units of cover, with a few exceptions, in the event of death before age 65 or invalidity before age 60. An Income Protection Insurance benefit, subject to eligibility criteria, is also available in the event of a member becoming temporarily disabled before age 55.

The *Standard Insurance* benefit of one unit of cover costs $0.75 per week ($1.00 per week) and is compulsory for most members of the scheme except some casual employees who opt out of insurance and those who are special category members in terms of section 14 (4)-(6) of the Act. Police Officers are required to have at least 5 units of Standard Insurance cover. The value of a unit under 'Standard Insurance' for members up to age 34 years is $75 000 ($50 000). The value of a unit declines from age 35. For those members who want the value of a unit of insurance to be fixed, irrespective of age, there is also a table of *Fixed Insurance* with costs increasing with age. Additional units can be purchased (subject to medical evidence) to provide permanent employees with cover up to $1 000 000 ($500 000) and casual employees up to $500 000 ($250 000).

As required by section 13A of the Act, the Treasurer received a report on the costs and liabilities of the insurance arrangements in existence as at 30 June 2004. The actuary has concluded that the current premiums charged in respect of the various types of insurance offered by Triple S are adequate to meet likely claims at present, and in the foreseeable future. A review of this reserve is due as at 30 June 2007.

8. Death, Invalidity and Income Protection Insurance Reserve (continued)

In the event of invalidity, the Basic and Additional units of insurance are paid to the member. In the event of death, the Basic and Additional units of insurance are paid to the member's spouse, otherwise to the member's estate.

To be eligible for the Income Protection Insurance benefit, a member must be contributing from post-tax salary or have an employer contribution that is greater than the minimum Superannuation Guarantee for at least a year.

	2006 $'000	2005 $'000
Opening balance of the Death, Invalidity and Income Protection Insurance Reserve	**80 862**	67 510
Add: Investment earnings on insurance reserve	**14 225**	10 159
Contributions	**7 905**	8 542
	22 130	18 701
Less: Benefit Payments:		
Invalidity	**3 723**	2 674
Death	**2 345**	1 927
Disability pensions	**1 187**	709
Less: Administration costs(i)	**388**	39
	7 643	5 349
Net Transfer Value to the Death, Invalidity and Income Protection Insurance Reserve	**14 487**	13 352
Closing Balance of Reserve	**95 349**	80 862

(i) The amount of $388 000 relates to the annual administration charge paid to the Department of Treasury and Finance for administering the insurance arrangements. The administration costs are higher this year because the full costs of insurance administration have been deducted from the reserve account for the first time, when previously some costs formed part of administration expense.

9. Other Reserves

The Reserve represents assets of the fund which are not yet allocated to member accounts. The following table reflects the total movements of the Reserves for the year ended 30 June 2006.

	Administration Cost Reserve(i) $'000	Investment Reserve(ii) $'000	Board Reserve(iii) $'000	**Total 2006 $'000**	Total 2005 $'000
Balance as at 1 July	4 027	353	483	**4 863**	2 811
Transfers to reserves	7 970	61	309	**8 340**	2 052
Transfers out of reserves	(5 763)	(10)	(325)	**(6 098)**	-
Balance as at 30 June	6 234	404	467	**7 105**	4 863

(i) Section 27 of the Act requires an administrative charge to be deducted from the members employer accounts. These monies are credited to the Administration Cost Reserve. At the end of the financial year the cost incurred in administering the scheme (including audit fees) is debited to the Administration Cost Reserve. Further information is included in Note 7 to the financial statements. The amount of $2.2 million is the excess of actual administration recovery from members ($7.1 million plus an interest component of $800 000) over the cost to administer the scheme of $5.7 million (including GST).

(ii) Prior to the merger of the Scheme and the State Superannuation Benefit Scheme (refer Note 1(a)) the interest that was credited to member accounts was the average of the 10 year bond rates declared by the South Australian Government Financing Authority on the first day of each month. This differed from the amount earned by Funds SA and the balance of the investment earnings was credited to the investment reserve. Transfers from the Investment Reserve represent adjustments processed to member accounts to correct data integrity issues, while transfers to the Investment Reserve are due to interest income. While the level of data integrity adjustments is now minimal, the Board has endorsed the maintenance of the reserve for a period of three years to cover any shortfall in legal liability cover from SAICORP.

(iii) The Board Reserve Account represents amounts which have been put aside for the provision for future capital and development costs ($294 000), a provision for three yearly board election costs ($80 000) and an administration reserve ($93 000). These amounts are to be used on the approval of the Board for the purposes specified above. These reserves were previously held by the Department of Treasury and Finance and have been returned to the scheme during the 2004-05 financial year and shown as 'Other Revenue'.

The costs of setting up the Allocated Pension and Flexible Rollover products were funded from the Capital and Development reserve prior to the balance being returned to the scheme. Further to this, the Board has agreed that the ongoing costs of these products will be funded from the Reserve until such time as member fees cover costs. Therefore, an amount of $460 000 is owed to the Board reserve account from those products as at 30 June 2006 (represented by costs of $503 000 less member charges of $43 000). This will be repaid over time as member fees begin to cover capital establishment costs.

10. Vested Benefits

Vested Benefits are benefits which are not conditional upon continued membership of the Scheme, or any other factor other than resignation from the Scheme. Vested Benefits include benefits which members are entitled to receive had they terminated their membership as at the reporting date.

	2006	2005
Vested Benefits:	**$'000**	$'000
Triple S	**4 405 649**	3 391 989
Allocated Pension	**20 993**	3 738
Flexible Rollover Product	**47 174**	2 277
	4 473 816	3 398 004

11. Income Tax

(a) Major Components of Tax Expense

Current income tax:		
Current tax charge	**4 928**	492
Adjustment to current tax for prior periods	**(12)**	-
Deferred income tax		
Relating to the originating and reversal of temporary differences	**160**	(2)
Income Tax Expense	**5 076**	490

(b) Income Tax Expense

Benefits accrued before tax	**1 215 214**	853 431
Changes in net assets related to constitutionally protected schemes	**(1 134 208)**	(846 533)
Total change in net assets related to retirement products	**81 006**	6 898
Tax applicable at the rate of 15 percent	**12 150**	1 035
Tax effect of expenses that are not deductible in determining taxable income:		
Non-deductible expenses	**32**	41
Tax effect of expenses that are not deductible in determining taxable income:		
Investment income	**14**	-
Member contributions	**(6 808)**	(574)
Exempt pension income	**(170)**	(12)
Tax effect of other adjustments:		
Imputation and foreign tax credits	**(130)**	-
Over provision prior period	**(12)**	-
Income Tax Expense	**5 076**	490

(c) Current Tax Liabilities

Balance at 1 July	**492**	-
Income tax paid - current period	**(2 065)**	-
Income tax paid - prior periods	**(480)**	-
Current years income tax provision	**4 928**	492
Over provision prior period	**(12)**	-
	2 863	492

(d) Deferred Tax Liabilities

The amount of deferred tax liability recognised in the Statement of Financial Position:		
Net unrealised capital gains (discounted)	**180**	-

(e) Deferred Tax Assets

The amount of deferred tax assets recognised in the statement of financial position at reporting date is made up as follows:		
Accrued expenses	**21**	2

12. Reconciliation of Benefits Accrued as a Result of Operations to Net Cash provided by Operating Activities

Benefits accrued as a result of operations	**1 210 138**	858 035
Benefits paid and payable	**(115 586)**	(96 444)
Increase in contributions receivable	**(3 143)**	(7 706)
Investment revenue	**(670 109)**	(425 236)
Direct investment expense	**24 620**	-
Increase in current tax liabilities	**2 532**	490
Increase in Board creditors	**3**	74
(Increase) Decrease in Board debtors	**(50)**	32
Increase in PAYG withholding tax	**8**	48
(Decrease) Increase in benefits payable	**(120)**	2 343
Net Cash provided by Operating Activities	**448 293**	331 636

13. Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

	2006	2005
Cash and deposits at Treasury:	**$'000**	$'000
Triple S	**7 368**	5 458
Allocated Pension	**430**	146
Flexible Rollover Product	**3 659**	511
	11 457	6 115

14. Guaranteed Benefits

Benefit entitlements are specified by the *Southern State Superannuation Act 1994*.

15. Sundry Debtors

Refund from Taxation Office for GST	**35**	31
Administration expense[(i)]	**55**	9
Funds SA sundry debtors	**7**	26
	97	66

(i) This amount represents administration fees overpaid to the Department of Treasury and Finance as at 30 June 2006.

16. Sundry Creditors

Audit fees payable	**75**	73
Other	**2**	1
Funds SA sundry creditors	**6 833**	4 572
	6 910	4 646

17. Allocated to Members' Accounts

The value of funds which have been formally allocated to member accounts equals the vested benefits as per Note 10. The formal allocation of earnings to members' accounts has been determined for the 2006 year. This has resulted in an immaterial difference and will be carried forward to the next financial year as an unallocated value. The unallocated amount is described in Note 18.

18. Not Allocated to Members' Accounts

This Note indicates that there is approximately $10.2 million ($8.2 million) unallocated to members' accounts, which is immaterial in a $4.6 billion Scheme. All accumulation schemes carry some type of unallocated amount. This unallocated amount arises because the financial report of the Scheme is prepared on an accrual basis while monies are allocated to members on a cash basis. Between the time of preparing the benefit accrual figure for the Financial Statements and the finalisation of the annual review additional member liabilities are determined.

19. Audit Expense

Amounts paid or due and payable to the Auditor-General's Department (an SA Government Entity) for the audit of the Scheme for the reporting period totalled $75 000 ($73 000).

20. Related Parties

(a) Board Members

The following are members of the Super SA Board who served during the course of the 2005-06 financial year, along with the period served:

Hedley Bachmann	Presiding Member	1 July 2005 - 30 June 2006
Kevin Cantley (John Wright, Deputy)	Appointed by the Governor	1 July 2005 - 30 June 2006
Virginia Deegan (Liz Hlipala, Deputy)	Appointed by the Governor	1 July 2005 - 30 June 2006
Jan McMahon (Leah York, Deputy)	Elected by the Members	1 July 2005 - 30 June 2006
Ros Sumner (Joselene Mazel, Deputy)	Elected by the Members	1 July 2005 - 30 June 2006

(b) Board Members' Remuneration

Board members remuneration includes fees and superannuation benefits. Board members fees are approved by the Treasurer on the recommendation of the Commissioner for Public Employment.

The Board is responsible for the administration of the South Australian Superannuation Scheme and the Southern State Superannuation Scheme. The remuneration of the Board members of $75 000 ($81 100) is met by both superannuation schemes. Of this amount, $42 500 ($46 900) was met by the Southern State Superannuation Scheme which is included in the administration expense. The total remuneration includes superannuation contributions of $6 700 ($6 500).

	2006 Number of Directors	2005 Number of Directors
$1 - $10 000	**1**	1
$20 001 - $30 000	**2**	2
$30 001 - $40 000	**1**	1

(b) Board Members' Remuneration (continued)

Board and deputy members who are SA public sector employees do not receive fees for their Super SA Board membership.

The Board members who are members of the Fund contribute on the same terms and conditions as other members.

22. Financial Instruments

The specific disclosure requirements of Australian Accounting Standard AASB 132 *Financial Instruments: Presentation* are fully set out in the Notes to the Financial Report of Funds SA and have not been repeated in this financial report.

SOUTH AUSTRALIAN TOURISM COMMISSION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Commission, a body corporate, is established pursuant to the *South Australian Tourism Commission Act 1993*.

Functions

The functions of the SA Tourism Commission are as follows:

- Increase visitor numbers to and within the State by creating awareness of South Australia and its tourism assets in key target markets.

- Facilitate the development of a competitive and profitable tourism industry.

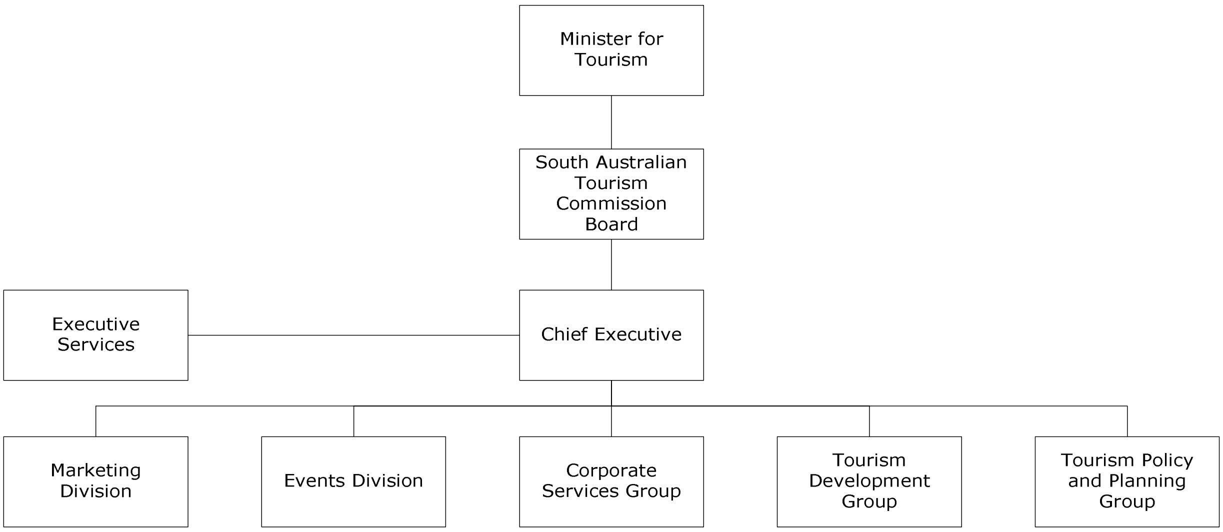
- Contribute to the preparation and implementation of economic development relating to the tourism industry of the State.

- Build strong networks and partnerships with relevant stakeholders for mutual benefit.

- Assist regional bodies engaged in tourism promotion.

Structure

The structure of the SA Tourism Commission is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 23(3) of the *South Australian Tourism Commission Act 1993* provides for the Auditor-General to audit the accounts of the Commission 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 SA Tourism 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 with respect to the financial statements and internal controls.

During 2005-06, specific areas of audit attention included:

- participation fees and other revenue
- event operations and other expenditure
- contract management
- accounts payable
- payroll
- general ledger.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 SA Tourism Commission as at 30 June 2006 and the results of its operations and cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian Tourism Commission 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 of payroll as outlined under 'Audit Communications with Management', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Tourism Commission have been conducted properly and in accordance with law.

Audit Communications with 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 and related responses are considered herein.

Payroll

The audit disclosed that a large number of bona fide reports:

- had not been reviewed to ensure the integrity of the reports;
- had not been retained as evidence of any review that had been performed.

The review of the leave taken reports is undertaken to ensure that all leave is correctly recorded. It was noted that this review process is not effective and therefore does not provide assurance as to the accuracy of the leave liability.

The Commission advised that managers have been advised of the requirements to review and retain all bona fide and leave reports.

Overseas Travel

Employees of the SA Tourism Commission travel overseas on a frequent basis for business purposes. Government requirements, as set out in the Commissioner's Standard, include the documentation of a number of aspects including specific outcomes to be achieved, whether the outcomes can be achieved in other ways and reporting the value of the trip against identified outcomes.

There was no evidence that the documentation of overseas travel met all the requirements of the Commissioner's Standard.

The Commission has advised that it will ensure that all the requirements are met in the future.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

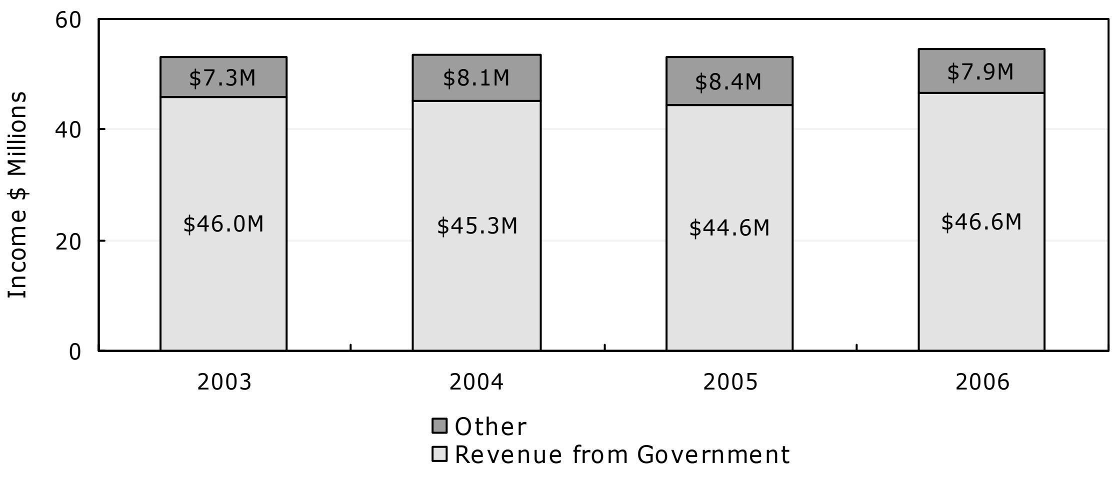
Highlights of Financial Report

	2006 $'million	2005 $'million	Percentage Change
INCOME			
Revenue from Government	**46.6**	44.6	4
Other	**7.9**	8.4	(6)
Total Income	**54.5**	53.0	3
EXPENSES			
Employee benefits	**12.9**	11.7	10
Advertising and promotion	**18.0**	16.5	9
Industry assistance	**9.7**	10.2	(5)
Other	**15.2**	14.3	6
Total Expenses	**55.8**	52.7	6
Net Result	**(1.3)**	0.3	n/a
Net Cash Flows from Operations	**3**	(0.3)	n/a
ASSETS			
Current assets	**6.6**	5.2	27
Non-current assets	**2.2**	4.1	(46)
Total Assets	**8.8**	9.3	(5)
LIABILITIES			
Current liabilities	**5.3**	4.2	26
Non-current liabilities	**1.3**	1.5	(13)
Total Liabilities	**6.6**	5.7	16
EQUITY	**2.2**	3.6	n/a

Income Statement

Income

A structural analysis of income for the Commission in the four years to 2006 is presented in the following chart.

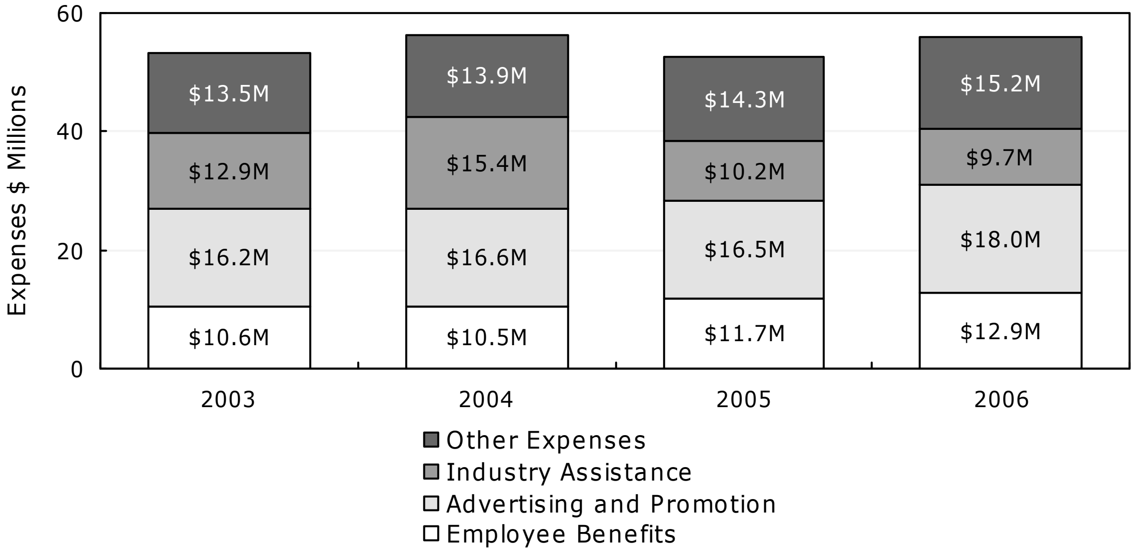


Income for the year totalled $54.5 million ($53 million). This includes revenue appropriated from Government for operating purposes which totalled $46.6 million ($44.6 million) and represents 85.5 percent (84.1 percent) of total income. The Commission is dependent on the ongoing financial support of the State Government as expressed in Note 1 to the Financial Statements.

Other income predominantly consists of participation fees, event entry fees and refunds/recoups of salaries and expenses.

Expenses

For the four years to 2006, a structural analysis of the main expense items for the Commission is shown in the following chart.



The increase in expenditure is mainly the result of increases in employee benefits, advertising and promotion costs, bad and doubtful debts as a result of the Le Mans settlement, and a reduction in expenditure on event operations.

Costs relating to the Enterprise Bargaining Agreement and targeted voluntary separation packages and a reallocation of costing for some overseas employees contributed to the increased costs of employee benefits.

The increased costs of advertising and promotion were due mainly to the hosting of the Australian Tourism Exchange and an increased number of Trade Shows.

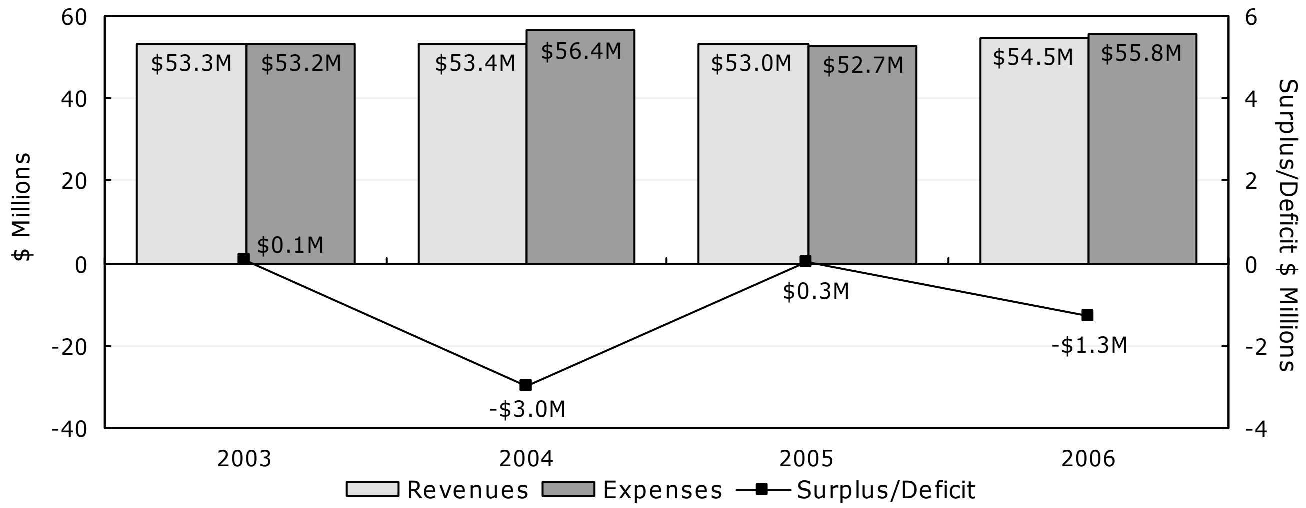
The reduction in expenditure on event operations is mainly attributable to the biennial cycle of several major events eg the Cattle Drive was not held in 2005-06.

Operating Result

The operating deficit was $1.3 million ($325 000 surplus). The deficit for 2005-06 is the result of the Le Mans settlement (refer Note 32).

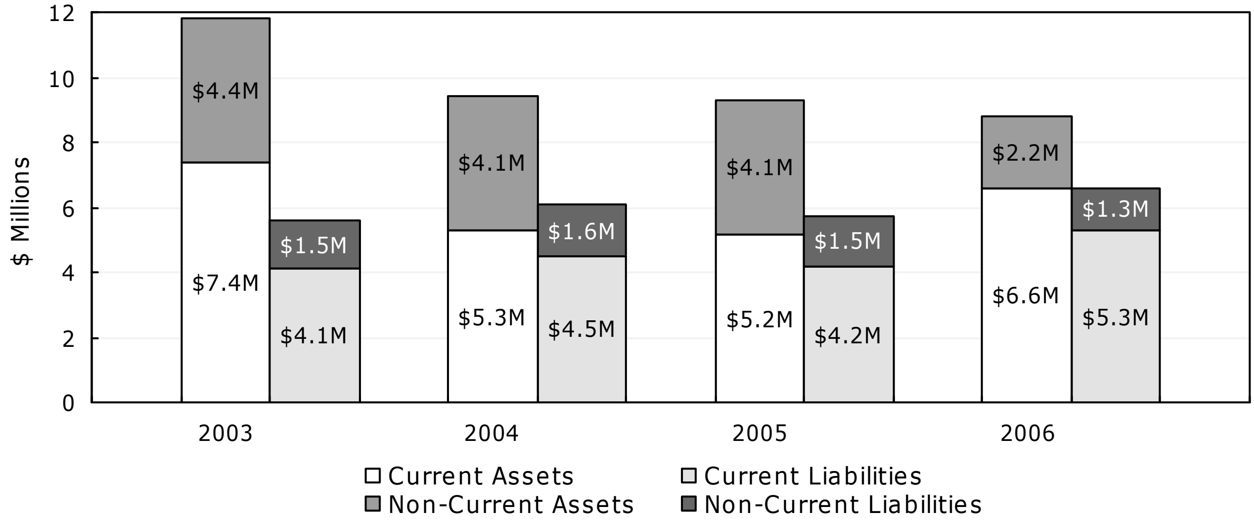
The following chart shows the income, expenses and surpluses/deficits for the four years to 2006.

The level of surpluses/deficits over the period reflects the fact that the initial government funding is related to the estimated expenses less income generated by the Commission.



Balance Sheet

For the four years to 2006, a structural analysis of assets and liabilities is shown in the following chart.



Cash Flow Statement

The following table summarises the net cash flows for the four years to 2006.

	2006 **$'million**	2005 $'million	2004 $'million	2003 $'million
Net Cash Flows				
Operations	**3.0**	(0.3)	(2.3)	0.7
Investing	**(0.4)**	(0.5)	(0.2)	(0.5)
Financing	**(0.1)**	(0.1)	(0.1)	(0.1)
Change in Cash	**2.5**	(0.9)	(2.6)	0.1
Cash at 30 June	**5.1**	2.7	3.6	6.2

Income Statement
for the year ended 30 June 2006

	Note	**2006**	2005
EXPENSES:		**$'000**	$'000
Employee benefits		**12 933**	11 731
Advertising and promotion		**18 000**	16 444
Industry assistance	5	**9 735**	10 215
Administration and accommodation	6	**9 380**	9 093
Event operations		**3 654**	4 634
Depreciation and amortisation	7	**360**	427
Interest on borrowings		**58**	64
Bad and doubtful debts expense	11	**1 718**	8
Net loss from the disposal of non-current assets		**11**	92
Total Expenses		**55 849**	52 708
INCOME:			
Participation fees	8	**4 465**	3 612
Interest from the SA Government		**409**	208
Commission on sales		**596**	598
Other	9	**2 470**	3 964
Total Income		**7 940**	8 382
NET COST OF PROVIDING SERVICES		**47 909**	44 326
REVENUES FROM SA GOVERNMENT:			
Revenues from SA Government	10	**46 565**	44 651
Total Revenue from SA Government		**46 565**	44 651
NET RESULT ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER		**(1 344)**	325

Balance Sheet
as at 30 June 2006

ASSETS:		**2006**	2005
CURRENT ASSETS:	Note	**$'000**	$'000
Cash and cash equivalents	23	**5 109**	2 650
Receivables	11	**1 492**	1 918
Prepayments	12	**37**	645
Total Current Assets		**6 638**	5 213
NON-CURRENT ASSETS:			
Receivables	11	**-**	1 870
Plant and equipment	13	**1 729**	1 717
Intangible assets	14	**98**	108
Investment in Australian Tourism Data Warehouse Ltd	15	**400**	400
Total Non-Current Assets		**2 227**	4 095
Total Assets		**8 865**	9 308
LIABILITIES:			
CURRENT LIABILITIES:			
Payables	16	**4 164**	2 968
Other current liabilities	17	**86**	216
Short term employee benefits	18	**891**	836
Short term borrowings	19	**158**	147
Total Current Liabilities		**5 299**	4 167
NON-CURRENT LIABILITIES:			
Payables	16	**62**	81
Long term employee benefits	18	**661**	714
Long term borrowings	19	**592**	751
Total Non-Current Liabilities		**1 315**	1 546
Total Liabilities		**6 614**	5 713
NET ASSETS		**2 251**	3 595
EQUITY:			
Tourism infrastructure reserve	20	**-**	-
Retained earnings		**2 251**	3 595
TOTAL EQUITY		**2 251**	3 595
Commitments	21		
Contingent Assets and Liabilities	22		
Events after the Balance Sheet Date	32		

Statement of Changes in Equity
for the year ended 30 June 2006

	Tourism Infrastructure Reserve $'000	Retained Earnings $'000	Total $'000
BALANCE AT 30 JUNE 2004	2 291	979	3 270
Transfer to retained earnings	(2 291)	2 291	-
Net result for 2004-05	-	325	325
BALANCE AT 30 JUNE 2005	-	3 595	3 595
Net result for 2005-06	-	(1 344)	(1 344)
BALANCE AT 30 JUNE 2006	**-**	**2 251**	**2 251**

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

	Note	**2006 Inflows (Outflows) $'000**	2005 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
CASH OUTFLOWS:			
Employee benefit payments		**(12 815)**	(11 467)
Supplies and services		**(38 959)**	(41 670)
Interest paid		**(58)**	(64)
GST payments on purchases		**(3 342)**	(3 098)
Cash used in Operations		**(55 174)**	(56 299)
CASH INFLOWS:			
Fees and charges		**4 465**	3 962
Commission earned		**596**	598
Interest received		**409**	208
GST recovered from Australian Taxation Office		**2 428**	2 445
GST received on receivables		**953**	1 116
Other receipts		**2 737**	3 064
Cash generated from Operations		**11 588**	11 393
CASH FLOWS FROM SA GOVERNMENT			
Receipts from SA Government		**46 565**	44 651
Cash generated from SA Government		**46 565**	44 651
Net Cash provided by (used in) Operating Activities		**2 979**	(255)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of plant and equipment		**(372)**	(521)
Net Cash used in Investing Activities		**(372)**	(521)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of Borrowings		**(148)**	(138)
Net Cash used in Financing Activities		**(148)**	(138)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2 459**	(914)
CASH AND CASH EQUIVALENTS AT 1 JULY		**2 650**	3 564
CASH AND CASH EQUIVALENTS AT 30 JUNE	23	**5 109**	2 650

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Objectives of the Commission

Objectives

The purpose of the South Australian Tourism Commission established under the *South Australian Tourism Commission Act 1993* is, on behalf of the Government, to work in partnership with the private sector in productively marketing South Australia's tourism product intrastate, interstate and internationally to ensure that South Australia is a compelling part of any Australian holiday. The principal goals of the Commission are to:

- add value to the efforts of the tourism industry and other government agencies, by ensuring a coordinated approach to the promotion of South Australia which results in an increase in visitor numbers to all regions of the State thereby increasing the value of tourism to the economy and generating employment for South Australians;
- attract, develop, own and support major and strategic events that generate substantial economic and social benefits for South Australia and promote the image and profile of Adelaide and South Australia;
- ensure the development of South Australia's tourism resources in a socially responsible way with emphasis on the continued maintenance and preservation of South Australia's environmental and cultural heritage and the profitability and effective utilisation of infrastructure;
- achieve a strong corporate team and positive corporate culture that uses its resources in the most effective and efficient manner.

Financial Arrangements

The Commission's principal source of funding consists of monies appropriated by Parliament.

The financial activities of the Commission are primarily conducted through a Special Deposit Account pursuant to section 21 of the *Public Finance and Audit Act 1987*.

Administered Funds

The Commission is responsible for the administration of the funds described below. These funds are not recorded in the Income Statement or Balance Sheet as the Commission does not have control over how these funds are to be spent. Administered revenues, expenses, assets and liabilities are detailed separately in Note 31. Administered items comprise:

(i) *SA Motor Sport Board*

The Commission administered the appropriation transfers from the Department of Treasury and Finance to the SA Motor Sport Board until 30 June 2002. During 2005-06 the Commission returned the remaining $476 000 of administered cash to the Department of Treasury and Finance.

(ii) *2007 World Police and Fire Games*

The 2007 World Police and Fire Games Corporation was established on 1 October 2003. The Commission managed the finances of the Corporation until 30 June 2004. The balance of assets and liabilities held at 30 June 2004 were transferred to the Corporation in 2004-05. The Commission continued to be responsible for the transfer of Government Appropriation to the Corporation amounting to $1.4 million ($890 000) during 2005-06.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report. The financial statements have been prepared in accordance with applicable Australian Accounting Standards and Treasurer's Instructions and Accounting Policy Statements issued pursuant to the P*ublic Finance and Audit Act 1987* (PFAA).

These financial statements are the first statements to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AASB 1 *First-time Adoption of* Australian *equivalents to International Financial Reporting Standards* has been applied in preparing the statements and the application has not resulted in any changes.

The accrual basis has been used in the preparation of the financial statements with the exception of the Cash Flow Statement which has been prepared on a cash basis.

The financial report has been prepared on a 12 month operating cycle and presented in Australian currency.

(b) Recognition of Income

Commission

Commission earned on sales of travel through the SA Travel and Visitor Centre is recognised at the date of ticketing. The gross sales collected on behalf of tourism operators by the SA Travel and Visitor Centre are not recorded in the financial statements. In 2005-06 the SA Travel and Tourism Centre collected $4.9 million ($4.7 million) of sales and forwarded $3.9 million ($3.9 million) to tourism operators.

Interest

Interest earned on deposit accounts at the Department of Treasury and Finance is recognised as income as it accrues.

Participation Fees
The Commission earns income from participants in the Tourism Industry through cooperative marketing schemes, sponsorship of events, subscriptions and training fees. This income is recognised as it accrues.

Other Income
Other income comprises event entry fees, merchandise sales, recoups of expenditure from regional marketing boards and other Government agencies. In 2005-06, grants received from another Government agency were for the recoup of expenditure for externally managed events.

Revenues from Government
Appropriation from Government and contributions from other Government agencies are recognised as revenue in the period in which the monies are received and the Commission obtains control of the asset.

(c) Depreciation and Amortisation
Items of plant and equipment are depreciated on a straight line basis over their expected useful lives. The estimated useful lives of each asset class are as follows:

	Years
General plant and equipment	3-5
Pageant plant and equipment	5-15

Fit outs are amortised over the length of the lease of the property using the straight line method. The useful lives of all major assets held by the Commission are reassessed on an annual basis.

(d) Inventories
Consumable supplies are not recognised in the Balance Sheet as the value of these supplies is not considered material.

(e) General Plant and Equipment and Pageant Plant and Equipment
Items of plant and equipment controlled by the Commission with an individual value greater than $5 000 are recognised as non-current assets in the Balance Sheet. Items of plant and equipment are recorded at historic cost less accumulated depreciation.

Minor items of plant and equipment with an individual value less than $5 000 are expensed in the Income Statement at the time of acquisition.

All Pageant Floats, regardless of their value, are recognised as non-current assets in the Balance Sheet. Pageant Floats are recorded at historic cost less accumulated depreciation.

(f) Intangible Assets
Goodwill and intellectual property arising from acquisition of the Christmas Pageant is accounted for at cost and is amortised on a straight line basis over 20 years, the period in which the benefits are expected to arise.

(g) Investment in Australian Tourism Data Warehouse Ltd
The Commission holds a total of 400 000 $1 shares in the Australian Tourism Data Warehouse (ATDW) Ltd, making the total holding $400 000. The Commission's shareholding does not give the Commission controlling interest in ATDW Ltd. The Commission's interest in ATDW Ltd is brought to account at cost.

(h) Employee Benefits
Provision has been made in the financial statements for the Commission’s liability for employee benefits arising from services rendered by employees to 30 June. Related on-costs consequential to the employment of employees have been included in Payables (Note 16).

Salaries and Wages
Salaries and wages reflect remuneration received or due and receivable by employees as at the balance date. The salaries and wages balance includes $412 000 of expenditure for staff employed by the Commission but who work for Regional Marketing Boards. These salaries have been recouped from the regional offices and are shown as Other Revenue in the Income Statement.

Annual Leave
Provision has been made for the unused component of annual leave at 30 June. The provision has been calculated on current pay rates, plus an inflation allowance of four percent.

Long Service Leave
Provision has been made for employee entitlements to long service leave at 30 June. The provision has been calculated at nominal amounts based on current pay rates using a benchmark of seven years service as a shorthand estimation of long service leave liability in accordance with Australian Accounting Standard AASB 119 *Employee Benefits*.

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.

Superannuation
During 2005-06 a total of $1.1 million ($899 000) was paid, or due and payable, to the Department of Treasury and Finance towards the accruing government liability for superannuation in respect of the Commission's employees. In addition, $100 000 ($78 000) was paid to other externally managed superannuation schemes. Superannuation contributions are charged as an expense in the period in which they occur. The Commission is not liable for payments to beneficiaries as this is the responsibility of the superannuation schemes.

(i) Foreign Currency
Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date. Associated currency gains and losses are not material, and therefore have not been included in the Income Statement.

(j) 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 2006, are as follows:

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 comprises cash on hand and at Treasury and deposits at call. Cash is recorded at nominal amounts. Interest on cash is credited to income as it accrues.

Receivables are recognised at the nominal amounts due less provision for bad or doubtful debts (maximum credit risk). Credit terms are net 14 days.

Shares in Australian Tourism Data Warehouse Ltd are recognised at cost.

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.

Payables are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. With the exception of employee on-costs, payables are normally settled within 30 days. It is policy to effect early payment where a discount can be achieved.

Borrowings are recognised at their principal amounts. Interest is expensed as it accrues. The term of the loan is 10 years commencing in 2000-01. The borrowings were for working capital purposes.

(k) Comparative Figures
The presentation and classifications in the financial report are consistent with prior periods except where a specific Accounting Policy or Australian Accounting Standard have required a change. Comparative figures have been restated on an AIFRS basis except for financial instrument information as permitted by AASB 1.

(l) Taxation
The Commission is liable for payroll tax, fringe benefits tax, Goods and Services Tax (GST) and the Emergency Services Levy.

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

- the amount of GST incurred by the Commission 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.

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

(n) Changes in Accounting Policies
A number of Australian Accounting Standards have been issued or amended and are applicable to the Commission but are not yet effective. The Commission has assessed the impact of the new and amended standards and there will be no impact on the accounting policies of the Commission.

3. Financial Risk Management
The Commission is exposed to a variety of financial risks, market risk (foreign exchange and price), credit risk and liquidity risk.

Risk management is carried out by the Commission and risk management policies and practices are in accordance with Australian Risk Management Standards. The Commission has non-interest bearing assets (cash on hand and receivables) and liabilities (payables) and borrowings from the SA Government.

3. Financial Risk Management (continued)

The Commission's exposure to cash flow interest risk is minimal. In relation to liquidity/funding risk, the continued existence of the Commission in its present form and with its present services is dependent on appropriations by Parliament.

In accordance with government policy the Commission enters into hedges for all contracted expenditure in a foreign currency over AUD$100 000. The South Australian Financing Authority manages the foreign currency hedges on the Commission's behalf. In 2005-06 the Commission entered into five hedging contracts totalling AUD$746 000. As at 30 June 2006 the Commission had one outstanding hedge for the 2007 World Police and Fire Games for AUD$181 000.

4. Program Class Schedule of Expenses and Income for the year ended 30 June 2006

The Commission has identified four broad program classes that reflect the nature of the services delivered to the South Australian community. These are:

Program Class 1: ***Strategic Advice***
To assist the tourism industry by providing tourism forecasting data and statistical research advice and evaluation, and industry policy and planning services.

Program Class 2: ***Tourism Development***
To provide advice and assistance to tourism operators and develop sustainable tourism products and infrastructure to raise the standard of tourism services and facilities across the State.

Program Class 3: ***Tourism Events***
To bid for and stage major events in South Australia.

Program Class 4: ***Tourism Marketing***
To provide high quality marketing services and development of marketing strategies and campaigns that increase the number of visitors to South Australia.

Expenses and income by Program Class for the year are as follows:

	Strategic Advice $'000	Tourism Dvlpmt $'000	Tourism Events $'000	Tourism Marketing $'000	**2006 Total $'000**	2005 Total $'000
EXPENSES:						
Employee benefits	1 071	1 239	2 289	8 334	**12 933**	11 731
Advertising and promotion	784	141	1 448	15 627	**18 000**	16 444
Industry assistance	285	2 146	2 853	4 451	**9 735**	10 215
Administration and accommodation	445	533	3 074	5 328	**9 380**	9 093
Event operations	-	-	3 644	10	**3 654**	4 634
Depreciation and amortisation	20	19	136	185	**360**	427
Interest on borrowings	4	4	12	38	**58**	64
Bad and doubtful debts expense	129	118	351	1 120	**1 718**	8
Net loss from the disposal of non-current assets	1	1	2	7	**11**	92
Total Expenses	2 739	4 201	13 809	35 100	**55 849**	52 708
INCOME:						
Participation fees	16	37	2 643	1 769	**4 465**	3 612
Interest	31	28	84	266	**409**	208
Commission on sales	-	-	-	596	**596**	598
Other	14	46	1 378	1 032	**2 470**	3 964
Total Income	61	111	4 105	3 663	**7 940**	8 382
Total Net Cost of Services	2 678	4 090	9 704	31 437	**47 909**	44 326
GOVERNMENT:						
Revenues from the SA Government	2 583	4 043	9 043	30 896	**46 565**	44 651
Total Revenues from Government	2 583	4 043	9 043	30 896	**46 565**	44 651
NET RESULT	(95)	(47)	(611)	(541)	**(1 344)**	325

5. Industry Assistance

Industry Assistance to entities external to the SA Government:	**2006 $'000**	2005 $'000
Sponsorship of events	**4 391**	3 097
Tourism infrastructure grants	**1 835**	3 589
Tourism marketing boards/information centre grants	**1 810**	1 513
Marketing/Industry support	**1 557**	1 971
Membership of tourism industry bodies	**14**	13
Trade show subsidies	**128**	32
	9 735	10 215

		2006	2005
6.	**Administration and Accommodation**		
	Administration and accommodation provided by entities external to the SA Government:	**$'000**	$'000
	Communication and computing	**1 481**	1 512
	Stationery, postage, couriers and freight	**705**	776
	Contractors and consultants	**1 000**	1 145
	Taxis, hire cars and car parking	**318**	302
	Domestic and international travel	**1 309**	1 462
	Seminars, courses and training	**275**	201
	Accommodation and service costs	**1 463**	925
	Other	**652**	552
		7 203	6 875
	Administration and accommodation provided by entities within the SA Government:		
	Accommodation and service costs	**1 033**	1 289
	Motor vehicle	**463**	391
	Computer processing	**397**	343
	Insurance	**141**	119
	Audit fees	**60**	58
	Legal fees	**83**	18
		2 177	2 218
		9 380	9 093

7. Depreciation and Amortisation

The aggregate amount of depreciation and amortisation expensed during the year for each class of depreciable asset was as follows:

	2006	2005
Plant and Equipment:		
General plant and equipment	**84**	126
Fitouts	**192**	216
Pageant assets	**74**	75
	350	417
Intangibles:		
Christmas Pageant goodwill	**10**	10
	10	10
	360	427

8. Participation Fees

	2006	2005
Participation Fees from entities external to the SA Government:		
Cooperative marketing/advertising	**1 349**	1 052
Sponsorship revenue	**2 386**	2 076
Workshop/training	**7**	38
Trade/consumer show participation	**309**	201
Contra transactions	**414**	245
	4 465	3 612

9. Other Income

	2006	2005
Other income from entities external to the SA Government:		
Event entry fees	**452**	835
Refunds/recoups of expenses	**413**	909
Service fees	**13**	8
Salary recoups	**522**	116
Familiarisation expenditure recouped	**142**	141
Sales of merchandise	**199**	127
Sundry income	**229**	595
	1 970	2 731
Other income from entities within the SA Government:		
Other grants	**500**	1 233
	500	1 233
	2 470	3 964

10. Revenues from the SA Government

	2006	2005
Recurrent appropriation from the SA Government	**46 565**	44 651

11. Receivables

	2006	2005
Current:		
Receivables	**709**	974
Less: Provision for doubtful debts	**30**	16
	679	958
GST receivable	**780**	798
Sundry	**33**	162
	1 492	1 918

11. Receivables (continued)

	2006	2005
Non-Current:	**$'000**	$'000
Receivables	**1 870**	1 870
Less: Provision for doubtful debts	**1 870**	-
	-	1 870

All receivables at 30 June 2006 related to transactions with entities external to the SA Government.

12. Prepayments

	2006	2005
Other	**37**	645

13. Plant and Equipment

	2006			
	General Plant & Equipment	Fitouts	Pageant Assets	**Total**
Gross Carrying Amount:	$'000	$'000	$'000	**$'000**
Balance at 1 July	735	2 198	810	**3 743**
Purchases	64	211	97	**372**
Disposals	(95)	-	(33)	**(128)**
Balance at 30 June	704	2 409	874	**3 987**
Accumulated Depreciation:				
Balance at 1 July	376	1 207	442	**2 025**
Depreciation expense	84	192	74	**350**
Disposals	(84)	-	(33)	**(117)**
Balance at 30 June	376	1 399	483	**2 258**
Net Book Value:				
As at 30 June 2006	**328**	**1 010**	**391**	**1 729**
As at 30 June 2005	359	991	367	1 717

14. Intangibles

	2006 Christmas Pageant Goodwill
Gross Carrying Amount:	**$'000**
Balance at 1 July	**200**
Balance at 30 June	**200**
Accumulated Amortisation:	
Balance at 1 July	**92**
Amortisation expense	**10**
Balance at 30 June	**102**
Net Book Value:	
As at 30 June 2006	**98**
As at 30 June 2005	108

15. Investment in Australian Tourism Data Warehouse

The Australian Tourism Data Warehouse (ATDW) is a joint project of all State and Territory tourism authorities working with the Australian Tourism Commission (ATC) to present and market Australian tourism product to the world through the ATC's website. Operators listed on the ATDW will then have their details uploaded onto the new consumer website offering worldwide exposure. The Commission's shareholding of 400 000 D Class shares in the Company does not give the Commission controlling interest in the Company.

16. Payables

	2006	2005
Current:	**$'000**	$'000
Trade creditors	**1 418**	2 078
Accrued expenses	**2 250**	387
Accrued employee benefits	**295**	171
Employee on-costs	**131**	119
GST payable	**70**	213
	4 164	2 968
Non-Current:		
Employee on-costs	**62**	81

All payables at 30 June 2006 related to transactions with entities external to the SA Government.

17. Other Liabilities

	2006	2005
Current:		
Unclaimed monies	**30**	82
Unearned revenue	**56**	134
	86	216

18. Employee Benefits

	2006	2005
Current:	**$'000**	$'000
Provision for annual leave	**738**	690
Provision for long service leave	**153**	146
	891	836
Non-Current:		
Provision for long service leave	**661**	714

Employee Benefits and Related On-costs:		
Current:		
Provisions	**891**	836
Accrued employee benefits	**296**	171
On-costs	**129**	119
	1 316	1 126
Non-Current:		
Provisions	**661**	714
On-costs	**62**	81
	723	795
Aggregate Employee Benefits and Related On-cost Liabilities	**2 039**	1 921

19. Borrowings

Balance 1 July	**898**	1 036
Less: Repayments	**(148)**	(138)
Balance 30 June	**750**	898
Represented by:		
Current borrowings	**158**	147
Non-current borrowings	**592**	751
	750	898

All borrowings held at 30 June were payable to the SA Government.

20. Tourism Infrastructure Reserve

The Commission receives appropriation from Parliament for specific tourism infrastructure projects. Funds not expended during the year are transferred to the Tourism Infrastructure Reserve. The funds in the reserve were completely expended at 30 June 2006. The movement in the Reserve for the year was:

	2006	2005
	$'000	$'000
Balance 1 July	**-**	2 291
Transfer to accumulated surplus	**-**	(2 291)
Balance 30 June	**-**	-

21. Commitments

(a) Operating Lease Commitments

At the reporting date, the Commission had the following obligations under non-cancellable leases in relation to accommodation, the sum of which is not recognised as a liability:

Not later than one year	**1 130**	1 003
Later than one year but not later than five years	**3 191**	3 862
Later than five years	**1 368**	119
	5 689	4 984

These commitments have been calculated at rates specified in the lease agreements. The leases are non-cancellable with terms ranging up to 11 years with some leases having the right of renewal. Rent is payable in arrears.

(b) Other Commitments

The Commission has entered into agreements in the nature of liabilities which, as at the reporting date, are not recognised in the Balance Sheet because they have been assessed as giving rise to a future rather than a present obligation for payment. These commitments are summarised as follows:

	2006	2005
	$'000	$'000
Not later than one year	**8 225**	5 170
Later than one year but not later than five years	**5 749**	5 724
Later than five years	**7**	22
	13 981	10 916

The Commission's commitments are for grants to Regional Tourism Marketing Boards, International Marketing Representation Fees, Tourism Development Projects, Event Sponsorship and other cooperative and service contracts.

(c) Remuneration Commitments

Commitments for the payment of salaries and other remuneration under employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	2006	2005
	$'000	$'000
Not later than one year	**3 173**	2 720
Later than one year but not later than five years	**2 254**	2 087
	5 427	4 807

The Commission does not offer remuneration contracts greater than five years.

22. Contingent Assets and Liabilities

There are no known contingent assets and liabilities as at 30 June 2006.

23. Notes to the Statement of Cash Flows

(a) Reconciliation of Net Cash provided by (used in) Operating Activities to Net Cost of Providing Services

	2006	2005
	$'000	$'000
Net cash provided by (used in) operating activities	**2 979**	(255)
Less: Revenues from SA Government	**(46 565)**	(44 651)
Depreciation and amortisation	**(360)**	(427)
Net loss from the disposal of non-current assets	**(11)**	(92)
Change in assets and liabilities:		
(Decrease) Increase in prepayments	**(608)**	600
(Decrease) Increase in receivables	**(2 296)**	238
(Increase) in employee benefits	**(2)**	(186)
Decease (Increase) in other liabilities	**130**	(48)
(Increase) Decrease in payables	**(1 176)**	495
Net Cost of Providing Services	**(47 909)**	(44 326)

(b) Reconciliation of Cash

For the purpose of the Cash Flow Statement, cash includes cash on hand and at Treasury and deposits at call. Cash at the end of the reporting period as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
Cash at 30 June comprised:	**$'000**	$'000
Cash on hand and at Treasury (unexpended balance)	**3 846**	2 321
Deposits at call (accrual appropriation funds)	**1 263**	329
	5 109	2 650

24. Financial Instruments

(a) Interest Rate Risk

The following table details the Commission's exposure to interest rate risk.

2006

			Fixed Interest Rate Maturity				
Financial Assets:	Average Interest Rate Percent	Variable Interest Rate $'000	Less than 1 Year $'000	1 to 5 Years $'000	Greater than 5 Years $'000	Non-Interest Bearing $'000	**Total $'000**
Cash - Operating account	5.66	3 838	-	-	-	-	**3 838**
Cash - Accrual appropriation funds	5.71	1 263	-	-	-	-	**1 263**
Receivables	-	-	-	-	-	1 492	**1 429**
Shares	-	-	-	-	-	400	**400**
		5 101	-	-	-	1 892	**6 993**
Financial Liabilities:							
Payables	-	-	-	-	-	3 738	**3 738**
Borrowings	6.72	-	158	592	-	-	**750**
		-	158	592	-	3 738	**4 488**

(a) Interest Rate Risk (continued)

2005

Financial Assets:	Average Interest Rate Percent	Variable Interest Rate $'000	Fixed Interest Rate Maturity: Less than 1 Year $'000	1 to 5 Years $'000	Greater than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Cash - Operating account	5.75	2 321	-	-	-	-	2 321
Cash - Accrual appropriation funds	5.58	329	-	-	-	-	329
Receivables	-	-	-	-	-	3 788	3 788
Shares	-	-	-	-	-	400	400
		2 650	-	-	-	4 188	6 838
Financial Liabilities:							
Payables	-	-	-	-	-	2 678	2 678
Borrowings	6.72	-	147	701	50	-	898
		-	147	701	50	2 678	3 576

(b) Credit Risk

The Commission does not have any significant credit risk exposure to any single creditor.

The carrying amount of financial assets recorded in the Balance Sheet, net of provisions for doubtful debts, represents the Commission's maximum exposure to credit risk.

(c) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the Balance Sheet represents their respective net fair values.

(d) Credit Standby Arrangements

The Commission has a $287 000 ($291 000) credit card facility with the ANZ Bank. The unused portion of this facility as at 30 June 2006 was $194 000 ($217 000).

(e) Hedging

The hedges in 2005-06 were for payment of representation fees in overseas offices, event staging fees and prize money for the staging of the Tour Down Under. As with all hedges there is minimal risks associated with the hedges.

25. Targeted Voluntary Separation Packages (TVSPs)

Amount paid to these employees:	**2006 $'000**	2005 $'000
TVSP	**218**	-
Annual leave and long service leave paid during the reporting period	**76**	-
Balance 30 June	**294**	-
Recovered from the Department of Treasury and Finance	**218**	-

Number of employees who were paid TVSPs during the reporting period were 3 (nil).

26. Related Party Information

(a) Directors

The following persons held office as a Director of the Board of the South Australian Tourism Commission during the year:

P Hoffman (Chair)
A Skipper (Deputy Chair)
F Connor
J James
M Butler
P Collins
D Alexander
J Clark (from October 2005)
D Gautier (until September 2005)
C Wickham (until September 2005)

(b) Transactions

There have been transactions with Board members which have been carried out under terms and conditions no more favourable than those which would have applied if the transactions were at arm's length.

27. Remuneration of Directors of the Board

The number of Directors whose total remuneration received or due and receivable fell within the following bands was:	**2006 Number of Directors**	2005 Number of Directors
$0 - $10 000	**3**	2
$10 001 - $20 000	**7**	8

The total remuneration received, or due and receivable, by Directors was $113 000 ($125 000). The total remuneration includes board sitting fees, superannuation, non-monetary benefits including associated fringe benefits tax and sitting fees for representing the South Australian Tourism Commission on committees other than the South Australian Tourism Commission Board.

28. Remuneration of Employees

The number of employees whose total remuneration received or due and receivable fell within the following bands was:	**2006 Number of Employees**	2005 Number of Employees
$100 001 - $110 000	**1**	3
$110 001 - $120 000	**3**	1
$120 001 - $130 000	**-**	1
$130 001 - $140 000	**3**	1
$150 001 - $160 000	**1**	2
$160 001 - $170 000	**1**	1
$250 001 - $260 000	**-**	1
$260 001 - $270 000	**1**	-

The total remuneration received or due and receivable by employees whose remuneration exceeded $100 000 was $1.4 million ($1.4 million). The remuneration includes salary, employer's superannuation costs, non-monetary benefits, and associated fringe benefits tax.

29. Auditors' Remuneration

	2006 $'000	2005 $'000
Amounts received, or due and receivable by the Auditor-General's Department for auditing of the accounts	**60**	58

Other Services

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

30. Consultants

Total expenditure on consultants fell within the following bands:	**2006 Number of Consultants**	2005 Number of Consultants
$10 001 - $50 000	**1**	-
Above $50 000	**-**	1

31. Schedule of Administered Items

(a) Schedule of Administered Income and Expenses for the year ended 30 June 2006

	2007 World Police and Fire Games		SA Motor Sport Board		Total	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Administered Income:						
State Government	**1 401**	890	**-**	-	**1 401**	890
Total Administered Income	**1 401**	890	**-**	-	**1 401**	890
Administered Expenses:						
Transfers to Department of Treasury and Finance	**-**	-	**476**	-	**476**	-
Transfer to 2007 World Police and Fire Games	**1 401**	1 033	**-**	-	**1 401**	1 033
Total Administered Expenses	**1 401**	1 033	**476**	-	**1 877**	1 033

(b) Schedule of Administered Assets and Liabilities as at 30 June 2006

	2007 World Police and Fire Games		SA Motor Sport Board		Total	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Administered Assets:						
Cash	**-**	-	**-**	476	**-**	476
Total Administered Assets	**-**	-	**-**	476	**-**	476

32. Events After Balance Sheet Date

In accordance with AASB 110 *Events after the Balance Sheet Date*, the South Australian Tourism Commission has adjusted the financial statements to reflect the settlement of a legal claim relating to the staging of the Le Mans event in Adelaide. The Commission had previously recognised a receivable for amounts due to the Commission and had noted under 'Contingent Obligations' that it was contesting a claim relating to the Le Mans event.

On 7 September 2006, the claim was settled and the debt will now be written off in 2006-07. The debt is included in the provision for doubtful debts (refer Note 11). The contingent obligation no longer exists.

SOUTH AUSTRALIAN WATER CORPORATION

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The South Australian Water Corporation (the Corporation) was established pursuant to the *South Australian Water Corporation Act 1994* (the Act).

Application of the *Public Corporations Act 1993*

The South Australia Water Corporation is a public corporation subject to the provisions of the *Public Corporations Act 1993*. That Act requires a charter and performance statement to be prepared by the Corporation's Minister and the Treasurer after consultation with the Corporation. The charter for the Corporation outlines:

- the nature and scope of commercial and non-commercial activities, including financial investment activities;
- financial standards and reporting, including interim reports on operations; the form and content of accounts and financial statements; and accounting and internal auditing systems and practices;
- the operating environment of the Corporation, asset management and control and the basis for setting fees and charges.

Objectives and Functions

The key objectives of the Corporation are to:

- provide value for money water services within South Australia;
- develop and commercialise leading water and related services, including technology solutions;
- assist in promoting economic development in South Australia;
- manage the assets (including intellectual property) of the Corporation prudently and effectively and provide agreed returns to Government;
- optimise the value of the Corporation whilst achieving other key requirements of the Government.

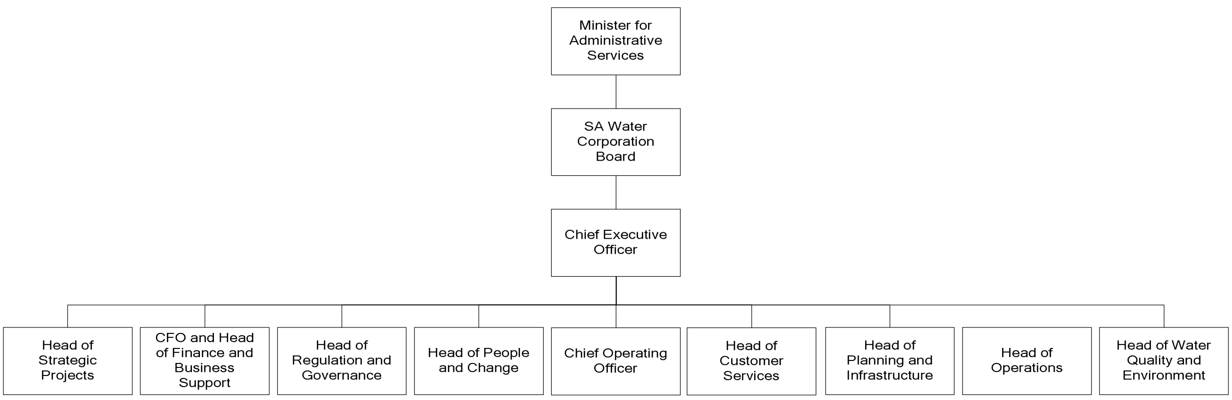
The primary functions of the Corporation in accordance with the Act are to provide services for the:

- supply of water by means of reticulated systems;
- storage, treatment and supply of bulk water;
- removal and treatment of wastewater by means of sewerage systems.

Additional functions of the Corporation as set out in the Act include researching and undertaking works to improve water quality and wastewater treatment; developing and marketing commercially viable products, processes and intellectual property; and encouraging and facilitating private or public sector investment and participation in the provision of water and wastewater services and facilities.

Structure

The structure of the South Australian Water Corporation is illustrated in the following organisation chart.



AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and subsection 32(4) of the *Public Corporations Act 1993* provides for the Auditor-General to audit the accounts of the South Australian Water Corporation 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 South Australian Water Corporation 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 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 2005-06, specific areas of audit attention included:

- contract management
- asset management and control
- revenue raising including cash receipting and banking
- expenditure including accounts payable and payroll
- budgetary control and management reporting.

The work done by the internal auditor was considered in planning the audit programs.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 Water Corporation as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the South Australian Water 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 South Australian Water 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 management letters to the Chief Executive Officer and, by arrangement, copies were forwarded to the Chair of the Corporation’s Audit Committee. Responses to the management letters were considered to be satisfactory. Major matters raised with the Corporation and the related responses are considered herein.

Revenue - Customer Service Information System (CSIS)

The Customer Service Information System (CSIS) is the Corporation’s main revenue system. Its function includes the billing and recovery cycle process, the recording of customer property valuations and the application of customer rates and exemptions to charges. The system is highly automated and is characterised by on-line processing, checking and authorisation of transactions. Accordingly, there is a significant reliance on automated system controls.

Issues arising from the audit primarily related to the systems aspects of rating and billing. The issues were concerned mainly with the potential for incorrect billing to customers as a result of incorrect rating codes within the system. Similar issues have been raised with the Corporation over a number of years. Given the nature of this system and the large number of customer accounts this is an area of ongoing risk. Over the past two years the Corporation has implemented a range of checking procedures and increased training for staff. Due to the timing of implementation of some of these measures they have yet to impact on the error rate with the results of testing in 2005-06 indicating the error rate has not decreased. The full impact of the measures implemented by the Corporation should be realised in 2006-07.

Audit is of the view that the Corporation should give consideration to analysing the cause of errors to enable training to be targeted to address the main issues identified along with maintaining an increased level of additional checking to detect any incorrect billing.

In response the Corporation indicated that, noting the effect of timing, action taken would appropriately resolve the matters identified.

Payroll

The audit of the payroll function identified that improvements had been made in relation to the issue and follow up of bona fide reports, an area which had been raised with the Corporation over a number of years. This control is now operating satisfactorily.

Audit did consider, however, that there was room for improvement in the management of flexitime arrangements. In response the Corporation indicated that action would be taken to address the issue.

Contract Management – Economic Development Obligations

SA Water has a contract in place for the manufacture and supply of water meters to the Corporation. That contract has a number of economic development obligations. Audit review of the processes adopted by the Corporation to ensure that these obligations were satisfied revealed that there was room for improvement in the timeliness of SA Water's review of compliance with the contractual requirements. Audit was also of the view that some of the evidentiary requirements contained in the contract were insufficient to enable an adequate assessment of compliance to be made.

The Corporation's response indicated that action would be taken to address all of the issues identified.

Expenditure

The audit of the expenditure function revealed that controls could be improved regarding review of exception reports and modifications to the supplier masterfile. These issues have been raised with the Corporation since 2003-04, however, the remedial action taken by the Corporation has not been effective in addressing the issues.

In response the Corporation indicated that further action would be taken to improve the controls in operation.

Business Continuity and Emergency Management

In 2005-06 Audit undertook a follow up review in relation to a number of issues raised with the Corporation in 2003-04 regarding improvement to business continuity and emergency management planning. In relation to business continuity the review revealed that although a number of studies had been undertaken, the Corporation had yet to endorse a preferred approach and that little progress had been made over the two year period.

In response the Corporation advised that a firm deadline had been set for the development of a project plan to guide the implementation of its business continuity planning.

Infrastructure Assets

The audit of processes and controls in relation to the recording of infrastructure assets revealed that there was room for improvement in a number of areas in relation to the accurate and complete input of data into the Corporate Geographic Information System which is used to record details of the Corporation's water and sewer infrastructure assets.

The Corporation indicated in its response that action would be taken to address the issues raised.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

The implementation of Australian equivalents to International Financial Reporting Standards (AIFRS) occurred in 2005-06. Data for both 2005-06 and 2004-05 has been prepared using AIFRS. Earlier data has not. Note 47 to the financial statements sets out adjustments arising from the adoption of AIFRS.

Highlights of Financial Report

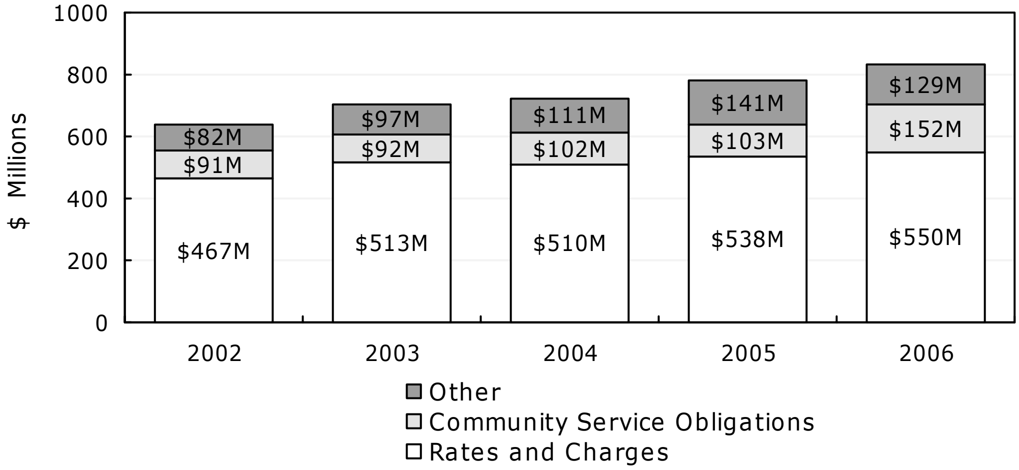
	2006 $'million	2005 $'million	Percentage Change
INCOME			
Rates and charges	**550**	538	2
Community service obligations	**152**	103	48
Other	**129**	141	(9)
Total Income	**831**	782	6
EXPENSES			
Employment expenses	**79**	73	8
Depreciation and amortisation expense	**132**	126	5
Finance cost	**84**	87	(4)
Other expenses	**209**	217	(4)
Total Expenses	**504**	503	-
Net Profit after income tax expense	**229**	196	17
Net Cash Flows from Operations	**400**	276	45
ASSETS			
Current assets	**90**	165	(45)
Non-current assets	**7 134**	6 879	4
Total Assets	**7 224**	7 044	3
LIABILITIES			
Current liabilities	**187**	174	7
Non-current liabilities	**1 852**	1 774	4
Total Liabilities	**2 039**	1 948	5
EQUITY	**5 185**	5 096	2

Income Statement

Income

Total income increased by $48.7 million to $831.2 million. The increase was due mainly to income from rates and charges (up by $11.7 million or 2 percent) and community service obligations (up $48.7 million) offset by a decrease in other income of $12 million. The increase in income from community service obligations was a result of the implementation in 2005-06 of the new Financial Ownership Framework agreed with the Department of Treasury and Finance. There has been a corresponding increase in dividends paid as discussed under the heading 'Contributions to the State Government' herein.

A structural analysis of operating revenues for the Corporation in the five years to 2006 is presented in the following chart.



Expenses

Total expenses increased by $722 000 to $504.3 million. This compares with a $48.1 million increase in 2005.

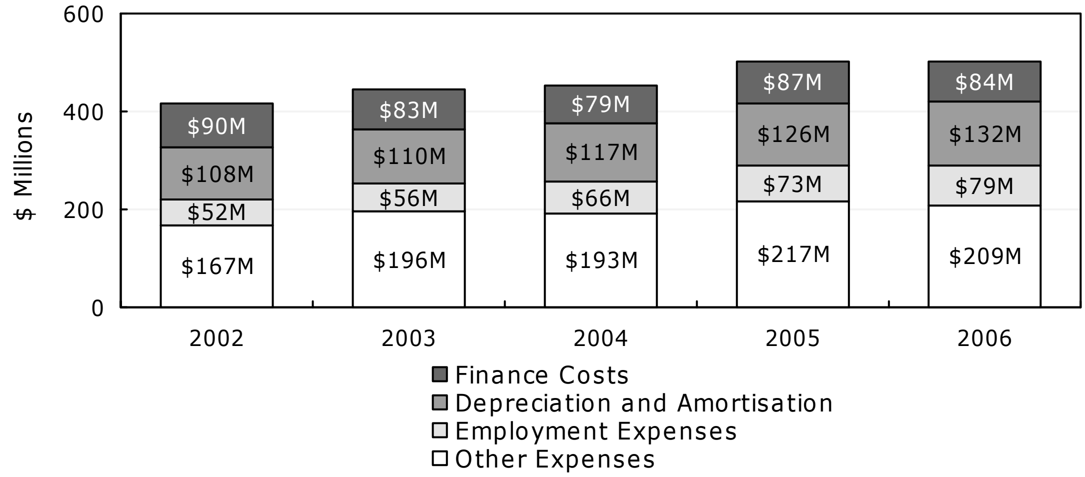
Depreciation and amortisation increased by $6.1 million to $131.8 million (26 percent of total expenses) as a result of higher asset values.

Finance costs decreased by $2.7 million in 2006. The increase in these costs since 2004, as shown in the chart below, is a result of a change in accounting policy whereby all finance costs are now expensed. Prior to 2005 some finance costs were capitalised, and as such are not directly comparable to 2005 and 2006.

Employment expenses increased by $5.2 million in 2006 due mainly to increased pay rates, lower levels of capitalisation of employment costs and higher superannuation contributions. Employment expenses have increased by $27 million over the past five years.

Other expenses decreased by $8 million primarily as a result of decreased services and supplies costs, down $9.8 million and decreased electricity expenses, down $1.2 million offset by increased expenses for operational and service contracts, up $3 million.

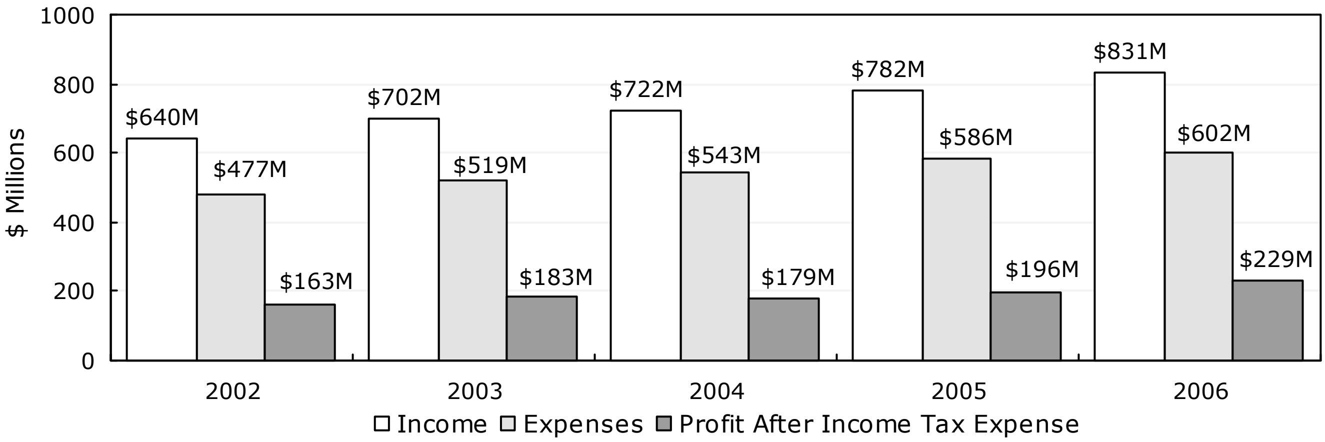
A structural analysis of the main expense items for the Corporation for the five years to 2006 is shown in the following chart.



Operating Result

The Corporation's profit has increased by $32.6 million or 16.6 percent compared with a $17 million (9.5 percent) increase the previous year. Total income and total expenses both increased in 2006, up $48.7 million and $722 000 respectively and along with an increase in income tax equivalent expenses of $15.4 million resulted in the increase in overall profit.

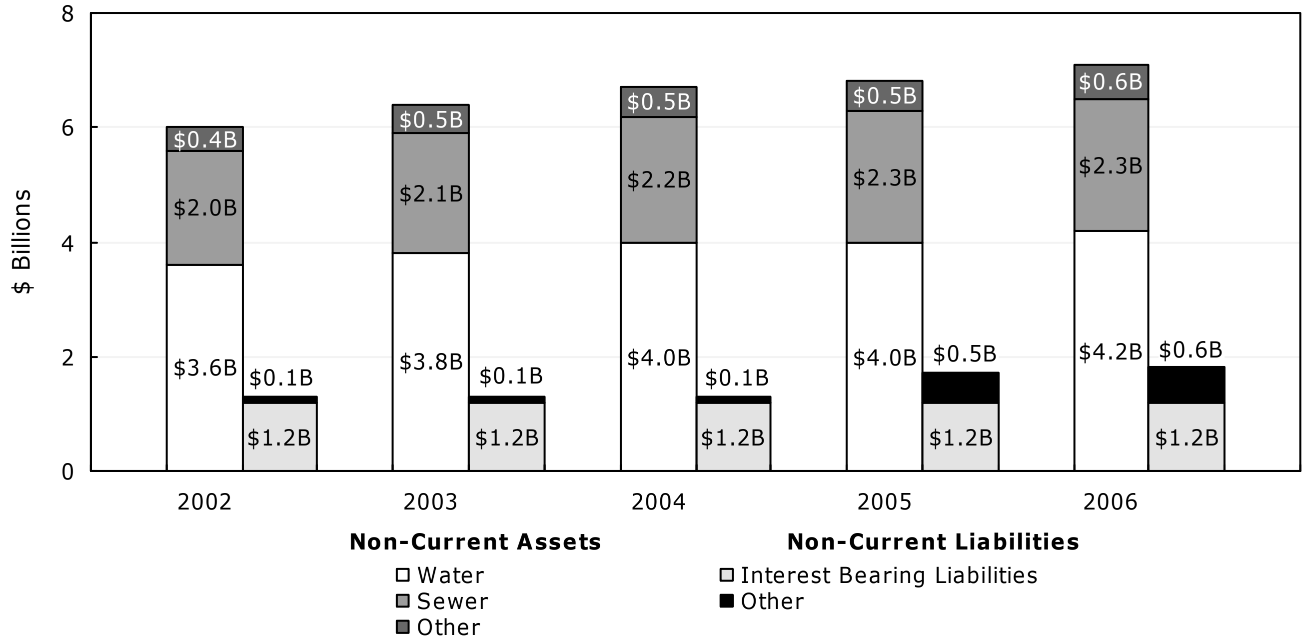
The following chart shows the income, expenses (including tax equivalent expense) and profit after income tax for the five years to 2006.



Balance Sheet

The Corporation's financial position is dominated by non-current infrastructure assets and related borrowings. Current assets and liabilities are, while significant in their own right, not material relative to the non-current assets and liabilities. Notwithstanding, at 30 June 2006 current liabilities amounted to $187 million, exceeding current assets of $90 million by $97 million. Current assets decreased by $75 million from the previous year due mainly to a decrease in receivables in relation to community service obligations of $74 million arising from the revised arrangements under the new Financial Ownership Framework. While such a large deficiency in working capital would normally be of concern, the Corporation has a strong cash flow position from operating activities which would enable all of its current liabilities to be satisfied.

A structural analysis of non-current assets and non-current liabilities for the five years to 2006, is shown in the following chart.



Non-current assets increased by $255 million (4 percent) in 2006 to $7.1 billion. Of the increase $183 million was as a result of the revaluation of water and sewer infrastructure assets and $186 million was from payments for construction and purchase of assets including $10 million for tradeable water allocations. These increases were offset by depreciation and amortisation expense of $131 million. The value of all other assets and liabilities remained relatively unchanged over the period although other non-current liabilities increased in 2005 as a result of increased deferred income tax liability arising from changed accounting requirements under AIFRS.

Cash Flow Statement

The following table summarises the net cash flows for the five years to 2006.

	2006	2005	2004	2003	2002
	$'000	$'000	$'000	$'000	$'000
Net Cash Flows					
Operations	**400 436**	276 844	272 371	266 890	254 896
Investing	**(105 893)**	(114 613)	(184 293)	(123 253)	(91 209)
Financing	**(290 455)**	(162 689)	(88 310)	(143 462)	(163 205)
Change in Cash	**4 088**	(458)	(232)	175	482
Cash at 30 June	**2 109**	**(1 979)	*906	1 148	973

* Cash held previously included amounts relating to the Administered Item Pensioner Concessions which has no longer been included in the cash balance due to a change in accounting policy. Balances of cash held for this item for previous years have not been adjusted.

** Cash held previously included amounts relating to the Administered Items United Water Compensation Payments and the Cooperative Research Centre which has no longer been included in the cash balance due to a change in accounting policy. Balances of cash held for these items for previous years have not been adjusted.

The analysis of cash flows shows that net cash from operations has been steadily growing over the period under review with a large increase in 2006 resulting from the increase in cash received for community service obligations (up $121 million) as a result of the revised ownership and funding arrangements agreed with the Department of Treasury and Finance.

The Corporation continues to invest in its infrastructure, plant and equipment assets as can be seen by the cash outflows on investing activities. Although the amount invested in 2006 decreased by $9 million, net outlays over the five year period totalled $619.3 million.

Cash flows used in financing activities primarily reflect the payment of dividends to Government, the outcome of borrowing activities and the repayment of capital. In 2006 these payments totalled $290.5 million, an increase of $127.8 million over the previous year. In 2006 the dividends paid to the Government were $217.5 million ($165.2 million) and there was a $74.3 million repayment of capital. The repayment of capital was part of an arrangement upon implementation of the new Financial Ownership Framework whereby the amount of outstanding community service obligations as at 30 June 2005 was received by the Corporation from the government and then repaid as a repayment of capital.

FURTHER COMMENTARY ON OPERATIONS

Performance Charter

As a public corporation SA Water is bound by a Charter and is also required to meet a range of financial performance targets set out in an annual Performance Statement, as agreed to between the Corporation, the Minister for Administrative Services and the Treasurer. The Performance Statement defines the contribution to the Government in terms of dividends, repayment of capital, income tax equivalents and other taxes and rates.

Two key financial performance measures agreed to in the Performance Statement are set out in the following table:

Performance measure	Target 2005-06	Actual Result 2005-06
Profit after tax ($m)	**214.2**	**228.9**
Rate of return on assets (percent) [1]	**5.3**	**5.6**

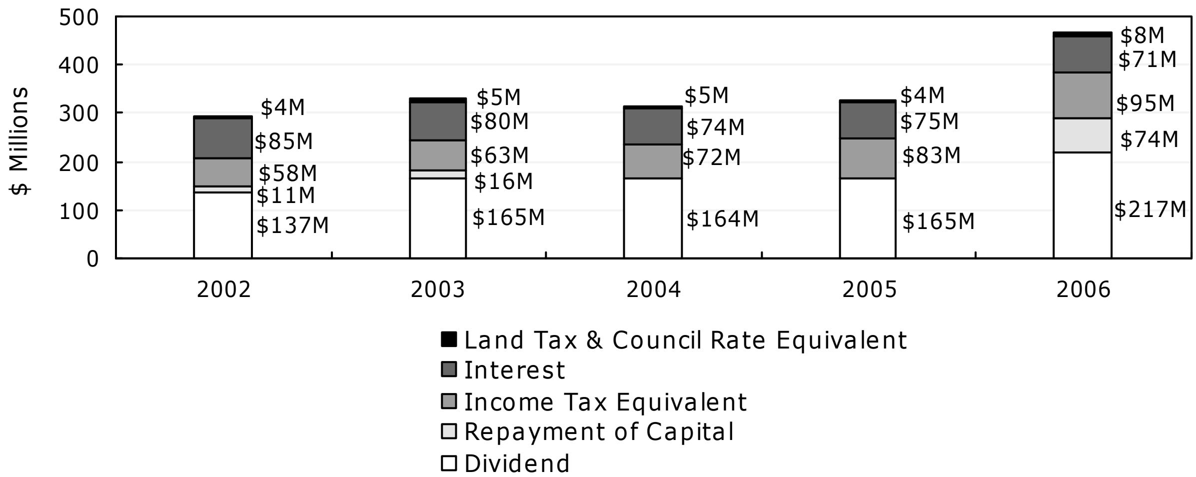
(1) Earnings before interest, tax and dividend divided by the total infrastructure assets (excluding plant and equipment).

The Corporation has achieved better than the targets agreed to in the Performance Charter for the year.

Contributions to the State Government

Effectively, the Government fulfils a number of key roles in relation to the Corporation including: price setter; taxer; banker; shareholder and owner; and regulator. In each of these roles it can influence the financial performance of the Corporation which impacts on the amount of funding it provides to, or receives from, the Corporation.

A structural analysis of the amounts actually paid to the Government for the five years to 2006 is shown in the following chart.



In 2005-06 the new Financial Ownership Framework developed by the Department of Treasury and Finance for Public Non-Financial Corporations was implemented. The main features of the new framework are:

- debt to total assets ratio range of 15-25 percent for the next four to five years;
- target gearing ratio of 20 percent;
- dividend payout ratio of 95 percent based on after tax profit;
- a revised Community Service Obligation Agreement.

As a result of these new arrangements total cash paid to the Government which comprised a dividend payment, return of capital, tax equivalent payments and interest payments increased by $139.1 million to $465.6 million. The increase was due primarily to the improved operating result of the Corporation, largely due to higher community service obligation revenue, which resulted in an increase in dividends (up $52.3 million) and income tax equivalent payments (up $12.8 million) together with a repayment of capital of $74.3 million (no repayment in 2005).

The following table summarises movements in the major items influencing borrowings and the debt to asset (gearing) ratio.

	2006	2005	2004	2003	2002
	$'000	$'000	$'000	$'000	$'000
Net cash inflows from operating activities	**400 436**	276 844	272 371	266 890	254 896
Net cash outflows from investing activities	**(105 893)**	(114 613)	(184 293)	(123 253)	(91 209)
Surplus cash from operations after investing activities	**294 543**	162 231	88 078	143 637	163 687
Repayments to owners	**(291 795)**	(165 189)	(164 110)	(180 845)	(148 175)
Shortfall in funds available to pay owners	**(2 748)**	2 958	76 032	37 208	(15 512)
Net increase in borrowings	**1 340**	2 500	75 800	37 383	(15 030)
Debt/Asset Ratio (percent)	**18.1**	18.4	19.0	18.7	19.2

For three of the last five years net cash generated from operating activities was sufficient to cover the net cash used in investing activities (ie essentially the purchase of property plant and equipment and latterly the purchase of water allocations), but insufficient to enable the payment of the level of dividend and return of capital required by the Department of Treasury and Finance.

In 2006 the surplus cash from operations was sufficient to fund the repayments to owners but it is notable that the level of cash used in investing activities was down from the previous year and at its lowest level for the past four years. In previous years where the level of investing activities was higher, the Corporation increased borrowings in order to maintain this level of investment as well as make its payments to the Government. This is particularly evident in 2004 as shown in the table above.

Although the level of repayments to the Government in 2006 was high, due to the $74 million repayment of capital (which was an isolated payment as a result of changed funding arrangements), for the Corporation to maintain or increase the level of capital expenditure it will have to increase its level of borrowings. Put simply the Corporation's ability to generate cash from its operations is not sufficient to fund its payment commitments to the Government and maintain its current level of capital works.

Notwithstanding, as shown in the table, the debt/asset ratio remains below the target of 20 percent in the new Financial Ownership Framework.

Income Statement
for the year ended 30 June 2006

	Note	**2006** **$'000**	2005 $'000
INCOME			
Revenue from ordinary activities	5	**828 109**	781 635
Other income	6	**3 123**	868
Total Income		**831 232**	782 503
EXPENSES			
Depreciation and amortisation expense	7	**131 804**	125 680
Finance costs	7	**84 611**	87 273
Electricity expense		**26 587**	27 780
Services and supplies		**92 193**	101 952
Operational and service contracts		**90 495**	87 499
Salaries and employee benefits expense		**78 641**	73 425
Total Expenses		**504 331**	503 609
PROFIT BEFORE INCOME TAX		**326 901**	278 894
Income tax expense	8	**(97 973)**	(82 597)
NET PROFIT AFTER INCOME TAX		**228 928**	196 297

NET PROFIT AFTER INCOME TAX IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

Balance Sheet
as at 30 June 2006

	Note	2006	2005
CURRENT ASSETS:		**$'000**	$'000
Cash and cash equivalents	30	**2 109**	-
Receivables	10	**82 178**	160 235
Inventories	11	**3 873**	4 180
Other current assets	12	**2 335**	1 141
Total Current Assets		**90 495**	165 556
NON-CURRENT ASSETS:			
Other financial assets	13	**7 378**	6 831
Deferred tax assets	14	**18 469**	16 962
Intangible assets	15	**25 037**	29 819
Infrastructure, plant and equipment	16	**7 081 431**	6 822 217
Other non-current assets	17	**1 649**	2 859
Total Non-Current Assets		**7 133 964**	6 878 688
Total Assets		**7 224 459**	7 044 244
CURRENT LIABILITIES:			
Payables	19	**70 611**	66 437
Interest-bearing liabilities	20	**65 789**	65 995
Current tax liabilities	21	**38 656**	31 707
Provisions	22	**10 361**	9 016
Other current liabilities	23	**1 381**	1 255
Total Current Liabilities		**186 798**	174 410
NON-CURRENT LIABILITIES:			
Payables	24	**1 417**	1 222
Interest-bearing liabilities	25	**1 243 735**	1 228 521
Derivative financial instruments	26	**6 844**	-
Deferred tax liabilities	27	**573 553**	522 488
Provisions	28	**26 151**	20 909
Other non-current liabilities	29	**497**	497
Total Non-Current Liabilities		**1 852 197**	1 773 637
Total Liabilities		**2 038 995**	1 948 047
NET ASSETS		**5 185 464**	5 096 197
EQUITY:			
Contributed equity	32	**173 610**	247 950
Reserves	33(a)	**4 866 103**	4 707 809
Retained profits	33(b)	**145 751**	140 438
TOTAL EQUITY		**5 185 464**	5 096 197

THE TOTAL EQUITY IS ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER

Commitments	34
Contingent liabilities and assets	37

Statement of Changes in Equity
for the year ended 30 June 2006

	Note	**2006**	2005
		$'000	$'000
Total equity at 1 July		**5 096 197**	4 924 869
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:			
Retained profits	33(b)	**(6 259)**	-
Restated Total Equity at 1 July		**5 089 938**	4 924 869
Movements in deferred tax liability	33(a)	**(56 646)**	(40 055)
Infrastructure, plant and equipment write down	33(a)	**88**	-
Revaluation increment on infrastructure, plant and equipment assets	33(a)	**214 951**	170 275
Net income and expense recognised directly in equity		**158 393**	130 220
Profit after income tax for the year		**228 928**	196 297
Total recognised income and expense for the year		**387 321**	326 517
Dividends provided for or paid	40	**(217 455)**	(155 189)
Repayment of capital	32	**(74 340)**	-
		(291 795)	(155 189)
Total Equity at 30 June		**5 185 464**	5 096 197

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

	Note	**2006 Inflows (Outflows) $'000**	2005 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**645 350**	626 111
Payments to suppliers and employees		**(309 315)**	(307 838)
Receipts from Community Service Obligation funding		**225 720**	104 800
Receipts from contributions		**25 101**	25 456
Interest received		**165**	59
Finance costs		**(91 156)**	(89 106)
Income taxes paid	21	**(95 429)**	(82 638)
Net Cash Inflow from Operating Activities	31	**400 436**	276 844
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for construction and purchase of infrastructure, plant and equipment		**(112 883)**	(104 793)
Payments for intangible assets		**(11 402)**	(11 163)
Proceeds from sale of intangible assets		**15 309**	-
Proceeds from disposal of infrastructure, plant and equipment		**3 083**	1 343
Net Cash Outflow from Investing Activities		**(105 893)**	(114 613)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		**568 340**	484 500
Repayment of borrowings		**(567 000)**	(482 000)
Repayment of capital	32	**(74 340)**	-
Dividends paid	40	**(217 455)**	(165 189)
Net Cash Outflow from Financing Activities		**(290 455)**	(162 689)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**4 088**	(458)
CASH AND CASH EQUIVALENTS AT 1 JULY		**(1 979)**	(1 521)
CASH AND CASH EQUIVALENTS AT 30 JUNE	30	**2 109**	(1 979)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The South Australian Water Corporation (SA Water or the Corporation) was incorporated on 1 July 1995, as a state owned statutory Corporation pursuant to the *South Australian Water Corporation Act 1994*, to which the provisions of the *Public Corporations Act 1993* apply. Property, rights, powers and liabilities of the Minister for Government Enterprises, arising from the operation of the *Sewerage Act 192*9 and the *Waterworks Act 1932*, were vested in the Corporation, with the exception of certain assets, mainly in relation to the operation of the *Irrigation Act 1994.*

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the Treasurer's Instructions and Accounting Policy Frameworks issued pursuant to the *Public Finance and Audit Act 1987*.

Statement of Compliance

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and Notes comply with International Financial Reporting Standards (IFRS).

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards
These financial statements are the first SA Water financial statements to be prepared in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of SA Water until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing SA Water's financial statements for the year ended 30 June 2006, management has amended certain accounting and valuation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Corporation has applied the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Corporation's equity and its net income are given in Note 47.

Historical Cost Convention
The financial report has been prepared in accordance with the historical cost convention, except for infrastructure, land, buildings and other non-current financial assets and liabilities which are stated using fair value as detailed in the relevant Notes.

Critical Accounting Estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(b) Changes in Accounting Policies
Water Sales
The Corporation now recognises water sales revenue as it is consumed by the customer. Previously only amounts billed were brought to account. This change in measurement basis is a voluntary change in accounting policy whereby revenue derived from estimates of customer water consumption which has not yet been billed has now been brought to account in the Income Statement. The change in accounting policy provides more relevant and reliable information about the effects of transactions on the financial position and performance of the Corporation.

As a result of this change in accounting policy, the following adjustments have been made to the Corporation's financial statements as at 1 July 2004:

- $21.5 million after tax increase to opening retained earnings and a $30.7 million increase in rates receivable.

As a result of this change in accounting policy, the following adjustments have been made to the Corporation's financial statements as at 30 June 2005:

- $7.7 million increase to rates and charges revenue and a $7.7 million increase in rates receivable.

As a result of this change in accounting policy, revenue from water sales decreased by $5.1 million for the current financial year ending 30 June 2006.

Note 2 shows the information that would have been disclosed had the revised accounting policy always been applied.

Administered Items
The Corporation provides accounting services to the Cooperative Research Centre for Water Quality and Treatment (CRC) by administering the collection and transfer of their funds. The Corporation has commenced recognising this activity as an administered item for the 2005-06 year. Refer to Note 1(v). The 2004-05 financial statements have also been restated to reflect this change. The adjustment resulted in a $1.2 million increase to bank overdraft of the Corporation and a $1.2 million decrease in payables.

(c) Jointly Controlled Operations
The joint venture operation is jointly controlled by the Corporation. The Corporation's interest in the joint venture operation is brought to account by including its proportionate share of the joint venture assets, liabilities, expenses and revenues on a line by line basis. For disclosure of the Corporation's interest in the joint venture operation see Note 35.

(d) Revenue Recognition
Rates and Charges
Revenue from water usage is based on water consumption recorded in unread meters as at 30 June. Other rates and charges are based on amounts billed within the period ended 30 June.

Community Service Obligations (CSOs)
The Corporation is required under its charter to provide a number of non-commercial services to the community on behalf of the Government. SA Water is compensated for the non-commercial component of these services through CSO payments from the Government. The main CSOs relate to under recovery of country water and wastewater services and the provision of water and wastewater concessions to certain properties eg charities, churches and public schools.

The CSO revenue is recognised as the services are provided.

Contributed Assets
Contributed assets principally arise from:

(i) consumers who make a contribution where a service or connection has been requested which requires construction of a new main; and

(ii) subdividers who make contributions where either:

a) water and sewerage infrastructures are constructed by the subdivider within yet to be completed subdivisions. The contribution recognised is equivalent to the Corporation's estimated cost of construction; or

b) the Corporation constructs the infrastructure at the subdivider's request.

Contributed assets and contributions to assist in the construction of assets are recognised as revenue at the fair value of the asset received when the Corporation gains control of the asset.

Sale of Non-Current Assets
The gain or loss on disposal of non-current asset sales are included as income at the date control of the asset 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 the disposal and net proceeds from the sale.

Recoverable Works
Revenue derived from the provision of services to external parties is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured.

(e) Non-Current Assets

(i) Infrastructure, Plant and Equipment

- *Acquisition*

  Items of infrastructure, plant and equipment are initially recorded at cost in accordance with AASB 116 *Property, Plant and Equipment*, and are depreciated as outlined below. Assets acquired under Build Own Operate Transfer (BOOT) Agreements are brought to account when commissioned and accounted for as outlined in Note 1(g).

  Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

- *Valuations*

  To comply with Accounting Policy Framework (APF) III *Asset Accounting Framework* and AASB 116, the Corporation has adopted the fair value method for measuring and reporting land and buildings and infrastructure assets in the Balance Sheet.

  To reflect the change in values, the Corporation annually revalues its non-current assets at Directors' valuation or independent valuation, with effect from 1 July each year. The Directors' valuation is performed using the Producer Price Index (PPI). This index replaces the General Cost Index previously used by the Corporation. The PPI measures changes over time in the price of new construction outputs. The index represents new construction of any kind and is closely aligned to the GCI. The component prices are as close as possible to a market price and reflect not only labour, material and plant input costs, but also subcontractor's margin. Prices exclude GST, land value and any subsidies.

  Additionally, the Corporation's valuation methodologies for all major classes of infrastructure assets are subject to a triennial review by Hunter Water Corporation Pty Ltd. The most recent independent review was completed in November 2004. The review concluded that there was, in general, a good correlation between the two organisations in terms of the methodology used and the modern equivalent replacement asset types adopted.

  Accordingly the Corporation has adopted the following asset valuations methods:

(i) Infrastructure Assets
The fair value of an asset is determined by its written-down current cost. The Corporation determines written-down current cost as the lower of reproduction or replacement cost. The cost of replacing or reproducing excess capacity or over engineering of the asset is excluded.

a) Water mains, water services, water meters, sewer mains, sewer connections - Directors' valuations are predominantly based on current contract rates. These rates are applied to the actual lengths of predefined modern equivalent asset types for water mains and sewer mains.

b) Other infrastructure assets - Directors' valuations based on the current construction cost data. These assets are indexed in between comprehensive valuations using the PPI. No independent valuations were conducted for the year ended 30 June 2006.

(ii) Land and Buildings
Land is brought to account at market value using valuations provided from the State Valuer-General.

Buildings were indexed by the PPI for the year ended 30 June 2006.

(iii) Plant and Equipment
Plant and equipment is brought to account at historical cost.

(iv) Other Assets
Other assets are brought to account at cost and indexed annually using the PPI.

- *Depreciation*
Infrastructure, buildings, plant and equipment and other assets are depreciated using the straight line method over their estimated useful lives ranging from 5 to 160 years. The useful lives of assets are reviewed annually and have been assessed as follows:

	2006	2005
	Years	Years
Water and sewer assets	**7-160**	7-160
Water and sewer leased assets	**40-50**	40-50
Buildings	**50**	50
Other	**5-50**	5-50
Plant and equipment	**5-15**	5-15

The method of depreciation has regard to the underlying nature of the assets and their expected use in operations of the Corporation. Work in progress is not depreciated until assets are completed and have been commissioned for operation.

(ii) Other Financial Assets
The Corporation's investment in non-voting class B shares as part of the BOOT arrangements for the Virginia Pipeline Scheme have been measured at fair value, in accordance with AASB 139 (refer Note 13). Due to the nexus between the class B shares and the pipeline assets, the value of the shares has been determined using the fair value of the pipeline assets in 2018 discounted to their net present value. Movement in fair value gains is credited to the Income Statement.

(iii) Intangibles

- *Water Allocations*
The Corporation has purchased a series of tradeable water allocations. The allocations are accumulated onto a single licence issued by the South Australian Government.

Water allocations are measured at cost on the date of acquisition. The water allocations have an indefinite useful life and as such, are not subject to amortisation.

- *Issued Water Licences*
The Corporation has considered the valuation of water licences which have been issued to SA Water by the South Australian Government, under the *Natural Resources Management (NRM) Act 2004*. In applying AASB 138 *Intangible Assets*, the Corporation has concluded that a reliable estimate of the fair value of these water licences is unable to be determined at this time. The details of these water licences are as follows:

— Licence 2333 River Murray Licence for Metropolitan Adelaide.
— Licence 2334 River Murray Licence for Country Adelaide.
— Various other River Murray licences that can be used for Adelaide, Country or other purposes.
— Various South East Region licences.
— Various Murray Mallee Area licences.
— Various Eyre Peninsula Region licences.
— Licence 4484 McLaren Vale Licence for the Aldinga Wastewater Treatment Plant.
— Licence 5706 Northern Adelaide Plains Licence for the Bolivar Wastewater Treatment Plant.

- *Application Software*
  The Corporation reclassified its application software from infrastructure, plant and equipment to intangible assets per AASB 138. Application software is measured at cost. The useful life is reviewed annually and has been assessed at seven years. The software is amortised using the straight line method.

(iv) *Preliminary Investigations*
Preliminary investigations relates to expenditure incurred to assess the performance and potential improvement of infrastructure assets, as well as options for broadening services to customers. Where the expenditure leads to new or improved infrastructure assets, the costs are transferred to infrastructure assets. Preliminary investigation expenditure is reviewed annually to ensure the accuracy of classification as either capital or operating in nature.

(f) Impairment of Assets

All non-current tangible and intangible assets are reviewed for indications of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. SA Water's current accounting policy is to determine the recoverable amount of an asset on the basis of discounted cash flows under the assumption of consisting of two cash generating units. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss. For revalued assets any impairment loss is offset against the asset revaluation reserve.

The Corporation has reviewed the impairment triggers as at 30 June 2006 and given no indication of a trigger event, no impairment losses have been identified.

(g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases
Minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are recognised as an expense in the Income Statement. Payments are made in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Finance Leases
Leases for infrastructure assets, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are assumed by the Corporation, are classified as finance leases. Finance leases are capitalised and depreciated over the useful life of the asset in accordance with AASB 117 *Leases* and the Corporation obtains ownership of the asset at the end of the lease term.

The Corporation has entered into BOOT agreements for a number of infrastructure facilities. These BOOT agreements include the requirement for an ongoing availability tariff, as escalated over time by certain indices, for the term of the agreement.

BOOT agreements have been classified as finance leases, with a lease asset and lease liability being recognised upon commissioning of the underlying asset. The lease asset is brought to account at the fair value of the underlying assets constructed. The equivalent liability is recognised at the present value of the future availability charges. These have been determined at the inception of the lease and do not take account of any future estimated escalation.

Variation between the availability charges determined at the inception of the lease and the actual availability charges are brought to account as contingent rentals in accordance with AASB 117. Availability charges are allocated between interest expense and a reduction in the lease liability, with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Income Statement.

(h) Expenditure on Behalf of State Government

Certain expenditure is incurred from time to time which is considered to be outside the normal course of the Corporation's business and for which no recovery is made or reimbursement received. These payments are made on behalf of the South Australian Government and are disclosed in Note 7.

(i) Taxes

Taxation Equivalents
The Corporation is subject to the payment of income tax equivalents, land tax equivalents and council rate equivalents. From 1 July 2001, the Corporation has operated under the National Tax Equivalent Regime (NTER) pursuant to the Memorandum of Understanding on NTER between the Commonwealth of Australia, the Commissioner of Taxation and all of the States and Territories. The NTER is administered by the Australian Taxation Office.

Taxation Equivalents (continued)
Income tax expense is calculated in accordance with AASB 112 *Income Taxes* using the balance sheet liability method. The income tax expense for the period is the tax payable on the current period's taxable income measured at the current national income tax rate adjusted for permanent differences and movements in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects at, the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled. Current and deferred tax is recognised as an expense in the Income Statement except where it relates to items that are credited or debited to equity, in which case the deferred tax is also recognised directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The charge for land tax and council rate equivalents has been calculated by RevenueSA - Department of Treasury and Finance, based on valuations supplied by the Valuer-General.

Goods and Services Tax
Income, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as a cost of acquisition of the asset or as an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the ATO is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing activities, which is recoverable from or payable to the ATO, is classified as an operating cash flow.

(j) Finance Costs
Finance costs include interest, amortisation of discounts or premiums relating to borrowings and finance lease charges. Finance costs are expensed as incurred.

(k) Cash and Cash Equivalents
Cash on hand and at bank is stated at nominal value. For the purposes of the Cash Flow Statement, cash includes cash on hand and at bank and bank overdraft.

(l) Receivables
Receivables for rates and charges are normally settled within 21 days, with sundry debtors settled within 30 days. These are recognised in the accounts at amounts due. A provision for doubtful debts is established based on a review of outstanding amounts at balance date.

Bad debts are written off when they are identified.

(m) Inventories
Inventory is valued on a weighted average cost basis. Costs have been assigned to inventory manufactured by the Corporation, including work in progress, on a full absorption cost basis. Inventories are valued at the lower of cost and net realisable value.

Inventories are held for purposes of maintenance and construction and not for resale.

(n) Employee Benefits
Wages and Salaries, Annual Leave and Sick Leave
Liabilities for wages, salaries and annual leave are measured and recognised at undiscounted amounts based on remuneration rates that the Corporation expects to pay when the liability is settled. The related on-costs for annual leave have been recognised in the Balance Sheet as payables.

No provision is made for sick leave as entitlements do not vest and it is considered that sick leave is taken from the current year's accrual.

Long Service Leave
Liabilities arising in respect of long service leave expected to be settled within 12 months of balance date are measured at their nominal rates. All other long service leave entitlements are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to anticipated future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on negotiable government guaranteed securities with terms of maturity that match, as closely as possible, the estimated future cash flows. The related on-costs have been recognised in the Balance Sheet as payables.

The Corporation's long service leave liability is valued by Mr C Papanicolas BSc, (Ma) (Hons), ASIA, FIAA of Professional Financial Consulting Pty Ltd.

Superannuation
Contributions are made by the Corporation 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 superannuation schemes. The only liability outstanding at balance date relates to any contribution due but not yet paid to the superannuation schemes.

(o) Workers Compensation
The Corporation is registered with WorkCover as an exempt employer and is responsible for payment of workers compensation claims. The Corporation establishes a provision for any claims arising under the *Workers Rehabilitation and Compensation Act 1986* and the repealed *Workers Compensation Act 1971* outstanding at year end. The Corporation's outstanding claims liability is valued by Mr L Brett BSc FIA, FIAA of Brett & Watson Pty Ltd.

(p) Insurance
The South Australian Government Captive Insurance Corporation (SAICORP) has assumed responsibility and liability for, and will indemnify SA Water against, damage suffered to the Corporation's property or claims made against the Corporation and/or the South Australian Government. In addition, insurance arrangements are in place for construction works, travel insurance and Directors' and Officers' liability.

Workers compensation risks for which the Corporation is responsible are excluded from these arrangements.

(q) Payables
Liabilities, whether or not billed to the Corporation, are recognised at amounts to be paid in the future for goods and services received, including any related GST. Trade accounts payable are normally settled within 30 days.

Dividends payable are recognised in the reporting period in which the dividends are declared or have been specifically determined and approved in consultation with the Treasurer and the Corporation's Minister.

(r) Provisions
Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of a past event which is required to be settled and the amount has been reliably estimated.

Where the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation using interest rates on negotiable government guaranteed securities with terms of maturity that match, as closely as possible, the estimated future cash flows.

Removal of Bio-Solids
A provision is recognised for the disposal and management of a prior accumulation of bio-solid products resulting from the operation of the Bolivar Waste Water Treatment Plant.

The Corporation has a present obligation under the *Environmental Protection Act 1993* (EPA) to ensure no harm is caused to the environment. The removal of bio-solids is administered in accordance with the 1996 Bio-solids Guidelines issued by the EPA.

Estimated future cash flows are based on the processing and administration costs associated with the preparation and loading of bio-solids from the stockpile for disposal offsite. These costs have been determined based on current costs, current legal requirements and current technology.

Significant uncertainties exist as to the amount and timing of expected future obligations required to settle the obligation due to the uncertainty as to the quantity of bio-solids expected to be disposed off site and the impact of changes in environmental legislation and technology.

Damages and Claims
A provision is recognised for claims against the Corporation relating to property damage, personal injury and civil liability.

The amounts measured and recorded for claims are based on estimates of specified claims and the probability that the Corporation will be required to settle the obligation. Previous claims history and Crown Law advice are used in the determination of the liability.

Asset Disposal and Decommissioning
A provision for the disposal and abandonment of assets is recognised when there is a present obligation to undertake further work to decommission surplus assets and ensure they are safe to the public and do not cause harm to the environment.

The estimated costs of decommissioning non-current assets are based on past experience and current market prices.

(s) Interest Bearing Liabilities

All loans are measured at the principal amount. Short-term borrowings are carried in the Balance Sheet at their face value and long-term borrowings are valued at their historical yield. Interest expense is accrued at contract rates on a daily basis and include costs incurred in restructuring borrowings.

SA Water's interest bearing liabilities are categorised as 'held to maturity' under AASB 139. The Corporation's debt has a fixed or determinable payment stream. This means that it has a fixed maturity and is held with the intent to hold until the maturity date.

The Government provides a guarantee in respect of these borrowings pursuant to the provisions of the *Public Finance and Audit Act 1987*.

(t) Derivatives

From 1 July 2004 to 30 June 2005

The Corporation has exercised the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Corporation has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives are accounted for under previous AGAAP.

- *Interest Rate Swaps*
  Interest payments and receipts under interest rate swaps were previously recognised on an accrual basis in the Income Statement as an adjustment to interest expense. Gains or losses on early termination of the swap transaction were recognised immediately as an adjustment to interest expense in the Income Statement. Only if the swap transaction was designated specifically to an underlying line of debt were gains or losses on early termination deferred and amortised over the life of the debt.

- *Forward Rate Agreements*
  Any realised gains or losses on forward rate agreements were previously recognised immediately in the Income Statement as an adjustment to interest expense during the period in which the settlement occurred. Only if the agreement was designated specifically to an underlying line of debt were gains or losses deferred and amortised over the life of the debt.

- *Interest Rate Futures Contracts*
  Interest rate futures contracts are purchased to hedge interest rate exposures. Any gains or losses arising were immediately recognised as an adjustment to interest expense in the Income Statement. Only if futures contracts were designated specifically to an underlying line of debt were gains or losses deferred and amortised over the life of the debt.

Adjustments on Transition Date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are taken to the Income Statement (refer below). At the date of transition (1 July 2005) changes in the carrying amounts of derivatives are taken to retained earnings.

- Derivative financial instruments - Note 26
- Retained profits - Note 33

From 1 July 2005

The Corporation's Treasury Risk Management Policies provides a prudential framework for the management of the Corporation's financial risks including interest rate risk, foreign exchange price risk and commodity price risk.

Within the parameters of the Corporation's Permitted Treasury Instruments Policy, SA Water utilises derivative financial instruments to implement appropriate debt management strategies. Of the derivative types, interest rate swaps are the most commonly used however forward rate agreements have been transacted where deemed appropriate.

Under the requirements of AASB 139, market movements of derivative values must be captured as an unrealised gain or loss in the Income Statement.

All derivatives are categorised as 'held for trading' under AASB 139. All policy benchmarks and discretionary limits relating to the management of SA Water's debt are met by transacting in derivative products only. The Corporation does not trade physical debt other than as necessary to rebalance the portfolio to the debt benchmark. This is necessary to facilitate the Corporation's election to account for debt at historical accounting cost under AASB 139.

- *Interest Rate Swaps*
  Interest payments and receipts under interest rate swaps are recognised on an accrual basis in the Income Statement as an adjustment to interest expense. Gains or losses on early termination of the swap transaction will be recognised immediately as an adjustment to interest expense in the Income Statement. Only if the swap transaction is designated specifically to an underlying line of debt will gains or losses on early termination be deferred and amortised over the life of the debt.

- *Forward Rate Agreements*
  Any realised gains or losses on forward rate agreements are recognised immediately in the Income Statement as an adjustment to interest expense during the period in which settlement occurs. Only if the agreement is designated specifically to an underlying line of debt will gains or losses be deferred and amortised over the life of the debt.

Derivative financial instruments are not held for speculative purposes.

(u) Segment Reporting

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities mainly comprise tax assets, interest bearing liabilities, tax liabilities and corporate assets and liabilities that cannot be allocated to segments on a reasonable basis.

Segment capital expenditure is the total cost recognised during the period to acquire and construct segment assets that are expected to be used for more than one annual reporting period.

(v) Administered Items

The following administered items are not recognised in the Corporation's Income Statement, Balance Sheet and Cash Flow Statement, but are separately disclosed in Note 45 as administered items.

River Murray Levy
During the reporting period the Corporation was responsible for administering the Save the River Murray Levy. The River Murray Levy billed and collected on behalf of Government is not controlled by the Corporation.

Pensioner Concessions
SA Water is responsible for the administration of Local Government pensioner concession payments. An amount is received from SA Government which is used to make payments to Local Government Councils. The amount collected on behalf of Government is not controlled by the Corporation.

Cooperative Research Centre (CRC)
The Cooperative Research Centre was formed on 14 June 1995, as an Unincorporated Joint Initiative between 17 participants including SA Water to conduct research and education programs on the quality of water for urban communities in Australia. SA Water provides accounting services to the CRC by administering the collection of funds and payment of accounts. The Corporation does not have discretionary control over CRC funds.

United Water Payments
During the year, the State Government consented to a change in the ownership of United Water International (United Water). As part of the change in ownership negotiation, United Water agreed to make payments to the Government (through SA Water) in settlement of United Water being released from a condition of the contract to relocate Thames Water Asia Pacific to South Australia and a requirement for Australianisation. The United Water contract requires these payments be made to the Minister for Administrative Services. SA Water receives these payments which are then forwarded to the Department of Treasury and Finance.

2. Change in Accounting Policies

(a) Water Sales

	2006	2005
	$'000	$'000
Restatement of the Income Statement		
Profit before the recognition of unbilled water sales and income tax expense	**331 970**	271 199
(Decrease) Increase in rates and charges revenue	**(5 069)**	7 695
Restated Profit before Income Tax Expense	**326 901**	278 894
Income tax expense before the tax effect of unbilled water sales revenue	**(97 973)**	(80 288)
Decrease to current income tax expense	**4 322**	-
(Increase) to deferred income tax expense	**(4 322)**	(2 309)
Restated Income Tax Expense	**(97 973)**	(82 597)
Restated Profit after Income Tax	**228 928**	196 297
Restatement of the Balance Sheet		
Rates receivable before unbilled water sales	**20 165**	19 609
Increase in rates receivable	**33 374**	38 443
Restated Rates Receivable	**53 539**	58 052
Restated deferred tax liability	**7 211**	11 533
Restated current tax liability	**4 322**	-
Retained profits before the recognition of unbilled water sales and income tax expense	**150 820**	135 052
(Decrease) Increase in retained profits	**(5 069)**	5 386
Restated Retained Profits	**145 751**	140 438

(b) Administered Items

The Corporation provides accounting services to the Cooperative Research Centre (CRC) by administering the collection and payment of their accounts. The Corporation has commenced recognising this activity as an administered item for the 2005-06 year. Refer to Note 1(v). The 2004-05 financial statements have also been restated to reflect this change. The adjustment resulted in a $1.2 million increase to bank overdraft of the Corporation and a $1.2 million decrease in payables.

3. Financial Risk Management

The Corporation closely monitors its financial risks and has appropriate risk management policies and practices in place which are approved by the Board. The Corporation has non-interest bearing assets including cash on hand and receivables as well as liabilities including payables and borrowings from the SA Government Financing Authority (SAFA).

The Corporation's exposure to foreign exchange and commodity price risk and cash flow interest risk is minimal. SAFA is exposed to price risk for changes in interest rates that relate to long-term debt obligations. Interest rate swaps have been used to mitigate against this risk.

(a) Credit Risk

The Corporation has no significant concentration of credit risk. The Corporation has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history. Derivative transactions and debt management activities are undertaken by SAFA on behalf of the Corporation. SAFA ensures that such transactions are undertaken with financial institutions of high credit quality.

(b) Liquidity Risk

The Corporation has in place a Liquidity Risk Management Policy to provide a prudential framework for managing liquidity risk. The policy requires SA Water to hold in cash or committed facilities a minimum of six months of projected cash requirements at any time. This enables SA Water to be in a position to meet the forecast cash demands and any unanticipated funding requirements. Liquidity levels are reported monthly to the Board.

The Current Ratio (CUR) is an indicator of the Corporation’s ability to meet short term obligations. While the CUR for 2006 of 0.5 indicates a weaker position, this ratio is based on the results for 30 June 2006, representing a point in time. A review of the CUR over the 12 months of the 2005-06 year shows that the average CUR for the period was in excess of 1.1, indicating a far stronger position. This is also reflected in the strong net cash inflows from operating activities outlined in the Cash Flow Statement. An end of year CUR of 0.5 is not unusual for the water industry and is consistent with ratios reported by the major water utilities across Australia.

4. Critical Accounting Estimates and Judgements

Critical Judgements in Applying the Corporation’s Accounting Policies

Held to Maturity Liabilities

The Corporation classifies its debt portfolio (non-derivative financial liabilities) with fixed or determinable payments as held to maturity. This classification is in accordance with the AASB 139 guidelines. In making this judgement, the Corporation evaluates its intention and ability to hold such debt to maturity.

	Note	2006 $’000	2005 $’000
5. Revenue from Ordinary Activities			
Community service obligations		**152 180**	103 440
Rates and charges		**549 780**	538 124
Recoverable works		**40 075**	48 562
Fees and charges		**18 790**	16 872
Miscellaneous		**689**	1 201
Contributed assets		**65 417**	72 140
Rents		**1 017**	1 178
Interest		**161**	118
		828 109	781 635
6. Other Income			
Net gain on disposal of infrastructure, plant and equipment		**2 153**	362
Fair value gain on investment in unlisted shares	13	**547**	506
Reversal of prior year infrastructure, plant and equipment revaluation decrement		**423**	-
		3 123	868
7. Expenses			
Profit before income tax includes the following specific expenses:			
Depreciation and Amortisation:			
Buildings		**2 120**	807
Plant and equipment		**2 925**	2 810
Other		**7 954**	5 695
Infrastructure assets - Water		**79 414**	74 957
Infrastructure assets - Sewer		**38 338**	37 955
Amortisation - Computer software	15	**1 053**	3 456
Total Depreciation and Amortisation		**131 804**	125 680

7. Expenses (continued)

	Note	2006 $'000	2005 $'000
Finance Costs:			
Interest expense		**72 946**	74 737
Unrealised gains on derivatives		**(1 952)**	-
Finance charges on capitalised leases		**13 617**	12 536
Total Finance Costs		**84 611**	87 273
Finance lease contingent rentals		**2 289**	1 894
Rental expense relating to operating leases - minimum lease payments		**3 328**	3 096
Net bad and doubtful debts expense including movements in allowance for doubtful debts		**(444)**	(22)
Infrastructure, plant and equipment revaluation decrement		**-**	10 168
Write-down in value of infrastructure, plant and equipment		**211**	524
Write-off value of capital works in progress		**228**	597
Superannuation contributions		**8 512**	7 451
Expenditure on behalf of State Government:			
Water Industry Best Practice Program		**518**	518
Cooperative Research Centre		**150**	150
		668	668

8. Income Tax Expense

(a) Income Tax Expense

	Note	2006 $'000	2005 $'000
Current tax		**102 009**	84 819
Deferred tax		**(4 405)**	(1 537)
Amounts under (over) provided in prior years		**369**	(685)
		97 973	82 597
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decreased (increase) in deferred tax assets		**1 176**	(2 355)
(Decrease) increase in deferred tax liabilities		**(5 581)**	818
		(4 405)	(1 537)

(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable

	Note	2006 $'000	2005 $'000
Profit before income tax expense		**326 901**	278 894
Tax at the Australian tax rate of 30 percent (30 percent)		**98 070**	83 668
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Loss on transfer of water allocations		**63**	-
Net gain on sale of land		**(583)**	-
Adjustments for finance leases, depreciation and other adjustments		**54**	(259)
Tax write up of infrastructure, plant and equipment		**-**	117
Accounting write down of infrastructure, plant and equipment		**-**	114
Additional deduction for research and development expenditure		**-**	(358)
		97 604	83 282
Amounts under (over) provided in prior years		**369**	(685)
Total Income Tax Expense		**97 973**	82 597

(c) Amounts Recognised Directly in Equity

	Note	2006 $'000	2005 $'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited (credited) to equity:			
Net deferred tax - (credited) directly to retained earnings		**(2 683)**	-
Net deferred tax - debited directly to asset revaluation reserve	33	**56 646**	40 055
		53 963	40 055

9. Segment Information

(a) Description of Segments

Business Segments

The Corporation comprises the following main business segments based on the Corporation's management reporting system:

Metropolitan Water

Manage, operate and maintain metropolitan water filtration plants and pipelines that deliver water to customers.

Country Water

Manage, operate and maintain country reservoirs, pipelines and water filtration plants delivering peak and off-peak water to customers.

Metropolitan Sewer
Manage, operate and maintain metropolitan wastewater treatment plants and pipelines that remove wastewater from customer properties.

Country Sewer
Manage, operate and maintain country wastewater treatment plants and pipelines that remove wastewater from customer properties.

Other
Revenue and expenses associated with the Murray Darling Basin Commission, the Australian Water Quality Centre, engineering workshops and water industry business development.

(b) ***Business Segments***

Business Segments	Metro Water	Country Water	Metro Sewer	Country Sewer	Other	**2006 Total**
Income:	$'000	$'000	$'000	$'000	$'000	**$'000**
Rates and charges	199 708	95 985	228 000	26 087	-	**549 780**
Community service obligations	1 405	121 249	8 234	20 336	956	**152 180**
Contributed assets	21 543	12 314	25 049	6 511	-	**65 417**
Other revenue	11 841	8 093	7 635	1 560	34 565	**63 694**
Unallocated interest revenue	-	-	-	-	-	**161**
Total Segment Income	234 497	237 641	268 918	54 494	35 521	**831 232**
Segment result	102 068	106 185	163 024	29 977	(3 520)	**397 734**
Unallocated interest expense net of unallocated interest revenue						**(70 833)**
Profit before income tax						**326 901**
Income tax expense						**(97 973)**
Net Profit for the Year						**228 928**
Assets:						
Segment assets	2 252 450	2 321 628	2 127 869	430 879	66 812	**7 199 638**
Unallocated assets						**24 821**
Total Assets						**7 224 459**
Liabilities:						
Segment liabilities	26 946	160 141	26 745	8 010	7 189	**229 031**
Unallocated liabilities						**1 809 964**
Total Liabilities						**2 038 995**
Other Segment Information:						
Acquisition and construction of non-current assets	33 658	46 696	23 009	9 182	14 282	**126 827**
Depreciation and amortisation expense	43 304	45 565	35 943	6 992	-	**131 804**
Other non-cash expenses	631	854	521	251	225	**2 482**

Business Segments	Metro Water	Country Water	Metro Sewer	Country Sewer	Other	2005 Total
Income:	$'000	$'000	$'000	$'000	$'000	$'000
Rates and charges	200 568	95 420	217 858	24 278	-	538 124
Community service obligations	2 083	76 233	7 568	17 039	517	103 440
Contributed assets	21 077	17 906	26 487	6 670	-	72 140
Other revenue	10 639	6 358	8 056	1 215	42 413	68 681
Unallocated interest revenue	-	-	-	-	-	118
Total Segment Income	234 367	195 917	259 969	49 202	42 930	782 503
Result:						
Segment result	105 930	68 299	156 203	26 611	(3 530)	353 513
Unallocated interest expense net of unallocated interest revenue						(74 619)
Profit before income tax						278 894
Income tax expense						(82 597)
Net Profit for the Year						196 297
Assets:						
Segment assets	2 117 272	2 276 063	2 136 389	428 757	64 162	7 022 643
Unallocated assets						21 601
Total Assets						7 044 244
Liabilities:						
Segment liabilities	24 024	133 730	24 963	6 806	10 156	199 679
Unallocated liabilities						1 748 368
Total Liabilities						1 948 047
Other Segment Information:						
Acquisition and construction of non-current assets	31 891	31 075	27 709	14 317	16 728	121 720
Depreciation and amortisation expense	40 177	43 517	35 661	6 325	-	125 680
Other non-cash expenses	2 538	6 628	1 406	875	70	11 517

10. Current Assets - Receivables

	2006 $'000	2005 $'000
Rates receivable (water and wastewater)	**53 827**	58 092
Allowance for doubtful debts	**(288)**	(40)
	53 539	58 052
Sundry debtors	**18 986**	18 888
Allowance for doubtful debts	**(164)**	(62)
	18 822	18 826
Community service obligations	**9 817**	83 357
	82 178	160 235

11. Current Assets - Inventories

Raw materials and stores	**4 068**	3 809
Allowance for obsolete stock	**(615)**	(571)
	3 453	3 238
Work in progress - Sundry debtors	**420**	942
	3 873	4 180

12. Current Assets - Other Current Assets

Interest receivable	**54**	59
Prepayments	**2 281**	1 082
	2 335	1 141

13. Non-Current Assets - Other Financial Assets

Unlisted shares at fair value	**7 378**	6 831

The Corporation was a participant to the funding arrangements for the Virginia Pipeline Scheme (VPS). SA Water's involvement in this scheme will result in an option at the end of the contract to acquire the scheme. The scheme distributes 'Class A' reclaimed water from the Bolivar Wastewater Treatment Plant throughout the Virginia region for irrigation of seasonal crops and fixed plantings. As part of the arrangement the Corporation made advances to the operating Company of VPS, Water Reticulation Systems (Virginia) Pty Ltd (WRS), a subsidiary of Euratech Limited. Advances to WRS were converted to non-voting B Class shares, issued at a price of $1 per share.

14. Non-Current Assets - Deferred Tax Assets

The balance comprises temporary difference attributable to:	Note	2006 $'000	2005 $'000
Amounts recognised in profit or loss:			
Doubtful debts		**136**	31
Obsolete stock		**184**	171
Unlisted shares at fair value		**2 242**	2 406
Infrastructure, plant and equipment		**2 810**	4 050
Intangibles - computer software		**-**	1 575
Pooled assets		**67**	80
Payables		**784**	673
Audit fee payable		**79**	74
Employee benefits		**8 126**	7 352
Provision for decommissioning		**1 290**	-
Provision for asset disposal		**101**	108
Provision for damages and claims		**339**	177
Provision for removal of bio-solids		**257**	340
Derivative financial instruments		**(629)**	-
		15 786	17 037
Amounts recognised directly in equity:			
Derivative financial instruments		**2 683**	-
Infrastructure, plant and equipment	33(a)	**-**	(75)
Net Deferred Tax Assets		**18 469**	16 962
Movements:			
Balance at 1 July		**16 962**	14 682
(Charged) credited to the Income Statement	8	**(1 176)**	2 355
Credited (charged) to equity		**2 683**	(75)
Balance at 30 June		**18 469**	16 962
Deferred tax assets to be recovered after more than 12 months		**14 813**	13 875
Deferred tax assets to be recovered within 12 months		**3 656**	3 087
		18 469	16 962

15. Non-Current Assets - Intangible Assets

	Computer Software $'000	**Purchased Water Allocations $'000**	**2006 Total $'000**	Computer Software $'000	Purchased Water Allocations $'000	2005 Total $'000
Cost	**31 213**	**20 214**	**51 427**	29 787	25 369	55 156
Accumulated amortisation	**(26 390)**	**-**	**(26 390)**	(25 337)	-	(25 337)
Net Book Amount	**4 823**	**20 214**	**25 037**	4 450	25 369	29 819
Balance at 1 July	**4 450**	**25 369**	**29 819**	7 878	13 858	21 736
Additions	**1 426**	**10 364**	**11 790**	28	11 511	11 539
Disposals	**-**	**(15 519)**	**(15 519)**	-	-	-
Amortisation charge	**(1 053)**	**-**	**(1 053)**	(3 456)	-	(3 456)
Balance at 30 June	**4 823**	**20 214**	**25 037**	4 450	25 369	29 819

16. Non-Current Assets - Infrastructure, Plant and Equipment

Infrastructure Assets:	**2006 $'000**	2005 $'000
Water:		
Water infrastructure	**7 361 774**	6 913 948
Accumulated depreciation	**(3 238 849)**	(3 000 708)
	4 122 925	3 913 240
Leased water infrastructure	**139 570**	133 563
Accumulated depreciation	**(21 820)**	(17 617)
	117 750	115 946
Sewer:		
Sewer infrastructure	**3 594 719**	3 451 537
Accumulated depreciation	**(1 279 395)**	(1 180 046)
	2 315 324	2 271 491
Leased sewer infrastructure	**22 524**	3 571
Accumulated depreciation	**(997)**	(640)
	21 527	2 931
Land and Buildings:		
Land	**254 020**	226 748
Buildings	**38 677**	36 805
Accumulated depreciation	**(24 632)**	(21 543)
	14 045	15 262
Other	**72 165**	66 248
Accumulated depreciation	**(30 921)**	(32 134)
	41 244	34 114
Plant and equipment	**41 866**	37 654
Accumulated depreciation	**(20 689)**	(19 211)
	21 177	18 443
Capital work in progress	**173 419**	224 042
Total Infrastructure, Plant and Equipment	**7 081 431**	6 822 217

Reconciliations

Reconciliations of the carrying amounts for each class of infrastructure, plant and equipment are set out below:

	2006	2005
Water infrastructure:		
Carrying amount at 1 July	**3 913 240**	3 835 945
Additions	**100 140**	60 451
Depreciation	**(76 623)**	(72 230)
Asset write down	**-**	(372)
Net revaluation increment	**186 168**	89 446
Carrying amount at 30 June	**4 122 925**	3 913 240
Leased Water Infrastructure:		
Carrying amount at 1 July	**115 946**	110 191
Additions	**-**	5 575
Depreciation	**(2 791)**	(2 727)
Net revaluation increment	**4 595**	2 907
Carrying amount at 30 June	**117 750**	115 946
Sewer Infrastructure:		
Carrying amount at 1 July	**2 271 491**	2 163 330
Additions	**89 401**	110 535
Depreciation	**(38 010)**	(37 866)
Net revaluation increment (decrement)	**(7 558)**	35 492
Carrying amount at 30 June	**2 315 324**	2 271 491

Reconciliations (continued)

	2006	2005
Leased Sewer Infrastructure:	**$'000**	$'000
Carrying amount at 1 July	**2 931**	2 874
Additions	**18 792**	-
Depreciation	**(328)**	(90)
Net revaluation increment	**132**	147
Carrying amount at 30 June	**21 527**	2 931
Land:		
Carrying amount at 1 July	**226 748**	187 836
Additions	**46**	2 237
Disposals	**(419)**	(508)
Net revaluation increment	**27 645**	37 183
Carrying amount at 30 June	**254 020**	226 748
Buildings:		
Carrying amount at 1 July	**15 262**	21 116
Additions	**217**	984
Depreciation	**(2 120)**	(807)
Net revaluation (decrement) increment	**686**	(6 031)
Carrying amount at 30 June	**14 045**	15 262
Other:		
Carrying amount at 1 July	**34 114**	36 944
Additions	**11 377**	1 925
Net revaluation increment	**3 707**	946
Depreciation	**(7 954)**	(5 694)
Asset write down	**-**	(7)
Carrying amount at 30 June	**41 244**	34 114
Plant and Equipment:		
Carrying amount at 1 July	**18 443**	15 761
Additions	**6 140**	5 986
Disposals	**(276)**	(349)
Depreciation	**(2 925)**	(2 810)
Asset write down	**(205)**	(145)
Carrying amount at 30 June	**21 177**	18 443
Capital Work in Progress:		
Balance at 1 July	**224 042**	262 809
Additions	**130 697**	114 612
Transfers	**(181 092)**	(152 782)
Asset write down	**(228)**	(597)
Balance at 30 June	**173 419**	224 042
Total Infrastructure, Plant and Equipment	**7 081 431**	6 822 217

Carrying amounts that would have been recognised if revalued assets were stated at cost

If revalued assets were stated on the historical cost basis, the amounts would be as follows:

	2006	2005
Land:		
Cost	**21 455**	21 409
Buildings:		
Cost	**35 289**	35 073
Accumulated depreciation	**(20 195)**	(19 488)
Net book amount	**15 094**	15 585
Water Infrastructure:		
Cost	**1 473 129**	1 387 822
Accumulated depreciation	**(606 946)**	(588 469)
Net book amount	**866 183**	799 353
Sewer Infrastructure:		
Cost	**1 169 898**	1 117 016
Accumulated depreciation	**(528 455)**	(560 867)
Net book amount	**641 443**	556 149
Other:		
Cost	**61 403**	54 640
Accumulated depreciation	**(26 750)**	(21 343)
Net book amount	**34 653**	33 297

17. Non-Current Assets - Other Non-Current Assets

	2006 $'000	2005 $'000
Preliminary investigations	**1 649**	2 859

18. Current and Non-Current Assets - Financial Assets

(a) Interest Rate Risk

The Corporation's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables:

2006	**Floating Interest Rate $'000**	**Non-Interest Bearing $'000**	**Total $'000**	**Weighted Average Interest Rate Percent**
Cash and cash equivalents	**2 109**	**-**	**2 109**	**5.49**
Current receivables	**-**	**72 361**	**72 361**	
Community Service Obligation receivable	**-**	**9 817**	**9 817**	
Other financial assets	**-**	**7 378**	**7 378**	
Interest receivable	**54**	**-**	**54**	**5.65**
	2 163	**89 556**	**91 719**	

2005	Floating Interest Rate $'000	Non-Interest Bearing $'000	Total $'000	Weighted Average Interest Rate Percent
Current receivables	-	76 878	76 878	
Community Service Obligation receivable	-	83 357	83 357	
Other financial assets	-	6 831	6 831	
Interest receivable	59	-	59	5.4
	59	167 066	167 125	

19. Current Liabilities - Payables

	Note	2006 $'000	2005 $'000
Interest payable		**9 775**	11 765
Trade creditors		**50 617**	42 099
Other creditors		**10 219**	12 573
		70 611	66 437

20. Current Liabilities - Interest Bearing Liabilities

	Note	2006 $'000	2005 $'000
Bank overdraft		**-**	1 979
Lease liability	34	**5 761**	5 328
Short-term borrowings		**60 028**	58 688
		65 789	65 995

The Corporation has a $75 million short-term borrowing facility with the Department of Treasury and Finance bearing interest at the daily cash rate charged by the South Australian Government Financing Authority.

Interest Rate Risk Exposures

Details of the Corporation's exposure to interest rate changes on borrowings are set out in Note 25.

21. Current Tax Liabilities

Provision for current income tax movements during the year were as follows:	Note	**2006 $'000**	2005 $'000
Balance at 1 July		**31 707**	30 217
Income tax paid		**(95 429)**	(82 638)
Current year's income tax provision		**102 009**	84 819
Amounts under (over) provided in prior year		**369**	(691)
		38 656	31 707

22. Current Liabilities - Provisions

	Note	2006 $'000	2005 $'000
Employee benefits	36	**7 985**	7 268
Asset disposal		**45**	24
Damages and claims		**1 132**	591
Workers compensation		**699**	667
Removal of bio-solids		**500**	466
		10 361	9 016

Movements in Provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Asset Disposal	Damages and Claims	Workers Compen-sation	Removal of Biosolids	**2006 Total**
Current:	$'000	$'000	$'000	$'000	**$'000**
Carrying amount at 1 July	24	591	667	466	**1 748**
Payments made during the year	(23)	(258)	(893)	(336)	**(1 510)**
Transfer from non-current provision	44	-	-	370	**414**
Re-measurement adjustments	-	799	(500)	-	**299**
Additional provision recognised	-	-	1 425	-	**1 425**
Carrying Amount at 30 June	45	1 132	699	500	**2 376**

23. Current Liabilities - Other Current Liabilities

	Note	**2006**	2005
		$'000	$'000
Unearned income		**-**	167
Deposits from contractors		**1 381**	1 088
		1 381	1 255

24. Non-Current Liabilities - Payables

Other payables		**1 417**	1 222

25. Non-Current Liabilities - Interest Bearing Liabilities

Lease liabilities	34	**123 613**	107 843
Long-term borrowings		**1 120 122**	1 120 678
		1 243 735	1 228 521

The Corporation has a fully utilised long-term borrowing facility with the Department of Treasury and Finance. The loan is denominated in Australian dollars and carries both fixed and floating interest rates.

Current and Non-Current Financial Liabilities

(a) *Interest Rate Risk Exposures*

The Corporation's financial liabilities are exposed to interest rate risk. The following table summarises interest rate risk for the Corporation, together with effective weighted average interest rates as at balance date. All amounts shown are capital value.

2006

			Fixed Interest Maturing In					
	Note	Floating Interest Rate $'000	1 Year or Less $'000	Over 1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	**2006 Total $'000**	Weighted Average Interest Rate Percent
Short-term borrowings	20	60 028	-	-	-	-	**60 028**	5.88
Long-term borrowings	25	309 705	157 190	482 227	171 000	-	**1 120 122**	5.42
Payables	19, 24	-	-	-	-	72 028	**72 028**	
External deposits	23	-	-	-	-	1 381	**1 381**	
Non-business advances	29	-	-	-	-	497	**497**	
Lease liabilities	20, 25, 34	-	5 761	15 367	108 246	-	**129 374**	11.22
Interest rate swaps*	26	(57 500)	27 500	(18 000)	48 000	-	**-**	**1.42
		312 233	190 451	479 594	327 246	73 906	**1 383 430**	

* Notional principal amount
** Net weighted average interest rate receivable

2005

			Fixed Interest Maturing In					
	Note	Floating Interest Rate $'000	1 Year or Less $'000	Over 1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	2005 Total $'000	Weighted Average Interest Rate Percent
Bank overdraft	20	1 979	-	-	-	-	1 979	4.99
Short-term borrowings	20	58 688	-	-	-	-	58 688	5.58
Long-term borrowings	25	190 641	224 064	505 148	200 825	-	1 120 678	5.89
Payables	19, 24	-	-	-	-	67 659	67 659	
External deposits	23	-	-	-	-	1 088	1 088	
Non-business advances	29	-	-	-	-	497	497	
Lease liabilities	20,25,34	-	5 328	12 646	95 197	-	113 171	10.96
Interest rate swaps*	26	41 500	-	17 500	(59 000)	-	-	**1.37
		292 808	229 392	535 294	237 022	69 244	1 363 760	

* Notional principal amount
** Net weighted average interest rate receivable

- Interest Rate Sensitivity
  In relation to borrowings, a 1 percent change in interest rates would impact on interest expense by $0.5 million ($1.6 million) for the year to 30 June 2006. A 1 percent increase in interest rates would decrease the market value of the debt portfolio by $22.4 million as at 30 June 2006 ($23.2 million). This analysis is based on interest rates as at 30 June 2006.

(b) Net Fair Values of Financial Liabilities

Net fair value of financial liabilities is the amount at which the liability could be settled in a current transaction between willing parties after allowing for transaction costs.

- *Recognised Financial Instruments*
  The carrying amounts and estimated net fair values of financial liabilities held at balance date are given below.

	2006		2005	
	Carrying Amount $'000	**Fair Value $'000**	Carrying Amount $'000	Fair Value $'000
• *On-Balance Sheet*				
Non-traded financial liabilities:				
Bank overdraft	**-**	**-**	1 979	1 979
Payables	**72 028**	**72 028**	67 659	67 659
External deposits	**1 381**	**1 381**	1 088	1 088
Non-business advances	**497**	**497**	497	497
Short-term borrowings	**60 028**	**60 028**	58 688	58 688
Long-term borrowings	**1 120 122**	**1 117 334**	1 120 678	1 134 823
Lease liabilities	**129 374**	**129 374**	113 171	113 171
	1 383 430	**1 380 642**	1 363 760	1 377 905

- *Off-Balance Sheet*
  The net fair value of non-recognised interest rate swaps held at the reporting date for the year ended 30 June 2005 was $8.9 million.

  The net fair value for interest rate swaps is estimated by discounting the anticipated future cash flows to their present value based on current market interest rates at the respective balance dates.

26. Derivative Financial Instruments	Note	**2006**	2005
Non-current liabilities:		**$'000**	$'000
Interest rate swaps - Market value	25	**6 844**	-

Transition to AASB 132 and AASB 139

The Corporation has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. At the date of transition to these standards of 1 July 2005 a pre tax net decrease of $8.9 million in net assets was recognised.

27. Non-Current Liabilities - Deferred Tax Liabilities		**2006**	2005
The balance comprises temporary differences attributable to:	Note	**$'000**	$'000
Amounts recognised in profit or loss:			
Prepayments		**175**	156
Rates receivable		**7 211**	11 533
Interest receivable		**16**	18
Depreciation and amortisation		**80 039**	81 314
		87 441	93 021
Amounts recognised directly in equity:			
Revaluation of infrastructure, plant and equipment		**486 112**	429 467
Net Deferred Tax Liabilities		**573 553**	522 488
Movements:			
Balance at 1 July		**522 488**	481 682
(Credited) Charged to the Income Statement	8	**(5 581)**	826
Charged (Credited) to equity	33	**56 646**	39 980
Balance at 30 June		**573 553**	522 488
Deferred tax liabilities to the be settled after more than 12 months		**566 151**	510 781
Deferred tax liabilities to be settled within 12 months		**7 402**	11 707
		573 553	522 488

28. Non-Current Liabilities - Provisions			
Employee benefits	36	**19 103**	17 238
Site decommissioning costs		**4 301**	-
Workers compensation		**2 097**	2 668
Removal of bio-solids		**357**	666
Asset disposal		**293**	337
		26 151	20 909

Movements in Provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Site Decommissioning Costs	Workers Comp-ensation	Removal of Bio-Solids	Asset Disposal	**2006 Total**
Non-Current:	$'000	$'000	$'000	$'000	**$'000**
Carrying amount at 1 July	-	2 668	666	337	**3 671**
Transfer to current provision	-	-	(370)	(44)	**(414)**
Re-measurement adjustments	-	(571)	61	-	**(510)**
Additional provision recognised	4 301	-	-	-	**4 301**
Carrying Amount at 30 June	4 301	2 097	357	293	**7 048**

29. Non-Current Liabilities - Other Non-Current Liabilities

	2006	2005
	$'000	$'000
Non-business advances	**497**	497

30. Reconciliation of Cash

For the purposes of the Cash Flow Statement, cash includes cash on hand, at bank and bank overdraft. Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the items in the Balance Sheet as follows:

	Note	**2006**	2005
		$'000	$'000
Cash and cash equivalents		**2 109**	-
Bank overdraft	20	**-**	(1 979)
		2 109	(1 979)

31. Reconciliation of Profit after Income Tax to Net Cash Inflow from Operating Activities

Profit for the year	**228 928**	196 297
Add (Less): Non-cash items:		
Depreciation and amortisation	**131 804**	125 680
Contributed assets	**(40 580)**	(45 332)
Net gain on sale of infrastructure, plant and equipment	**(2 207)**	(485)
Infrastructure, plant and equipment revaluation increment	**(423)**	-
Infrastructure, plant and equipment revaluation decrement	**-**	10 168
Write-down of capitalised expenditure	**439**	1 121
Fair value gain on investment in unlisted shares	**(546)**	(506)
Provision for employee benefits	**2 582**	279
Provision for workers compensation	**(539)**	(51)
Decrease (increase) in deferred tax asset	**1 175**	(2 312)
Increase in provision for income taxes payable	**6 948**	1 490
(Decrease) increase in provision for deferred income tax	**(5 580)**	780
Add (Less): Changes in assets and liabilities:		
Decrease (increase) in rates and sundry receivables	**80 354**	(8 101)
Increase in inventories	**(231)**	(311)
Increase in prepayments	**(1 199)**	(382)
Decrease in other operating assets	**178**	800
Increase (decrease) in trade creditors	**5 111**	(3 740)
(Decrease) increase in other operating liabilities	**(6 362)**	1 617
Increase (decrease) in other provisions	**584**	(168)
Net Cash Inflow from Operating Activities	**400 436**	276 844

32. Contributed Equity

Balance at 1 July	**247 950**	247 950
Repayment of capital	**(74 340)**	-
Balance at 30 June	**173 610**	247 950

Repayment of capital is included as part of the total distribution to Government.

33. Reserves and Retained Profits

(a) *Reserves*

	Note	2006 $'000	2005 $'000
Infrastructure, plant and equipment revaluation reserve		**4 866 103**	4 707 809
Movements:			
Infrastructure, plant and equipment revaluation reserve			
Balance at 1 July		**4 707 809**	4 578 032
Revaluation - gross	16	**214 951**	170 275
Movements in deferred tax liability	14, 27	**(56 646)**	(40 055)
Write down		**88**	-
Disposals		**(99)**	-
Adjustment on adoption of APF III and AASB 116	47	**-**	(443)
Balance at 30 June		**4 866 103**	4 707 809

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

(b) *Retained Profits*

Movements in retained profits were as follows:

	Note	2006 $'000	2005 $'000
Balance at 1 July		**140 438**	98 887
Profit for the year		**228 928**	196 297
Dividends		**(217 455)**	(155 189)
Adjustment on adoption of AASB 132 and 139 net of tax	26	**(6 259)**	-
Adjustment on adoption of APF III and AASB 116		**-**	443
Disposals		**99**	-
Balance at 30 June		**145 751**	140 438

34. Commitments

(a) *Capital Commitments*

Total capital expenditure contracted for at balance date but not recognised in the financial report and payable:

	2006 $'000	2005 $'000
Within one year	**36 686**	27 393
Later than one year but not later than five years	**1 028**	2 758
	37 714	30 151

(b) *Operating Leases and Other Expenditure Commitments*

Future operating leases and other expenditure commitments not provided for in the financial report and payable:

	2006 $'000	2005 $'000
Within one year	**72 642**	74 106
Later than one year but not later than five years	**225 972**	244 762
Later than five years	**92 655**	29 156
	391 269	348 024

The operating lease commitments relate to property leases which are non-cancellable leases. The rental is payable monthly with reviews indexed every two years. These bi-annual reviews alternate between CPI indexation and Market Value. Options exist to renew the leases at the end of the term of the leases.

The Corporation has an operating lease commitment for the relocation of accommodation effective from 2008-09 which is non-cancellable and expires after 15 years with a renegotiation in year 10. The lease has escalation clauses and no purchase options.

Other expenditure commitments include commitments pursuant to the contract to operate, manage and maintain the Adelaide metropolitan water and waste water networks and treatment plants. The costs for the commitments include the service charge payable to United Water International Pty Ltd and the costs incurred by United Water International Pty Ltd in performing services which are reimbursed by the Corporation. The costs are reported for the total period of the contract and include an estimate for escalation charges.

(c) *Finance Leases*

Finance lease commitments are payable:	Note	2006 $'000	2005 $'000
Within one year		**25 146**	22 496
Later than one year but not later than five years		**77 550**	65 508
Later than five years		**229 624**	201 746
Minimum lease payments		**332 320**	289 750
Less: Future lease finance charges and contingent rentals		**202 946**	176 579
Total Lease Liabilities		**129 374**	113 171
Representing lease liabilities:			
Current	20	**5 761**	5 328
Non-Current	25	**123 613**	107 843
		129 374	113 171

(c) Finance Leases (continued)

Future finance lease payments are amounts contracted with private sector providers to construct, own and operate water and wastewater treatment facilities. The leases comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the consumer price and related indexes. The amount of contingent rentals paid and payable during the year is disclosed in Note 7.

(d) Other Finance Lease Commitments

	2006 $'000	2005 $'000
Finance lease contracted for at balance date but not recognised in the financial report as liabilities, payable:		
Within one year	**-**	2 190
Later than one year and not later than five years	**-**	10 513
Later than five years	**-**	53 009
	-	65 712

Other finance lease expenditure commitments contracted for at 30 June 2005 include amounts contracted with a private sector company to construct, own and operate a wastewater treatment facility which was commissioned in December 2005. The lease commitment is represented by total minimum lease payments of $66 million which includes future finance charges of $46.8 million.

35. Interests in Joint Venture

Jointly Controlled Operations

The Corporation holds an interest of 50 percent in the output of the joint venture operation named SA Water-Hydro Joint Venture whose principal activity is the generation of electricity from the use of water energy stored in and by the Corporation's infrastructure at Mt Bold and Hope Valley.

Included in the assets and liabilities of the Corporation are the following items which represent the Corporation's interest in the assets and liabilities employed in the joint venture, recorded in accordance with the accounting policies described in Note 1(c), under the following classifications:

	Note	2006 $'000	2005 $'000
Current Assets:			
Cash and cash equivalents		**19**	3
Receivables		**25**	24
Total Current Assets		**44**	27
Non-Current Assets:			
Infrastructure, plant and equipment		**1 452**	1 424
Total Non-Current Assets		**1 452**	1 424
Total Assets		**1 496**	1 451
Current Liabilities:			
Payables		**28**	21
Total Current Liabilities		**28**	21
Total Liabilities		**28**	21
Net Assets		**1 468**	1 430

36. Employee Benefits

	Note	2006	2005
Aggregate liability for employee benefits including on-costs			
Current:			
Accrued wages and salaries including on-costs included in other creditors		**1 906**	2 745
Annual Leave:			
On-costs included in other creditors		**1 063**	902
Provision for employee benefits	22	**5 954**	5 412
		7 017	6 314
Long Service Leave:			
On-costs included in other creditors		**133**	118
Provision for employee benefits	22	**2 031**	1 856
		2 164	1 974
Total Current Employee Benefits		**11 087**	11 033
Non-Current:			
Long Service Leave:			
On-costs included in other creditors		**1 417**	1 222
Provision for employee benefits	28	**19 103**	17 238
Total Non-Current Employee Benefits		**20 520**	18 460
Total Employee Benefits		**31 607**	29 493

37. Contingent Liabilities and Assets

The Corporation has no material contingent liabilities or assets as at 30 June 2006.

38. Remuneration of Auditors

	2006	2005
Amounts received and receivable by the Auditors for auditing the accounts	**264**	254

The Auditors received no other benefits.

39. Consultancy Costs

During the year ended 30 June 2006, the Corporation paid $2.0 million ($1.4 million) as a result of engaging consultants. Assignments undertaken by consultants included work for operating and capital projects.

40. Dividends

	2006 $'000	2005 $'000
Dividends paid	**217 455**	155 189

Dividends paid during 2005-06 of $217.5 million relate to the current year which have been paid to the South Australian Government Consolidated Account on 30 June 2006 based upon the recommendation of the Board to the Treasurer, pursuant to section 30 of the *Public Corporations Act 1993.*

In addition to the amount above $10 million was paid during the year ended 30 June 2005 for the special dividend that was payable at 30 June 2004.

41. Remuneration of Employees

The number of employees whose remuneration received and receivable falls within the following band is:	2006 Number of Employees	2005 Number of Employees
$100 000 - $109 999	**32**	24
$110 000 - $119 999	**23**	15
$120 000 - $129 999	**12**	5
$130 000 - $139 999	**8**	3
$140 000 - $149 999	**3**	2
$150 000 - $159 999	**2**	2
$160 000 - $169 999	**3**	4
$170 000 - $179 999	**1**	3
$180 000 - $189 999	**4**	2
$190 000 - $199 999	**3***	1
$200 000 - $209 999	**1**	-
$210 000 - $219 999	**-**	1
$220 000 - $229 999	**1**	1
$230 000 - $239 999	**2**	-
$240 000 - $249 999	**-**	1
$250 000 - $259 999	**1**	-
$270 000 - $279 999	**-**	1
$290 000 - $299 999	**1**	-
$310 000 - $319 999	**-**	1
$370 000 - $379 999	**1***	-

The total remuneration received and receivable by those employees was $13.1 million ($8.9 million). This amount includes fringe benefits and superannuation payments made to the Department of Treasury and Finance.

* It should be noted that the items annotated above include long service leave payments.

42. Remuneration of Directors

The number of Directors of the Corporation whose remuneration received and receivable falls within the following bands is:	2006 Number of Directors	2005 Number of Directors
$30 000 - $39 999	**-**	1
$40 000 - $49 999	**5**	4
$80 000 - $89 999	**1**	1
$310 000 - $319 999	**-**	1
$370 000 - $379 999	**1***	-

The total remuneration received and receivable by those Directors was $0.68 million ($0.62 million) which includes fringe benefits and superannuation contributions. These figures include the Chief Executive Ms Anne Howe who is also included in Note 41.

* It should be noted that the items annotated above include long service leave payments.

43. Related Party Disclosures

(a) Directors

The following persons held the position of Director of the Corporation during the financial year:

G B Allison
F T Blevins
S M Doyle
A D Howe
P W Pledge
R J Owens
A F C Digance

Dr Allison is a Director and Partner of the Cape d'Estaing Group, a Partner of GB and JD Allison, a Principal of Allison Partners Pty Ltd, and is on the Investment Committee of the Australian Water Infrastructure Fund. He is also a Director of the Kangaroo Island Natural Resources Management Board.

(a) Directors (continued)

Ms Digance is a Director of Australian Central Credit Union and a member of the Dental Professional Conduct Tribunal.

Ms Doyle is the Chairman of the Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme and a member of the board of the Future Fund Management Agency.

Ms Howe is a Director of the Water Services Association of Australia (WSAA) and the CRC for Water Quality and Treatment. She is also a member of the advisory boards of the South Australian Government Financing Authority and Infrastructure Partnerships Australia.

Ms Owens is a member of the National Executive of the Australian Labour Law Association Inc, Chair of the Working Women's Centre SA Inc and a Trustee of the ASKM Adelaide Recitals Trust.

Mr Pledge is a consultant to Sportsmed SA. Until June 2006 he was a consultant to Ernst and Young and Chairman of the Adelaide Chamber Orchestra.

All financial benefits provided by SA Water to related parties are provided on arm's length terms.

(b) Key Management Personnel Compensation

Key management personnel compensation for the years ended 30 June 2006 and 2005 is set out below. The key management personnel are the directors of the Corporation (including the Chief Executive) and the Senior Management Team who have responsibility for the strategic direction and management of the Corporation.

	Number of Key Management Personnel	Short-Term Benefits $'000	Post-Employment Benefits $'000	Total $'000
2006	**16**	**2 296**	**361**	**2 657**
2005	13	1 723	170	1 893

44. Targeted Separation Packages (TVSPs and TVERs)

In accordance with Government policy, there were no employees (16 employees) that were paid a Targeted Voluntary Separation Package (TVSP). In 2005 $1.8 million was paid to employees who received a TVSP with an additional amount paid of $0.7 million in accrued annual leave and long service leave entitlements. There was 1 employee (48 employees) that was paid a Targeted Voluntary Early Retirement (TVER) package during the period, at a total value of $0.07 million ($3.2 million) with an additional $0.03 million paid ($2.0 million) in accrued annual leave and long service leave entitlements.

45. Statement of Administered Items

	River Murray Levy	Pensioner Concessns	United Water Payments	Co-operatv Research Centre	**2006 Total**	2005 Total
Administered Income:	$'000	$'000	$'000	$'000	**$'000**	$'000
Revenue	20 160	27 000	421	6 452	**54 033**	55 195
Total Administered Income	20 160	27 000	421	6 452	**54 033**	55 195
Administered Expenses:						
Expenses	20 160	27 000	421	6 452	**54 033**	55 195
Total Administered Expenses	20 160	27 000	421	6 452	**54 033**	55 195
Operating Surplus	-	-	-	-	**-**	-
Current Assets:						
Cash and cash equivalents	212	854	-	1 360	**2 426**	2 822
Receivables	987	-	-	-	**987**	935
Total Current Assets	1 199	854	-	1 360	**3 413**	3 757
Total Administered Assets	1 199	854	-	1 360	**3 413**	3 757
Current Liabilities:						
Payables	1 199	854	-	1 360	**3 413**	3 757
Total Administered Liabilities	1 199	854	-	1 360	**3 413**	3 757
Net Assets	-	-	-	-	**-**	-
Cash Flows from Operating Activities:						
Cash inflows	20 108	27 000	421	6 869	**54 398**	54 291
Total Cash Inflows	20 108	27 000	421	6 869	**54 398**	54 291
Cash outflows	20 143	27 488	421	6 743	**54 795**	54 374
Total Cash Outflows	20 143	27 488	421	6 743	**54 795**	54 374
Net cash inflows (outflows) from operating activities	(35)	(488)	-	126	**(397)**	(83)
Net (decrease) increase in cash and cash equivalents held	(35)	(488)	-	126	**(397)**	(83)
Cash and cash equivalents at 1 July	246	1 341	-	1 234	**2 821**	2 905
Cash and Cash Equivalents at 30 June	211	853	-	1 360	**2 424**	2 822

46. SA Government/Non-SA Government Transactions

	2006	2005
(a) Income	**$'000**	$'000
Income received/receivable from entities external to the SA Government:		
Rates and charges	**512 876**	504 293
Contributed assets	**65 417**	72 140
Recoverable works	**34 941**	45 684
Fees and charges	**17 290**	16 872
Miscellaneous	**658**	591
Interest received	**71**	48
Rents	**732**	887
Other income	**3 123**	868
Total Income - Non-SA Government Entities	**635 108**	641 383
Income received/receivable from entities within the SA Government:		
Rates and charges	**36 904**	33 831
Community service obligations	**152 180**	103 440
Recoverable works	**5 134**	2 878
Fees and charges	**1 500**	-
Miscellaneous	**31**	610
Interest received	**90**	70
Rents	**285**	291
Total Income - SA Government Entities	**196 124**	141 120
Total Income	**831 232**	782 503

(b) Expenses

	2006	2005
Supplies and Services		
Supplies and services provided by entities external to the SA Government:		
Operational services	**29 300**	37 060
Materials and other	**10 768**	10 372
Administration	**21 094**	26 151
Total Supplies and Services - Non-SA Government Entities	**61 162**	73 583
Supplies and services provided by entities within the SA Government:		
Operational services	**18 829**	17 733
Materials and other	**9 337**	9 646
Administration	**2 865**	990
Total Supplies and Services - SA Government Entities	**31 031**	28 369
Total Supplies and Services	**92 193**	101 952
Operational and Service Contracts		
Provided by entities external to the SA Government:		
Operational and service contracts	**84 074**	80 783
Total Operational and Service Contracts - Non-SA Government Entities	**84 074**	80 783
Provided by entities within the SA Government:		
Operational and service contracts	**6 421**	6 716
Total Operational and Service Contracts - SA Government Entities	**6 421**	6 716
Total Operational and Service Contracts	**90 495**	87 499
Finance Costs		
Finance costs provided by entities external to the SA Government:		
Interest expense	**103**	124
Finance lease charges	**13 617**	12 535
Total Finance Costs - Non-SA Government Entities	**13 720**	12 659
Finance costs provided by entities within the SA Government:		
Interest expense	**70 891**	74 614
Total Finance Costs - SA Government Entities	**70 891**	74 614
Total Finance Costs	**84 611**	87 273

(c)	*Receivables*	2006	2005
	Receivables from SA Government Entities:	$'000	$'000
	Community service obligations	**9 817**	83 357
	Rates receivable (water and wastewater)	**300**	335
	Sundry debtors	**2 210**	2 485
		12 327	86 177
	Receivables from Non-SA Government Entities:		
	Rates receivable (water and wastewater)	**53 240**	57 717
	Sundry debtors	**16 611**	16 341
		69 851	74 058
	Total Receivables	**82 178**	160 235

(d)	*Payables*		
	Current:		
	Payables to SA Government Entities:		
	Trade creditors	**9 441**	2 284
	Interest payable	**9 775**	11 765
	Other creditors	**2 860**	6 311
		22 076	20 360
	Payables to Non-SA Government Entities:		
	Trade creditors	**41 128**	39 815
	Other creditors	**7 407**	6 262
		48 535	46 077
	Total Current Payables	**70 611**	66 437
	Non-Current:		
	Payables to SA Government Entities:		
	Other creditors	**1 069**	962
	Payables to Non-SA Government Entities:		
	Other creditors	**348**	260
	Total Non-Current Payables	**1 417**	1 222

47. Explanation of Transition to Australian equivalents to IFRS

(a) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(i) At the date of transition to AIFRS: 1 July 2004

Assets	Note	Previous AGAAP $'000	Changes in Accounting Policies $'000	Effect of Transition to AIFRS $'000	AIFRS $'000
Current Assets:					
Cash and cash equivalents	(viii)	906	(906)	-	-
Inventories		4 114	-	-	4 114
Receivables	(i),(vii), (viii)	129 064	30 748	27	159 839
Other current assets		865	-	-	865
Total Current Assets		134 949	29 842	27	164 818
Non-Current Assets:					
Infrastructure, plant and equipment	(ii)	6 671 214	-	(34 408)	6 636 806
Intangible assets	(ii)	13 858	-	7 878	21 736
Deferred tax assets	(vi)	11 126	-	3 556	14 682
Other financial assets		6 325	-	-	6 325
Other non-current assets		3 289	-	-	3 289
Total Non-Current Assets		6 705 812	-	(22 974)	6 682 838
Total Assets		6 840 761	29 842	(22 947)	6 847 656
Liabilities					
Current Liabilities:					
Interest bearing liabilities	(viii)	58 393	1 521	-	59 914
Provisions	(iv)	11 026	-	(849)	10 177
Current tax liabilities		30 217	-	-	30 217
Payables	(viii)	75 891	(2 427)	-	73 464
Other current liabilities		1 812	-	-	1 812
Total Current Liabilities		177 339	(906)	(849)	175 584

(i) At the date of transition to AIFRS: 1 July 2004 (continued)

	Note	Previous AGAAP $'000	Changes in Accounting Policies $'000	Effect of Transition to AIFRS $'000	AIFRS $'000
Non-Current Liabilities:					
Interest bearing liabilities		1 243 579	-	-	1 243 579
Provisions		20 286	-	-	20 286
Deferred tax liabilities	(vi)	64 409	9 224	408 049	481 682
Payables		1 159	-	-	1 159
Other non-current liabilities		497	-	-	497
Total Non-Current Liabilities		1 329 930	9 224	408 049	1 747 203
Total Liabilities		1 507 269	8 318	407 200	1 922 787
Net Assets		5 333 492	21 524	(430 147)	4 924 869
Equity:					
Contributed equity		247 950	-	-	247 950
Reserves	(ii),(iii), (vi),	4 961 217	-	(383 185)	4 578 032
Retained earnings	(i),(ii), (iii),(iv), (v),(vi), (vii),(viii)	124 325	21 524	(46 962)	98 887
Total Equity		5 333 492	21 524	(430 147)	4 924 869

(ii) At the end of the last reporting period under previous AGAAP: 30 June 2005

Assets	Note	Previous AGAAP $'000	Changes in Accounting Policies $'000	Effect of Transition to AIFRS $'000	AIFRS $'000
Current Assets:					
Inventories		4 180	-	-	4 180
Receivables	(i), (vii)	121 708	38 467	60	160 235
Other current assets		1 141	-	-	1 141
Total Current Assets		127 029	38 467	60	165 556
Non-Current Assets:					
Infrastructure, plant and equipment	(ii)	6 859 325	-	(37 108)	6 822 217
Intangible assets	(ii)	25 369	-	4 450	29 819
Deferred tax assets	(vi)	11 004	-	5 958	16 962
Other financial assets		6 831	-	-	6 831
Other non-current assets		2 859	-	-	2 859
Total Non-Current Assets		6 905 388	-	(26 700)	6 878 688
Total Assets		7 032 417	38 467	(26 640)	7 044 244
Liabilities					
Current Liabilities:					
Interest bearing liabilities	(viii)	64 760	1 235	-	65 995
Provisions	(iv)	9 237	-	(221)	9 016
Current tax liabilities		31 707	-	-	31 707
Payables	(viii)	67 648	(1 211)	-	66 437
Other current liabilities		1 255	-	-	1 255
Total Current Liabilities		174 607	24	(221)	174 410
Non-Current Liabilities:					
Interest bearing liabilities		1 228 521	-	-	1 228 521
Provisions		20 909	-	-	20 909
Deferred tax liabilities	(vi)	71 496	11 533	439 459	522 488
Payables		1 222	-	-	1 222
Other non-current liabilities		497	-	-	497
Total Non-Current Liabilities		1 322 645	11 533	439 459	1 773 637
Total Liabilities		1 497 252	11 557	439 238	1 948 047
Net Assets		5 535 165	26 910	(465 878)	5 096 197
Equity:					
Contributed equity		247 950	-	-	247 950
Reserves	(ii),(iii), (vi)	5 121 211	-	(413 402)	4 707 809
Retained earnings	(i), (ii), (iii),(iv), (vi),(vii)	166 004	26 910	(52 476)	140 438
Total Equity		5 535 165	26 910	(465 878)	5 096 197

(b) Reconciliation of Profit for the year ended 30 June 2005

	Note	Previous AGAAP $'000	Changes in Accounting Policies $'000	Effect of Transition to AIFRS $'000	AIFRS $'000
Revenue from ordinary activities	(vii),(ix)	775 854	7 695	(1 914)	781 635
Other income	(ix)	-	-	868	868
Depreciation and amortisation expense	(ii)	(125 812)	-	132	(125 680)
Finance costs	(ii)	(80 907)	-	(6 366)	(87 273)
Electricity expense		(27 780)	-	-	(27 780)
Services and supplies	(iii), (ix)	(92 226)	-	(9 726)	(101 952)
Operational and service contracts		(87 499)	-	-	(87 499)
Salaries and employee benefits expense		(73 425)	-	-	(73 425)
Profit before Income Tax		**288 205**	**7 695**	**(17 006)**	**278 894**
Income tax expense	(vi)	(91 337)	(2 308)	11 048	(82 597)
Net Profit after Income Tax		**196 868**	**5 387**	**(5 958)**	**196 297**

(c) Reconciliation of Cash Flow Statement for the Year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the Cash Flow Statement.

(d) Notes to the Reconciliations

(i) Allowance for Doubtful Debts

Under AASB 139, the recognition requirements for an allowance for doubtful debts are more stringent and require a provision to be supported specifically by observable data rather than a general provision based solely with reference to historical outcomes.

Under the former requirements (AGAAP), the Corporation recognised an allowance for doubtful debts (rates receivable) based on an estimate, which is not supported by observable data. As a result, an AIFRS adjustment has been made as at 1 July 2004 to the allowance for doubtful debts for rates receivable to reflect the amount of outstanding debts that have been individually assessed by the Corporation as irrecoverable in the aged debt report.

(ii) Infrastructure, Plant and Equipment

- *Capitalised Interest*

  Under AGAAP, if interest was directly attributable to the acquisition, construction or production of a qualifying asset it was capitalised to the cost of the asset.

  In accordance with AASB 123 *Borrowing Costs* and APF II *General Purpose Financial Reporting Framework*, the value of capitalised interest has been removed from the value of assets.

- *Reclassification of Intangibles*

  Under AIFRS, AASB 138 requires application software to be classified as an intangible asset on the Balance Sheet, as opposed to being recorded within infrastructure, plant and equipment (other assets). Specifically, when the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

  Under the new requirements, the Corporation has reclassified the revalued amount included in infrastructure, plant and equipment (other assets) under AGAAP and classified this as an intangible asset in the Balance Sheet.

  Under AASB 138, an asset which does not have an active market cannot be revalued. Due to the nature of the enhancements to the software specific to the Corporation there is no active market for these assets, as such the revaluations under AGAAP have been reversed.

(iii) Asset Revaluation Reserve

Under the new requirements, AASB 116 requires an asset revaluation reserve to be tracked on an asset by asset basis resulting in revaluation increments and decrements being recorded against each individual asset.

The Corporation's asset revaluation reserve previously accounted for under AGAAP on a class basis has now been allocated to individual assets, per the AIFRS requirements.

The application of AASB 112 has resulted in the recognition of deferred tax liabilities on revaluations of non-current assets.

- *Asset Revaluation on Prior Period Disposals*

  In accordance with AASB 116 and APF III *Asset Accounting Framework*, the asset revaluation reserve has been adjusted for items of property, plant and equipment that have been disposed with the adjustment made directly against retained earnings.

(iv) *Provisions*
Under AIFRS, AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, a provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

Based on an assessment of the items included in the Corporation's provision balances under the new requirements, those provisions reported under AGAAP that did not meet the criteria for recognition have been subsequently derecognised.

(v) *Financial Instruments*
The Corporation has elected to apply the exemption from restatement of comparatives for AASB 132 and AASB 139. It has therefore continued to apply the previous AGAAP rules to derivatives and financial assets and liabilities for the year ended 30 June 2005.

(vi) *Deferred Tax Assets and Deferred Tax Liabilities*
Based on the new requirements of AASB 112 the Corporation has reconciled its future income tax benefit and provision for deferred tax liability as calculated under AGAAP to the deferred tax asset and deferred tax liability balances as calculated under AIFRS per AASB 112 for infrastructure, plant and equipment.

(vii) *Change in Accounting Policy - Water Sales*
The Corporation now recognises water sales revenue as it is consumed by the customer. Previously only amounts billed were brought to account. This change in measurement basis is a voluntary change in accounting policy whereby revenue derived from estimates of customer water consumption which has not yet been billed has now been brought to account in the Income Statement. The change in accounting policy provides more relevant and reliable information about the effects of transactions on the financial position and performance of the Corporation. Refer Note 1(b) and Note 2.

(viii) *Change in Accounting Policy - Administered Items*
The Corporation provides accounting services to the Cooperative Research Centre (CRC) by administering the collection and payment of their accounts. The Corporation has commenced recognising this activity as an administered item for the 2005-06 year. Refer to Note 1(x). The 2004-05 financial statements have also been restated to reflect this change.

(ix) *Proceeds on Sale of Non-Current Assets*
Under previous AGAAP, proceeds from the sale of non-current assets were included in revenue and the book value of the assets sold was included in other expense. Under AIFRS, net gains on the sale of assets are presented in other income and net losses in other expense.

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.

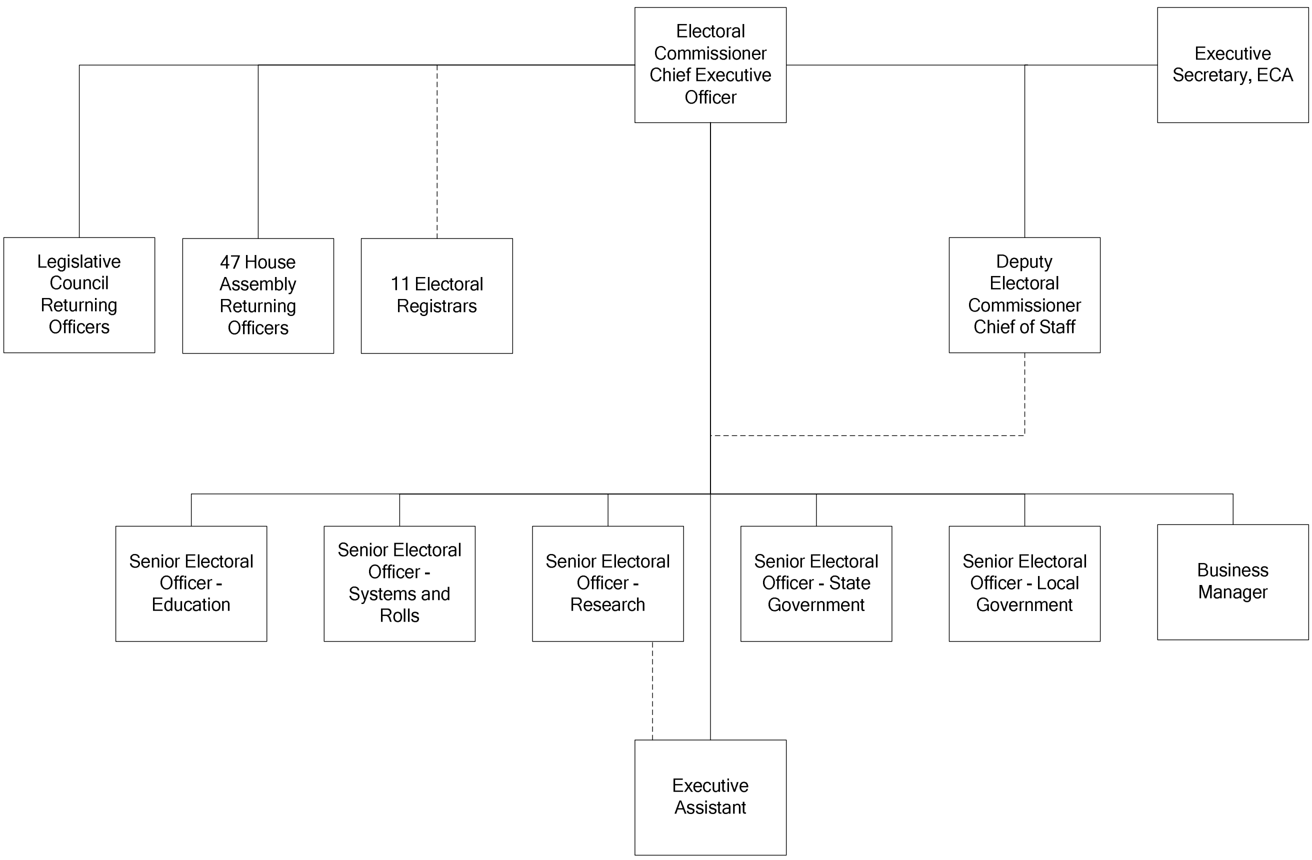
Functions

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 annual appropriation from Treasury on behalf of the Treasurer as authorised by Parliament. The funding is provided to conduct 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 the Financial Report

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 2005-06, specific areas of audit attention included:

- Financial Management Framework
- Payroll
- Accounts payable
- Revenue
- Financial accounting
- Budgetary control
- Fixed assets
- State Election

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, 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 a management letter to the Electoral Commissioner. The response to the management letter was considered to be satisfactory. Matters concerning the Financial Management Framework were raised with the State Electoral Office and the related responses are considered herein.

Strategic Plan

The audit revealed that there was no formal periodic review process to determine the achievement of each objective of the Strategic Plan 2004-07. Audit recommended the Office develop a monitoring and reporting cycle to ensure strategies are being followed, measures have been met and outcomes reported to senior management.

The Office indicated its intention to establish a committee of senior staff to periodically review the status of the strategic plan and report to the Electoral Commissioner on a quarterly basis.

Risk Management Framework

In relation to risk management Audit noted that:

- a risk management plan covering the Office's operations had been completed. It was noted that the monitoring and reviewing of the 'Risk Management Assessment - Ongoing Office Operations' was performed on an ad hoc basis;

- work had not yet commenced in relation to the review and update of the risk management plan in relation to Local Government elections to be held in November 2006. The work was to be completed by 30 June 2006.

In response, the Office indicated that:

- a Risk Management Committee would be set up to review the Office's ongoing operations risk strategies;

- the review and update of the risk management plan for the Local Government Elections in 2006 had commenced and it was anticipated it would be finalised by mid August 2006.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006 $'million	2005 $'million	Percentage Change
OPERATING EXPENDITURE			
Employment expenses	**5.4**	1.3	n/a
Other	**5.4**	1.9	n/a
Total Operating Expenses	**10.8**	3.2	n/a
OPERATING REVENUE			
Revenues from SA Government	**10.1**	2.2	n/a
Other	**0.8**	0.7	14.3
Total Operating Revenue	**10.9**	2.9	n/a
Net Result from Ordinary Activities	**0.1**	* (0.5)	n/a
ASSETS			
Current assets	**1.3**	1.1	18.2
Non-current assets	**0.3**	0.2	50.0
Total Assets	**1.6**	1.3	23.1
LIABILITIES			
Current liabilities	**0.6**	0.5	20.0
Non-current liabilities	**0.3**	0.3	0.0
Total Liabilities	**0.9**	0.8	12.5
EQUITY	**0.7**	0.5	40.0

* Includes payment to Government $184 000.

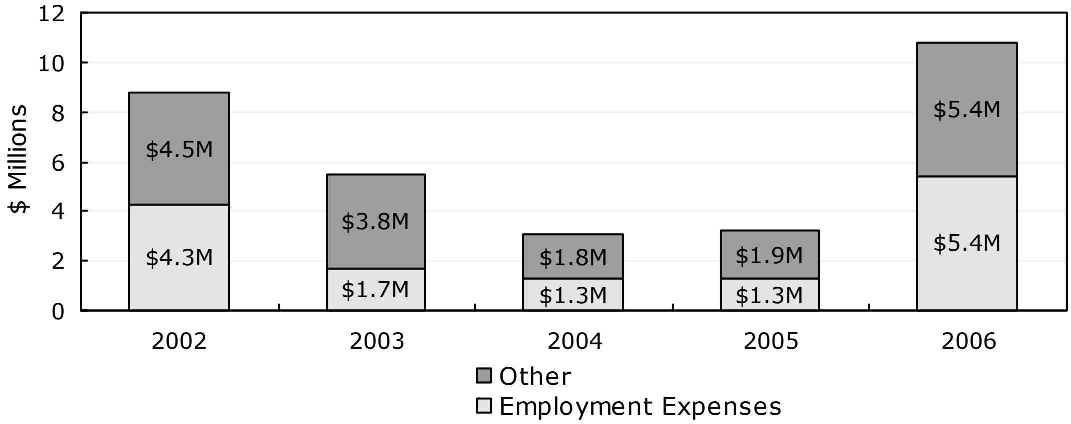
The level of financial operations of the State Electoral Office are affected by the timing of the State Government elections and to a much lesser extent the timing of the Local Government elections. A State Government election was held in 2005-06, with the last Local Government elections being held in 2002-03.

The analysis of the financial operations and financial position of the State Electoral Office concentrate on the 2005-06 year.

Income Statement

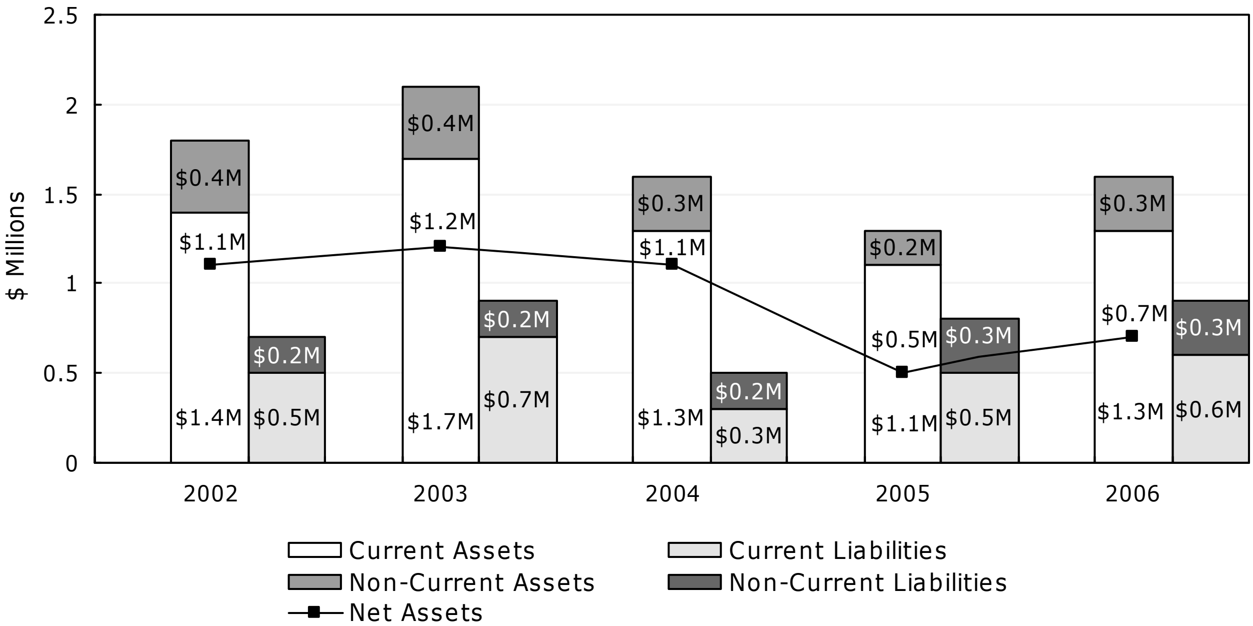
Operating Expenses

The total expenses for the current year increased significantly due to the State Government election held during the 2005-06 year. The last State Government election was held in 2001-02. The increase in other expenses from 2004-05 to 2005-06 was due mainly to the increase in advertising of $1 162 000, ballot papers of $465 000, printing of $367 000 and communications and information technology of $602 000, all due to the State Government election.



Balance Sheet

For the five years to 2006 a structural analysis of assets and liabilities is shown in the following chart.



The Balance Sheet and the composition of assets and liabilities of the Office is again reflective of the timing of both State and Local Government elections. Assets for the 2005-06 year increased by $230 000. The increase was due primarily to an increase in receivables of $264 000 outstanding from the State Government election. There was also an increase in liabilities of $125 000. This was due primarily to an increase in employee benefits of $90 000 and an increase in payables of $37 000 also due to the State Government election.

Programs

The State Electoral Office operations are related to two programs (as described in Note 5 of the Financial Report) Parliamentary Electoral Services and Non-Parliamentary Electoral Services. In 2005-06 program revenues and expenses for Parliamentary Electoral Services had substantially increased due to the State Government Election, where as Non-Parliamentary Electoral Services had slightly decreased.

Income Statement
for the year ended 30 June 2006

	Note	2006 $'000	2005 $'000
EXPENSES:			
Employee benefits costs	6	**5 361**	1 375
Supplies and services	7	**4 973**	1 636
Depreciation	8	**67**	86
Other expenses		**350**	161
Total Expenses		**10 751**	3 258
INCOME:			
Revenues from fees and charges	10	**689**	684
Interest		**66**	56
Total Income		**755**	740
NET COST OF PROVIDING SERVICES		**9 996**	2 518
REVENUES FROM/PAYMENTS TO SA GOVERNMENT:			
Revenues from SA Government	11	**10 101**	2 159
Payments to SA Government	11	**-**	(184)
NET RESULT		**105**	(543)
THE NET RESULT ATTRIBUTABLE TO THE SA GOVERNMENT AS OWNER		**105**	(543)

Balance Sheet
as at 30 June 2006

	Note	2006 $'000	2005 $'000
CURRENT ASSETS:			
Cash and cash equivalents	12	**856**	938
Receivables	13	**340**	69
Inventories		**100**	79
Total Current Assets		**1 296**	1 086
NON-CURRENT ASSETS:			
Property, plant and equipment	14	**258**	238
Total Non-Current Assets		**258**	238
Total Assets		**1 554**	1 324
CURRENT LIABILITIES:			
Payables	15	**385**	348
Short term employee benefits	16	**167**	108
Total Current Liabilities		**552**	456
NON-CURRENT LIABILITIES:			
Payables	15	**46**	48
Long term employee benefits	16	**296**	265
Total Non-Current Liabilities		**342**	313
Total Liabilities		**894**	769
NET ASSETS		**660**	555
EQUITY:			
Retained earnings		**660**	555
TOTAL EQUITY		**660**	555
Commitments	17		

Statement of Changes in Equity
for the year ended 30 June 2006

	Retained Earnings $'000
Balance at 30 June 2004	1 098
Net Result for 2004-05	(543)
Balance at 30 June 2005	555
Net Result for 2005-06	105
Balance at 30 June 2006	**660**

All changes in equity are attributable to the SA Government as owner

Cash Flow Statement
for the year ended 30 June 2006

		2006	2005
		Inflows	Inflows
CASH FLOWS FROM OPERATING ACTIVITIES:		**(Outflows)**	(Outflows)
CASH OUTFLOWS:	Note	**$'000**	$'000
Employee benefit payments		**(5 273)**	(1 204)
Supplies and services		**(5 757)**	(1 776)
GST payment on purchases		**(22)**	(20)
Cash used in operations		**(11 052)**	(3 000)
CASH INFLOWS:			
Fees and charges		**400**	926
Interest received		**63**	53
GST input tax credits		**495**	111
Cash generated from operations		**958**	1 090
CASH FLOWS FROM SA GOVERNMENT:			
Receipts from SA Government		**10 101**	2 159
Payments to SA Government		**-**	(184)
Cash generated from SA Government		**10 101**	1 975
Net Cash provided by Operating Activities	18	**7**	65
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH OUTFLOWS:			
Purchase of plant and equipment		**(89)**	-
Net Cash used in Investing Activities		**(89)**	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(82)**	65
CASH AND CASH EQUIVALENTS AT 1 JULY		**938**	873
CASH AND CASH EQUIVALENTS AT 30 JUNE	12	**856**	938

Program Schedule of Expenses and Income
for the year ended 30 June 2006

(Refer Note 5)	Program 1		Program 2		Program Total	
	2006	2005	**2006**	2005	**2006**	2005
EXPENSES:	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Employee benefit costs	**5 041**	1 041	**320**	334	**5 361**	1 375
Supplies and services	**5 056**	1 422	**267**	375	**5 323**	1 797
Depreciation	**45**	61	**22**	25	**67**	86
Total Expenses	**10 142**	2 524	**609**	734	**10 751**	3 258
INCOME:						
Revenues from fees and charges	**154**	37	**535**	647	**689**	684
Interest	**66**	56	**-**	-	**66**	56
Total Income	**220**	93	**535**	647	**755**	740
Net Cost of Providing Services	**9 922**	2 431	**74**	87	**9 996**	2 518
GOVERNMENT:						
Revenues from SA Government	**10 051**	2 159	**50**	-	**10 101**	2 159
Payments to SA Government	**-**	184	**-**	-	**-**	184
NET RESULT	**129**	(456)	**(24)**	(87)	**105**	(543)

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 statutory duties in accordance with the provisions of the *Electoral Act 1985.*

The objectives of the Office are to promote 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 Framework (APF) promulgated under the provisions of the *Public Finance and Audit Act 1987*;
- applicable Australian Accounting Standards (AASB);
- other mandatory professional reporting requirements in Australia

These financial statements are the first statements to be prepared in accordance with the Australian equivalents to International Reporting Standards (AIFRS). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these statements. Previously the financial statements were prepared in accordance with Australian Generally Accepted Accounting Principles. The effect of transition to AIFRS on the financial statements are in Note 4.

The Office's Income Statement and Balance Sheet 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).

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

- 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 Income and Expenses

Income and expense are recognised in the Office's Income Statement when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Income and expenses have been classified according to their nature in accordance with APF II *General Purpose Financial Reporting Framework* and have not been offset unless required or permitted by another accounting standard.

Income 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.

Income from disposal of non-current assets is recognised when control of the asset has passed to the buyer and determined by comparing proceeds with carrying amount.

2.6 Revenues from/Payments to SA Government

Appropriations for program funding are recognised as revenues when the Office obtains control over the funding. Control over appropriations is normally obtained upon receipt and are accounted for in accordance with TI 3 *Appropriation*.

Payments to SA Government are the return of surplus cash pursuant to the cash alignment policy and paid directly to the Department of Treasury and Finance consolidated account.

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 and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits at the bank and is used in the cash management function on a day-to-day basis. Cash is measured at nominal value.

2.9 Receivables

Receivables include amounts receivable from debtors, prepayments and other accruals.

Receivables arise in the normal course of providing services to other agencies and to the public. Receivables are payable within 30 days after the issue of an invoice.

The provision for doubtful debts is 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.

2.10 Inventories

Inventories are election consumables such as ballot paper and polling booth items that are held for potential by-elections and where applicable Local Government elections and industrial ballots. Inventory items are not held for resale and are stated at the lower of cost or replacement cost.

2.11 Non-Current Asset Acquisition and Recognition

Assets are 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 Accounting Policy Framework III *Asset Accounting Framework*.

All non-current assets are tested for indication of impairment at each reporting date. When there is indication of impairment, the asset is written down to its recoverable amount.

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.

Depreciation for non-current assets is determined as follows:

Class of Asset	*Depreciation Method*	*Useful Life (Years)*
Office equipment and furniture and fittings	Straight line	5-10
Computer equipment	Straight line	3

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.

All amounts are measured at their nominal amount and are normally settled within 30 days from the date of invoice or date the invoice is received, in accordance with TI 11 *Payment of Creditors' Accounts*.

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

2.14 Employee Benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long- term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

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 annual leave liability is expected to be payable within twelve months and is measured at the undiscounted amount expected to be paid. In the unusual event where salary and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

The liability for long service leave is recognised after an employee has completed seven years of service as advised in the Accounting Policy Framework IV *Financial Asset and Liability Framework*. An actuarial assessment of long service leave was undertaken by the by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector. It was determined that the liability measured using the short hand method was not materially different from the liability measured using the present value of expected future payments.

2.14 Employee Benefits (continued)

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.

2.15 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 Income Statement on a basis which is representative of the pattern of benefits derived from the leased assets.

2.17 Administered Items

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 Income Statement and Balance Sheet.

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 income, expenses, assets or liabilities of the Office but are disclosed in Note 19.

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 income comprises non-voter expiation fees as provided in the Act.

3. Risk Management

The State Electoral Office does not have significant non-interest bearing assets (cash on hand and receivables) and liabilities (payables). The Office's exposure to market risk and cash flow is minimal.

The Office has no significant concentration of credit risk. The Office has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history.

In relation to liquidity/funding risk, the continued existence of the Office in its present form, and with its present programs, is dependent on continuing appropriations by Parliament for the Office's administration and programs.

4. Changes in Accounting Policies

The State Electoral Office has adopted the AIFRS for the first time for the year ended 30 June 2006.

The adoption of the AIFRS has not resulted in any adjustments to the Income Statement, Balance Sheet or Cash Flow Statement.

5. 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.

5. Programs of the Office (continued)

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.

6. Employee Benefit Costs

	2006	2005
	$'000	$'000
Salaries and wages	**4 608**	938
Long service leave	**47**	180
Annual leave	**129**	85
Employment on-costs - Superannuation	**298**	109
Employment on-costs - Other	**279**	63
Total Employee Benefits Costs	**5 361**	1 375

Remuneration of Employees

	2006	2005
The number of employees whose remuneration received or receivable falls within the following bands:	**Number of Employees**	Number of Employees
$130 000 to $139 999	**1**	1
$140 000 to $149 999	**1**	-
$170 000 to $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. Remuneration of employees reflect all costs of employment including salaries and wages, superannuation contributions, fringe benefits tax and other salary sacrifice benefits. The total remuneration received by these employees for the year was $274 000 ($308 000).

The Office on average employed 27 (24) people throughout the year.

7. Supplies and Services

	2006	2005
Supplies and services provided by entities within the SA Government:	**$'000**	$'000
Rental accommodation services	**482**	265
Communication and information technology	**217**	81
Hire, rental and other	**57**	19
Total Supplies and Services - SA Government Entities	**756**	365
Supplies and services provided by entities external to the SA Government:		
Advertising	**1 222**	60
Production and maintenance of electoral rolls	**758**	712
Communications and information technology	**539**	73
Election inventories/ballot paper	**465**	-
Printing and stationery	**472**	105
Distribution, storage and hire rental	**397**	69
Postage	**208**	96
Education and research	**112**	126
Training and development	**44**	30
Total Supplies and Services - Non-SA Government Entities	**4 217**	1 271
Total Supplies and Services	**4 973**	1 636

	Number of Consultancies 2006	2006 $'000	2005 $'000
The number and dollar amount of consultancies paid/payable that fell within the following band:			
$10 000 to $50 000	**1**	**13**	-

8. Depreciation

	2006	2005
	$'000	$'000
Office equipment and furniture and fittings	**44**	45
Computer equipment	**23**	15
Leasehold improvements	**-**	26
Total Depreciation	**67**	86

9. Auditor's Remuneration

Audit fees paid/payable to the Auditor-General's Department	**26**	22

Other Services

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

10. Revenues from Fees and Charges

	2006	2005
Fees and charges received/receivable from entities within the SA Government:	**$'000**	$'000
Reimbursement of TVSPs paid	**-**	(129)
Industrial elections	**22**	98
User fees and charges	**43**	125
Total Fees and Charges - SA Government Entities	**65**	94
Fees and charges received/receivable from entities external to the SA Government:		
Other local government services	**344**	334
Industrial elections	**41**	84
Local government elections	**123**	78
User fees and charges	**116**	94
Total Fees and Charges - Non-SA Government Entities	**624**	590
Total Fees and Charges	**689**	684

11. Revenues from/Payments to SA Government

Revenues from SA Government:		
Appropriations from Consolidated Account pursuant to the *Appropriation Act*	**10 101**	2 159
Total Revenues from SA Government	**10 101**	2 159
Payments to SA Government:		
Return of surplus cash pursuant to cash alignment policy	**-**	(184)
Total Payments to SA Government	**-**	(184)

12. Cash and Cash Equivalents

Deposits with the Treasurer	**855**	938
Imprest account/cash on hand	**1**	-
Total Cash	**856**	938

Deposits with the Treasurer

Includes funds held in the Accrual Appropriation Excess Funds Account and Surplus Cash Working Account balances. The balances of these funds are not available for general use ie Funds can only be used in accordance with the Treasurer's/Under Treasurer's approval.

Interest Rate Risk

Cash on hand is non-interest bearing. Deposits at call and with the Treasurer are based on the weighted average rate of 5.3 percent for the financial year. The carrying amount of cash approximates net fair value.

13. Receivables

	2006	2005
Current:	**$'000**	$'000
Receivables	**262**	41
Prepayments	**24**	17
GST receivable	**54**	11
Total Current Receivables	**340**	69
Government/Non-Government Receivables:		
Receivables from SA Government entities:		
Receivables	**110**	1
Other receivables	**33**	4
Total Receivables from SA Government Entities	**143**	5
Receivables from Non-SA Government entities:		
Receivables	**116**	34
Prepayments	**24**	17
GST receivable	**54**	11
Other receivables	**3**	2
Total Receivables from Non-SA Government Entities	**197**	64
Total Receivables	**340**	69

Interest Rate and Credit Risk

Receivables are raised for all goods and services provided for which payment has not been received. Receivables are normally settled within 30 days. Trade receivables and prepayments are non-interest bearing. The carrying amount of receivables approximates net fair value due to being receivable on demand. In addition there is no concentration of credit risk.

14. Property, Plant and Equipment

	2006 $'000	2005 $'000
Office Equipment and Furniture and Fittings:		
Office equipment and furniture and fittings at cost (deemed fair value)	**471**	471
Accumulated depreciation	**290**	248
Total Office Equipment and Furniture and Fittings	**181**	223
Computer Equipment:		
Computer equipment at cost (deemed fair value)	**387**	303
Accumulated depreciation	**310**	288
Total Computer Equipment	**77**	15
Total Property, Plant and Equipment	**258**	238

Impairment

There were no indications of impairment to property, plant and equipment at 30 June 2006.

	Office Equipment Furniture Fittings $'000	Computer Equipment $'000	2006 Total $'000	2005 Total $'000
Carrying amount at 1 July	**223**	**15**	**238**	311
Additions	**4**	**85**	**89**	13
Disposals	**(2)**	**-**	**(2)**	-
Depreciation	**(44)**	**(23)**	**(67)**	(86)
Carrying Amount at 30 June	**181**	**77**	**258**	238

15. Payables

	2006 $'000	2005 $'000
Current:		
Creditors	**68**	21
Accrued expenses	**139**	283
Prepaid revenue	**104**	-
GST payable	**29**	3
Employment on-costs	**45**	41
Total Current Payables	**385**	348
Non-Current:		
Employment on-costs	**46**	48
Total Non-Current Payables	**46**	48
Government/Non-Government Payables:		
Payables to SA Government entities:		
Creditors	**41**	5
Accrued expenses	**48**	34
Prepaid revenue	**100**	-
Total Payables to Other SA Government Entities	**189**	39
Payables to Non-SA Government entities:		
Prepaid revenue	**4**	-
Creditors	**26**	16
Accrued expenses	**93**	249
GST payable	**29**	3
Employment on-costs	**90**	89
Total Payables to Non-SA Government Entities	**242**	357
Total Payables	**431**	396

Interest Rate and Credit Risk

Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables approximates net fair value due to the amounts being payable on demand.

16. *(a) Employee Benefits*

	2006 $'000	2005 $'000
Current:		
Annual leave	**115**	61
Short-term long service leave	**52**	47
Total Current Employee Benefits	**167**	108
Non-Current:		
Long service leave	**296**	265
Total Non-Current Employee Benefits	**296**	265
Total Employee Benefits	**463**	373

(b) Employee Benefits and Related On-Costs	2006	2005
Accrued Salaries:	$'000	$'000
On-costs included in payables - Current	16	22
Accrued salaries included in payables - Current	24	16
	40	38
Annual Leave:		
On-costs included in payables - Current	21	12
Provision for employee benefits - Current	115	61
	136	73
Long Service Leave:		
On-costs included in payables - Current	8	7
Provision for employee benefits - Current	52	47
	60	54
On-costs included in payables - Non-current	45	48
Provision for employee benefits - Non-current	297	265
	342	313
Aggregate Employee Benefits and Related On-Costs	**578**	478

17. Commitments

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:

	2006	2005
Within one year	251	204
Later than one year but not later than five years	14	136
Total Operating Lease Commitments	**265**	340

The Office's operating lease is for office accommodation and leased through Real Estate Management. The current lease expires on 27 February 2007 and the lease commitments shown are less than one year. Real Estate Management is currently (post 30 June 2006) negotiating a one year lease term with one year right of renewal with the building owner. The amount of rental expense for minimum lease payments during the financial year was $204 000.

18. Cash Flow Reconciliation

	2006	2005
Reconciliation of Cash - Cash at year end as per:	$'000	$'000
Cash Flow Statement and Balance Sheet	856	938

Reconciliation of Net Cash provided by Operating Activities to Net Cost of Providing Services:

	2006	2005
Net cash provided by operating activities	7	65
Less: Revenues from SA Government	(10 101)	(2 159)
Add: Payments to SA Government	-	184
Add (Less): Non-cash items:		
Depreciation	(67)	(86)
Assets free of charge	-	13
Change in assets/liabilities:		
Increase (Decrease) in receivables	271	(229)
Increase in inventories	20	8
(Increase) in payables	(35)	(164)
(Increase) in employee benefits	(91)	(150)
Net Cost of Providing Services	**(9 996)**	(2 518)

19. Administered Items

Income Statement of Administered Items for the year ended 30 June 2006

	2006				2005
	Electoral Districts Boundaries Commission	Special Acts	Other	**Total**	Total
Income:	$'000	$'000	$'000	**$'000**	$'000
Revenues from SA Government	75	251	-	**326**	303
Fees and charges	-	-	53	**53**	-
Total Income	75	251	53	**379**	303
Expenses:					
Employee expenses	-	250	-	**250**	254
Fees and charges	86	-	53	**139**	-
Total Expenses	86	250	53	**389**	254
Net Result	(11)	1	-	**(10)**	49

Balance Sheet of Administered Items as at 30 June 2006

	2006			2005
	Electoral Districts Boundaries Commission	Special Acts	**Total**	Total
Current Assets:	$'000	$'000	**$'000**	$'000
Cash	16	-	**16**	2
Receivables	6	128	**134**	128
Total Administered Assets	22	128	**150**	130
Current Liabilities:				
Payables	31	9	**40**	6
Employee benefits	-	28	**28**	22
Total Current Liabilities	31	37	**68**	28
Non-Current Liabilities:				
Payables	-	7	**7**	8
Employee benefits	-	65	**65**	74
Total Non-Current Liabilities	-	72	**72**	82
Total Administered Liabilities	31	109	**140**	110
Net Assets	(9)	19	**10**	20
Administered Equity:				
Accumulated surplus	(9)	19	**10**	20
Total Administered Equity	(9)	19	**10**	20

Statement of Changes in Equity for the year ended 30 June 2006

	Electoral Districts Boundaries Commission	Special Acts	Total
	$'000	$'000	$'000
Balance at 30 June 2004	2	(31)	(29)
Net Result 2004-05	-	49	49
Balance at 30 June 2005	2	18	20
Net Result 2005-06	(11)	1	(10)
Balance at 30 June 2006	**(9)**	**19**	**10**

Cash Flow Statement of Administered Items for the year ended 30 June 2006

	2006 Inflows (Outflows)	2005 Inflows (Outflows)
Cash Flows from Operating Activities:		
Cash Outflows:	**$'000**	$'000
Employee benefit payments	**(251)**	(303)
Supplies and services	**(114)**	-
	(365)	(303)
Cash Inflows:		
Fees and charges	**53**	-
Cash used in Operations	**(312)**	(303)
Cash Flows from SA Government:		
Receipts from SA Government	**326**	303
Cash Generated from SA Government	**326**	303
Net Cash provided by Operating Activities	**14**	-
Net Increase in Cash and Cash Equivalents	**14**	-
Cash and Cash Equivalents at 1 July	**2**	2
Cash and Cash Equivalents at 30 June	**16**	2

SUPERANNUATION FUNDS MANAGEMENT CORPORATION OF SOUTH AUSTRALIA

FUNCTIONAL RESPONSIBILITY AND STRUCTURE

Establishment

The Superannuation Funds Management Corporation of South Australia (Funds SA) is a Statutory Authority established pursuant to the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Act).

Functions

The functions of Funds SA, as detailed in section 5 of the Act are:

- to invest and manage the public sector superannuation funds and the nominated funds of approved authorities pursuant to strategies formulated by Funds SA;

- such other functions as are assigned to Funds SA by this Act or any other Act.

Section 7 of the Act further provides that the objective of Funds SA in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

- the need to maintain the risks relating to investment at an acceptable level;
- the need for liquidity in the funds;
- such other matters as are prescribed by regulation.

Changes to Functions

Amendments to the Act were gazetted on 13 October 2005 to allow Funds SA to invest and manage nominated funds of approved authorities. Pursuant to the Act, a prescribed public authority may apply to the Minister for approval to transfer funds to Funds SA for the purpose of investment and management of those funds on behalf of the authority. Funds SA must invest and manage these funds following the Minister's approval. At the request of the authority, Funds SA must transfer back any funds of the authority pursuant to the Minister's approval.

This change means Funds SA will potentially invest and manage non-superannuation funds. While this amendment came into operation on 13 October 2005, Funds SA did not invest and manage any nominated funds of approved authorities for the financial year ending 30 June 2006.

Restrictions on Operations

Pursuant to subsection 21(1) of the Act, in performing its functions, Funds SA is subject to the direction and control of the Minister. However, a ministerial direction must not be given for an investment decision dealing with property or the exercise of a voting right.

Funds SA has, by virtue of the Act, broad powers over the investment of public sector superannuation funds. Funds SA, however, cannot borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations or by the Minister. In addition, the Regulations under the Act impose restrictions on the investment of public sector superannuation funds as follows:

- Funds SA must not invest the public sector superannuation funds in property outside Australia or in real property outside the State, unless the Minister has authorised the investment specifically or by reference to the class of investment to which it belongs.

- Funds SA must not enter into derivative transactions (eg futures contracts, forward contracts, swaps etc), unless the contract or dealing has been authorised by the Minister specifically or by reference to the class of contracts or dealings to which it belongs.

Management of Superannuation Funds and Schemes

The various public sector superannuation funds managed and invested by Funds SA, as defined under the Act, are identified in Note 1 to the financial report.

Funds SA is not responsible for the administration (ie receipt of contributions and payment of benefits) of any of the public sector superannuation funds. This responsibility rests with the following entities:

- The South Australian Superannuation Board — South Australian Superannuation Scheme and the Southern State Superannuation Scheme.

- The Police Superannuation Board — Police Superannuation Scheme.

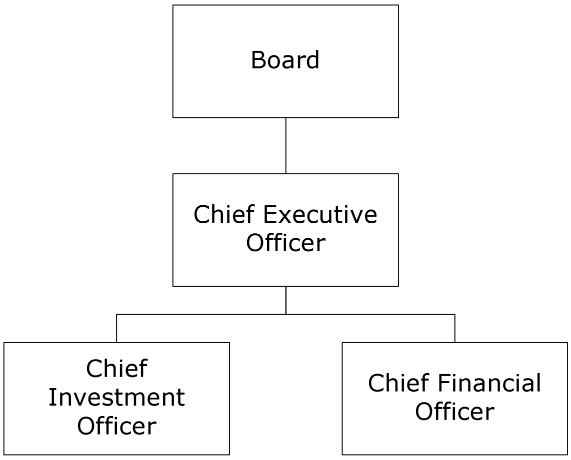
- The South Australian Parliamentary Superannuation Board — Parliamentary Superannuation Scheme.

- The Department of Treasury and Finance — the Governors' Pensions Scheme and the Judges' Pensions Scheme.

Additional information on the administration of the superannuation schemes is available in the financial reports of the various schemes included elsewhere in Part B of this Report.

Structure

The structure of Funds SA is illustrated in the following organisation chart.



Funds SA operates with a small staff comprising investment officers and accounting and administrative support staff. This structure is complemented by extensive use of external funds management firms. Fund managers are utilised for all investment types, and there is a single custodian (who is responsible for the integrity and holding of the assets) for the majority of those fund managers. Each fund manager is appointed pursuant to an agreement which dictates the scope for investment, fees and reporting requirements. The custodian, JP Morgan Chase Bank NA, is also appointed pursuant to a similar agreement.

Funds SA also has a number of controlled entities (fully owned). Refer Note 20 to the financial report for details.

Audit Committee

The Act specifically requires Funds SA to establish an Audit Committee. As at 30 June 2006, the Committee comprised four Board members operating within the framework of an Audit Committee Charter. Pursuant to that charter, the Committee is responsible for; assessing the quality of both internal and external financial reporting; assessing the effectiveness of Funds SA's internal control structure; and maintaining an effective and efficient liaison with both internal and external audit. Audit representatives attended Audit Committee meetings throughout the year.

AUDIT MANDATE AND COVERAGE

Audit Authority

Audit of the Financial Report

Subsection 31(1)(b) of the *Public Finance and Audit Act 1987* and section 28 of the *Superannuation Funds Management Corporation of South Australia Act 1995* provides for the Auditor-General to audit the accounts of Funds SA 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 Funds SA 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 focused on obtaining sufficient evidence to form an audit opinion on the financial report and internal controls.

During 2005-06, specific areas of audit attention included:

- investment policy and strategy
- investments (purchases and sales, valuation and income)
- custodial and fund management
- management reporting and monitoring
- administration expenses.

AUDIT FINDINGS AND COMMENTS

Audit Opinions

Audit of the Financial Report

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 Superannuation Funds Management Corporation of South Australia as at 30 June 2006, the results of its operations and its cash flows for the year then ended.

Assessment of Controls

In my opinion, the controls exercised by the Superannuation Funds Management Corporation 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 Superannuation Funds Management Corporation of South Australia have been conducted properly and in accordance with law.

Audit Communications to Management

The audit of Funds SA indicated that the internal controls over its operations were satisfactory. No significant issues were raised as a result of the audit.

INTERPRETATION AND ANALYSIS OF FINANCIAL REPORT

Highlights of Financial Report

	2006 **$'million**	2005 $'million	Percentage Change
NET FUNDS MADE AVAILABLE FOR INVESTMENT	**881**	293	n/a
NET INCOME EARNED FROM INVESTMENT ACTIVITIES:			
Inflation linked funds	**59**	93	(37)
Property	**88**	74	19
Australian equities	**630**	553	14
International equities	**630**	204	n/a
Fixed interest	**19**	67	(72)
Other	**85**	21	n/a
Total Net Income Earned from Investment Activities	**1 511**	1 012	49

	2006 $'million	2005 $'million	Percentage Change
ADMINISTRATION EXPENSES	**3**	3	-
Change in Net Assets	**2 389**	1 302	83
Net Cash Flows from Operations	**50**	77	(35)
Net Cash Flows from Investing Activities	**(746)**	(320)	n/a
Net Cash Flows from Financing Activities	**881**	293	n/a
ASSETS			
Investments	**10 323**	7 932	30
Other assets	**2**	2	-
Total Assets	**10 325**	7 934	30
LIABILITIES			
Current liabilities	**17**	12	42
Non-current liabilities	**18**	21	(14)
Total Liabilities	**35**	33	6
EQUITY	**10 290**	7 901	30

Statement of Changes in Net Assets

Net Funds made available for Investment

Net funds made available for investment consists of the net of receipts from and payments to the public sector superannuation funds. Net funds made available for investment increased by $587 million to $881 million. Details of receipts and payments for the various funds are provided in Note 4 to the financial report.

Of the $881 million, $261 million ($215 million) was made available by the Treasurer for the accruing employers' superannuation liabilities for the South Australian Superannuation Scheme. An amount of $464 million was also received from the Commonwealth for the superannuation liability of the former state railway employees. Further information on these amounts is available in the commentary under 'South Australian Superannuation Scheme' elsewhere in Part B of this Report.

Income from Investments

Net income from investment activities resulted in a return of $1511 million ($1012 million). This result predominantly reflects the recording of assets at net market values where unrealised gains or losses are brought to account. In 2006 unrealised gains were $696 million or 46 percent of the reported net income of $1511 million ($664 million or 66 percent).

The strong investment returns of 2006 are attributable to:

- the global (including Australian) equity market has continued its strong performance producing total returns of $1260 million ($756 million). During 2005-06, realised gains on the sale of equity investments increased by $360 million and other income earned from investments increased by $101 million. The global equity market's strong performance derives from solid economic growth of all major economies; the continuing industrialisation of China and strong demand for industrial raw materials and commodities.
- returns on Inflation Linked Securities decreased significantly with unrealised losses of $2.6 million (unrealised gain of $30.1 million). This was offset by an increase of $15.1 million in income earned from investments. Income earned from these investments are linked to inflation or the Average Weekly Earnings.
- returns on fixed interest also decreased significantly due mainly to a decrease in realised gains of $40.8 million. During 2004-05, a significant amount of investments were redeemed resulting in realised gains of $42.7 million compared to realised gains of only $1.9 million in 2005-06. The decrease was offset by other income earned from these investments of $30.7 million.
- returns on both the diversified strategies investment classes increased as they were earning revenue for the whole of 2005-06 and there was an increase in funds allocated to these classes.

Note 5 to the financial report provides full details of income earned from investment activities for each of the investment classes comprising the Fund.

It is relevant to observe the later comments, particularly on stock market risks, included under 'Asset Allocation and Risk'.

A structural analysis of net income earned by Funds SA for the four years to 2006 is presented in the following table.

Net Income Earned From Investment Activities

	2006	2005	2004	2003
	$'million	$'million	$'million	$'million
Inflation Linked Funds	**59.2**	92.8	16.6	75.3
Property	**87.5**	74.3	65.2	50.8
Australian Equities	**630.0**	553.2	404.6	5.8
International Equities	**630.4**	203.7	425.8	(175.8)
Fixed Interest	**19.2**	66.7	19.8	52.0
Cash and other	**85.1**	21.5	8.2	6.0
	1 511.4	1 012.2	940.2	14.1

The above table reflects that Funds SA's investment strategy is weighted towards equity holdings. Refer to the chart and discussions under Statement of Net Assets. The volatile nature of equities will cause returns from these investments to fluctuate from year to year due to the effect of prevailing economic conditions. Over the last three years, the equity investment classes have produced strong returns.

Investment Expenses

Investment expenses are deducted from income to determine Net Income Earned from Investments in the Statement of Changes in Net Assets. In 2006 these expenses amounted to $55.9 million of which $50 million (89 percent) were fund management fees. These fees equate to 0.5 percent of funds under management.

Year	$'million
2003	21.9
2004	25.3
2005	33.5
2006	**50.0**

Although fund manager fees have generally increased over the past four years they remain at 0.5 percent of average funds under management. The increases in the fund management fees correlates with the increase in funds under management; strong investment performance and the additional investment classes which were introduced in late 2004-05.

Statement of Net Assets

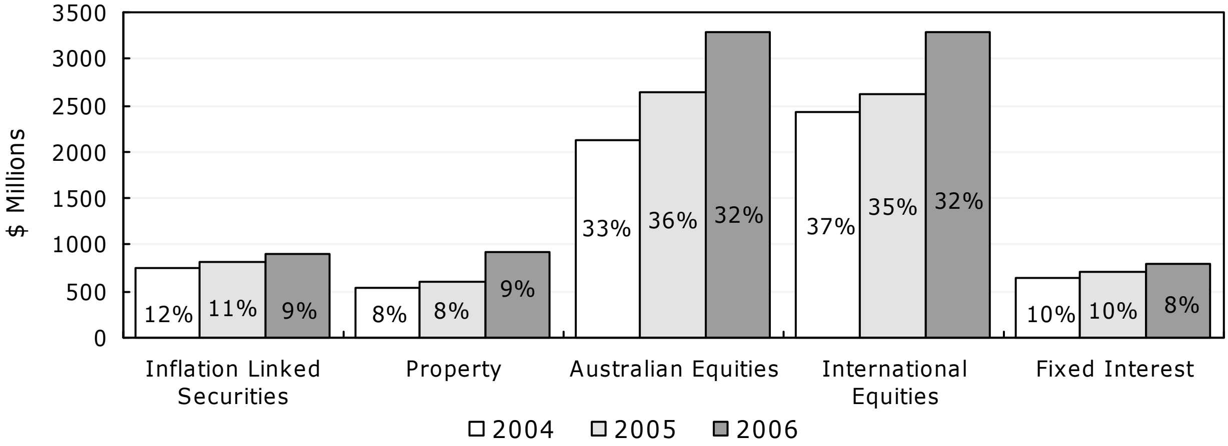
As Funds SA's main function is to invest and manage the public sector superannuation funds, assets predominantly consist of investments. Total liabilities as a percentage of total assets are 0.3 percent.

As a result of: the decision by the Government to move to full funding of the public sector superannuation liability; the introduction of new superannuation products; increase in contributions; and accumulation of investment earnings; Funds SA continues to experience growth in total funds under management (net assets) as illustrated in the following chart.

Asset Classes

Funds SA is an investment organisation with broad powers and $10.3 billion of funds under management. These funds are represented by eight asset classes.

The value of each asset class (excluding cash and diversified strategies which in total only represents 10 percent of total funds under management) and the holding of each asset class as a percentage of total funds under management at 30 June for the last three financial years is illustrated in the following chart.



As previously noted the above chart reflects Funds SA's investment strategy's weighting towards equity holdings.

Statement of Cash Flows

The following table summarises the net cash flows for the four years to 2006.

	2006	2005	2004	2003
	$'million	$'million	$'million	$'million
Net Cash Flows				
Operations	**49.7**	77.0	83.3	78.9
Investing	**(746.0)**	(319.8)	(369.7)	(54.2)
Financing	**880.6**	293.1	216.2	145.1
Change in Cash	**184.3**	50.3	(70.2)	169.8
Cash at 30 June	**393.0**	208.7	128.5	198.7

Net cash flows from Investing Activities reflects the level of redemptions and purchases of investments. During 2006 the purchase of investments decreased by $1893 million to $1040 million. Sales from investments decreased by $2319 million to $294 million. This reflects fund manager transitions; and strategic asset allocation rebalancing of the portfolios. In 2004-05 there were significant changes to the Australian Equities, International Equities and Fixed Interest portfolios.

For details on Financing Activities, which reflect receipts and payments from and to the various superannuation schemes, refer to Note 4 of the financial report.

FURTHER COMMENTARY ON OPERATIONS

Asset Allocation and Risk

The decision as to how the superannuation funds will be invested is established through an investment policy. Underpinning the investment policy and decision making process is an understanding of the risks facing Funds SA. It should be noted that in the investment market there exist a range of financial risks which may impact on Funds SA's operations. These include:

- Share Market Risk — The impact on earnings of movements in share prices of investments. This is particularly relevant for Funds SA's holdings of Australian equities and International equities where the majority of funds are allocated.

- Interest Rate Risk — The sensitivity of earnings to future movements in interest rates. This is particularly relevant to Funds SA's holdings of inflation-linked and fixed-interest securities.

- Concentration Risk — The risk of an over-exposure in the weighting ascribed to an individual investment or asset class.

- Currency Exposure — The impact that movements in currencies have on the value of, and earnings on, overseas investments. This is particularly relevant for Funds SA's holdings of International equities and fixed interest (international component).

In managing some of these risks Funds SA utilises derivative instruments. Refer to Note 23(b) of the financial report for further details.

Investment Returns

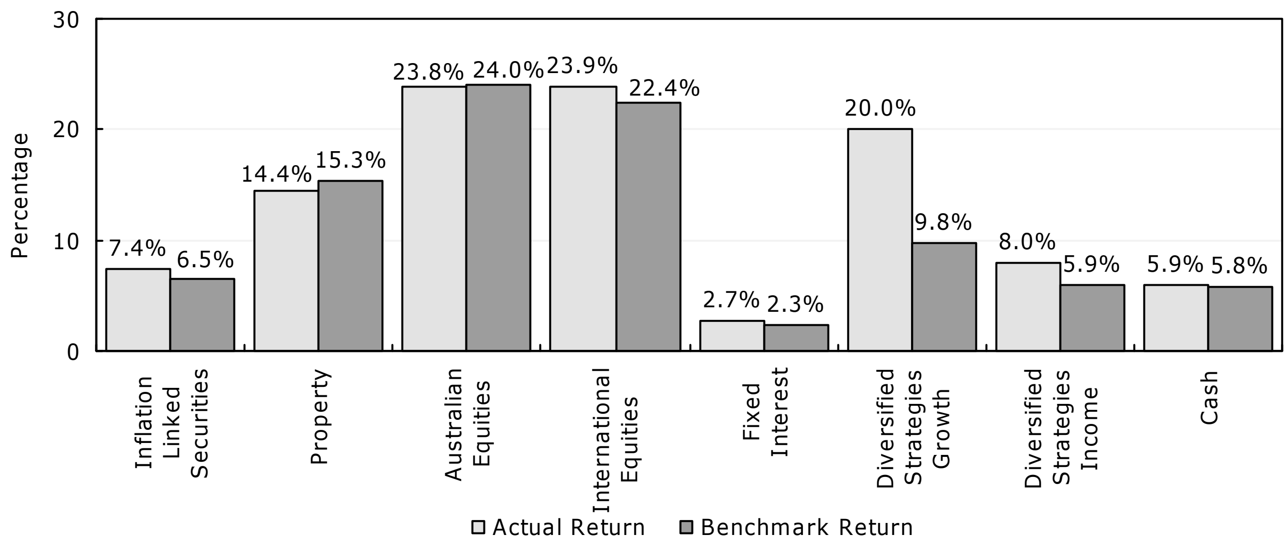
As mentioned earlier, Funds SA values its investments at net market value, in accordance with the requirements of Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans*. Any increases or decreases in the market value are brought to account through the Statement of Changes in Net Assets. As such, the valuation of the investments under management has a direct impact upon the level of income earned by Funds SA in any one year. Funds SA has established performance benchmarks for each asset class as follows:

Asset Class	Performance Benchmark
Australian equities	Standard and Poor's/ASX 300 Accumulation Index
International equities	Tailored benchmark incorporating specific sub sectors and hedge
Property	Tailored benchmark comprising Mercer Australian Unlisted Property Index, Standard and Poor's/ASX Property 300 Accumulation Index and EPRA/NAREIT Global Real Estate Index
Inflation linked	UBS Warburg Australian Inflation Linked Bond Index
Fixed interest	(Australia) UBS Warburg Australian Composite Bond Index and (International) Lehman Global Aggregate 300 AUD Index Hedged
Diversified strategies (Growth)	UBS Warburg Australian Bank Bill Index plus 4 percent per annum
Diversified strategies (Income)	Tailored benchmark comprising specific indices
Cash	UBS Warburg Australian Bank Bill Index

Funds SA's objective is to exceed the relevant benchmark in each asset class.

Return Performance by Asset Class

The return performance of each of the eight distinct asset classes (after fees), against their relevant benchmark, for the 2005-06 financial year, is depicted in the following chart:

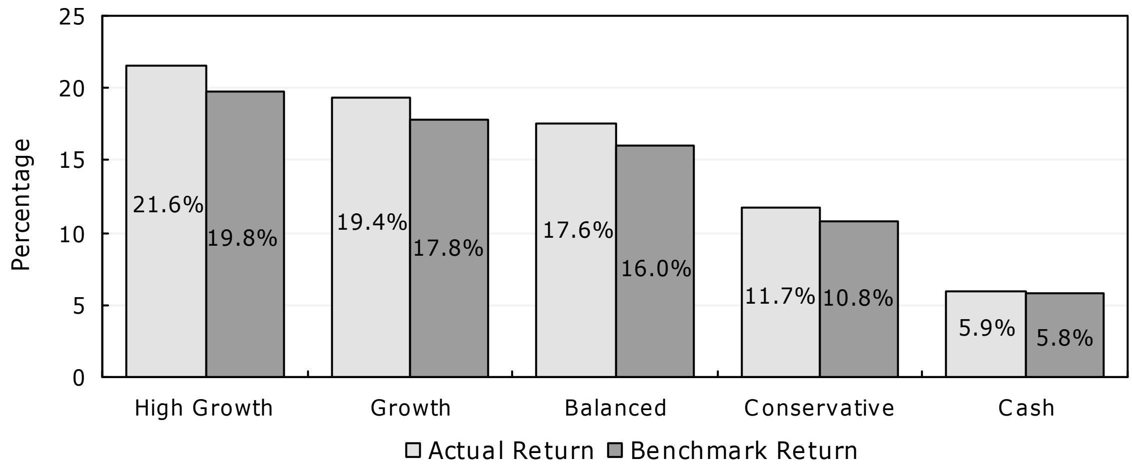


Return Performance by Product

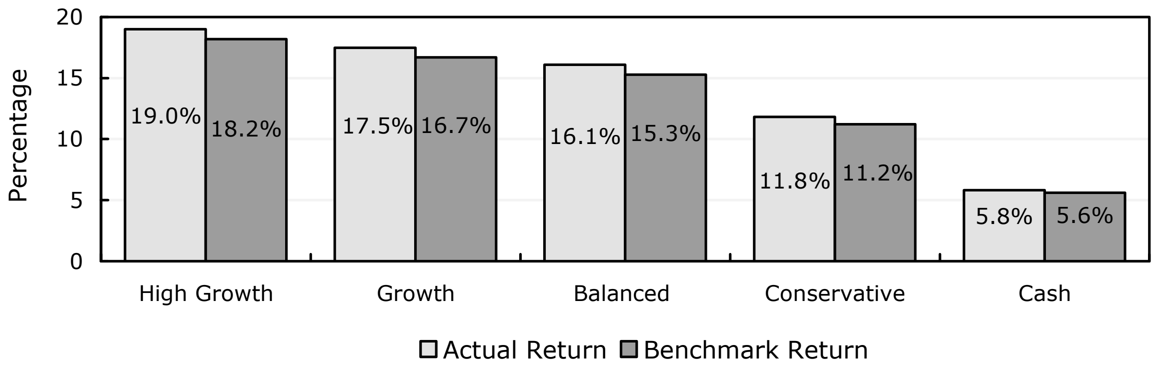
Members of the Triple S Scheme, the South Australian Superannuation Scheme (new scheme division) and the Parliamentary Superannuation Scheme (PSS 3 division) are provided with investment choices to enable them to tailor the investment strategy towards their individual risk/return preferences and financial circumstances. These investment choices comprise: high growth, growth, balanced, conservative, capital defensive and cash. All other public sector superannuation funds are invested in the growth option. The investment choices are also available for members investing in the post retirement products. For the purposes of this analysis, the returns on the post retirement products have been excluded as they are relatively new and there is no history of performance.

The return performance of each of the distinct products (excluding the relatively new 'capital defensive' product), against their relevant benchmark, for the 2005-06 financial year, the last three years and the last five years is depicted in the following charts.

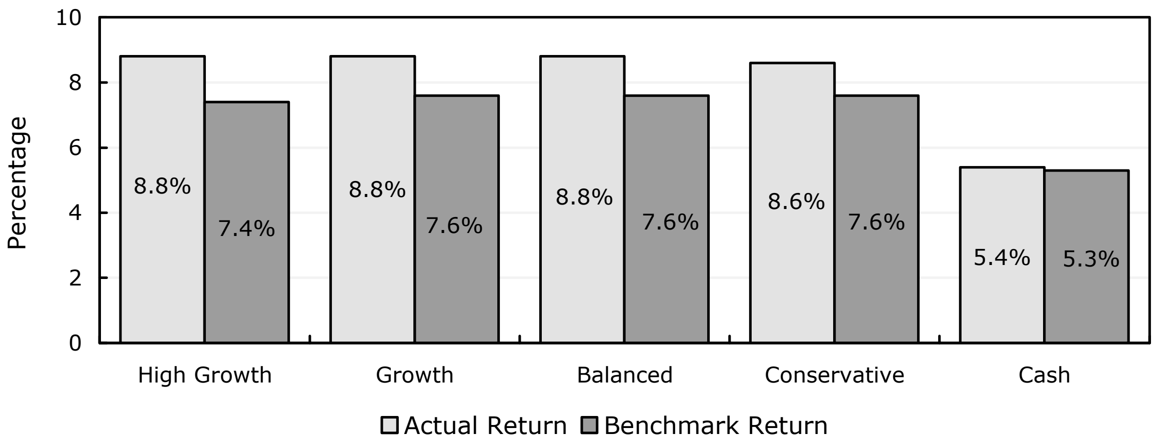
2005-06 Financial Year (Returns Percent)



Three Years ending 30 June 2006 (Returns Percent per annum)



Five Years ending 30 June 2006 (Returns Percent per annum)



The foregoing charts show that, of all the products, high growth and growth have produced greater returns in the 2005-06 financial year as compared to conservative. In comparison, over a five year period these products have produced a comparable return. This outcome reflects Funds SA's investment strategy where the high growth and growth products have a significantly higher allocation of equity holdings than the conservative product. As previously noted, the volatile nature of equities will cause returns from these investments to fluctuate over a short period of time which is why Funds SA's investment strategy is designed to provide a consistent return over a longer term.

Statement of Changes in Net Assets for the year ended 30 June 2006

	Note	**2006 $'000**	2005 $'000
NET ASSETS AS AT 1 JULY		**7 901 017**	6 598 675
NET FUNDS MADE AVAILABLE FOR INVESTMENT	4	**880 612**	293 134
INCOME EARNED AND EXPENDITURE INCURRED AS A RESULT OF INVESTMENT ACTIVITIES			
Net Income earned from:			
Inflation linked securities	5(a)	**59 217**	92 756
Property	5(a)	**87 525**	74 258
Australian equities	5(a)	**630 022**	553 185
International equities	5(a)	**630 407**	203 739
Fixed interest	5(a)	**19 186**	66 712
Diversified strategies (Growth)	5(a)	**48 315**	2 061
Diversified strategies (Income)	5(a)	**20 474**	8 678
Cash	5(a)	**16 315**	10 818
		1 511 461	1 012 207
Less: Administration expenses	6(a)	**2 894**	2 999
Net Income from Investment Activities	5(b)	**1 508 567**	1 009 208
NET ASSETS AS AT 30 JUNE		**10 290 196**	7 901 017

Statement of Net Assets
as at 30 June 2006

	Note	2006	2005
BALANCE OF ACCOUNTS OPERATED IN RESPECT OF:	Note	**$'000**	$'000
South Australian Superannuation Scheme	25(a)	**4 706 080**	3 559 669
Police Superannuation Scheme	25(b)	**741 352**	595 751
Southern State Superannuation Scheme	25(c)	**4 569 851**	3 481 412
Parliamentary Superannuation Scheme	25(d)	**137 638**	134 569
Judges' Pensions Scheme	25(e)	**134 512**	128 883
Governors' Pensions Scheme	25(f)	**763**	733
BALANCE OF ACCOUNTS AS AT 30 JUNE		**10 290 196**	7 901 017
INVESTMENTS:			
Inflation linked securities	7	**898 618**	813 116
Property	8	**929 547**	594 083
Australian equities	9	**3 288 418**	2 636 377
International equities	10	**3 287 598**	2 612 456
Fixed interest	11	**784 125**	708 339
Diversified strategies (Growth)	12	**354 872**	145 995
Diversified strategies (Income)	13	**388 578**	213 124
Cash	14	**391 137**	208 324
		10 322 893	7 931 814
OTHER ASSETS:			
Cash at bank		**2 027**	550
Accrued income		**358**	823
Fixed Assets	15	**433**	497
Other		**15**	65
		2 833	1 935
Total Assets		**10 325 726**	7 933 749
Less:			
CURRENT LIABILITIES:			
Rent received in advance		**1 189**	1 448
Accrued expenses		**15 891**	10 476
Provisions	16(a)	**172**	295
		17 252	12 219
NON-CURRENT LIABILITIES	16(b)	**18 278**	20 513
Total Liabilities		**35 530**	32 732
NET ASSETS AS AT 30 JUNE		**10 290 196**	7 901 017

Statement of Cash Flows
for the year ended 30 June 2006

	Note	**2006 Inflows (Outflows) $'000**	2005 Inflows (Outflows) $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Inflation linked securities		**26 375**	25 116
Property		**5 095**	599
Australian equities		**(13 061)**	5 702
International equities		**(9 152)**	34 395
Fixed interest		**(1 537)**	(1 615)
Diversified strategies (Growth)		**33 515**	5 167
Diversified strategies (Income)		**(4 977)**	(120)
Cash		**16 222**	10 430
Administration		**(2 731)**	(2 630)
Net Cash provided by Operating Activities	22(b)	**49 749**	77 044
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments:			
Inflation linked securities		**(58 325)**	-
Property		**(256 185)**	(2 283)
Australian equities		**(125 000)**	(415 190)
International equities		**(190 000)**	(1 307 993)
Fixed interest		**(55 000)**	(852 083)
Diversified strategies (Growth)		**(205 690)**	(150 943)
Diversified strategies (Income)		**(150 000)**	(204 318)
Fixed assets		**(41)**	(471)
		(1 040 241)	(2 933 281)
Sale of Investments:			
Inflation linked securities		**5 621**	5 473
Property		**1 117**	4 051
Australian equities		**120 000**	463 378
International equities		**155 080**	1 286 752
Fixed interest		**2**	852 082
Diversified strategies (Growth)		**12 389**	1 675
Fixed assets		**7**	(2)
		294 216	2 613 409
Net Cash used in Investing Activities		**(746 025)**	(319 872)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipts		**1 245 295**	639 214
Payments		**(364 683)**	(346 080)
Net Cash provided by Financing Activities	4	**880 612**	293 134
NET INCREASE IN CASH HELD		**184 336**	50 306
CASH AS AT 1 JULY		**298 702**	158 396
CASH AS AT 30 JUNE	22(a)	**393 038**	208 702

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

1. Format of the Financial Report

Superannuation Funds Management Corporation of South Australia (Funds SA) is established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Act). Funds SA is responsible for the investment and management of the public sector superannuation funds and the nominated funds of approved authorities pursuant to strategies formulated by Funds SA.

During the year, the Act was amended to enable Funds SA to manage the nominated funds of approved authorities in addition to the public sector superannuation funds. However, no such funds were received from approved authorities for management during the year.

As at 30 June 2006, Funds SA managed the following public sector superannuation funds:

- South Australian Superannuation Scheme:
  - South Australian Superannuation Fund (Old Scheme Division)
  - South Australian Superannuation Fund (New Scheme Division)
  - South Australian Superannuation Scheme - Employer Contribution Account;
- Police Superannuation Scheme:
  - Police Superannuation Fund (Old Scheme Division)
  - Police Superannuation Fund (New Scheme Division)
  - Police Superannuation Scheme - Employer Contribution Account;
- Southern State Superannuation Scheme:
  - Southern State Superannuation Fund
  - Southern State Superannuation (Employers) Fund
  - Super SA Flexible Rollover Product
  - Super SA Allocated Pension;
- Parliamentary Superannuation Scheme;
- Judges’ Pensions Scheme; and
- Governors’ Pensions Scheme.

The purpose of the financial report is to discharge Funds SA's reporting obligations in respect of its financial affairs under section 26(1) of the Act, and in respect of each of the funds, as required by section 26(2) of the Act. Funds SA's investment activities are reported in the Statement of Changes in Net Assets, Statement of Net Assets and Statement of Cash Flows.

Statements of Changes in Net Assets Under Management and Statements of Net Assets Under Management in respect of each public sector superannuation fund are reported in Note 25 to this financial report as required by section 26(2) of the Act.

Funds SA is not responsible for the administration of the superannuation schemes associated with the public sector superannuation funds. All scheme administration activities are undertaken by the Superannuation Boards established by scheme legislation, or by the Department of Treasury and Finance. Consequently, the financial report of Funds SA reports only on the investment activities of the funds under management. For information on the nature and overall operations of the various superannuation schemes, reference should be made to annual reports and financial reports prepared by the responsible Superannuation Boards and/or the Department of Treasury and Finance.

2. Statement of Significant Accounting Policies

(a) Basis of Accounting

This financial report is a general purpose financial report and has been prepared on an accruals basis 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, except as provided below.

This financial report is the first to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). The adoption of AIFRS has not resulted in any adjustments to the financial report. In addition, a number of Australian Accounting Standards have been issued or amended and are applicable to Funds SA but are not yet effective. Funds SA has assessed the impact of the new and amended standards and there will be no impact on the accounting policies.

The financial report of Funds SA, although not recording the administration activities of the public sector superannuation funds, is prepared in accordance with the principles of the Australian Accounting Standard AAS25 *Financial Reporting by Superannuation Plans* where relevant. Directors believe that this policy best discloses the financial status of the funds under management and the performance of Funds SA in fulfilling its management and investment responsibilities. It also provides consistency with the financial reports of the relevant superannuation schemes associated with the public sector superannuation funds. Consequently, assets and liabilities are recorded at net market values in the Statement of Net Assets as at the balance date, and realised and unrealised gains or losses are brought to account in the Statement of Changes in Net Assets.

(a) Basis of Accounting (continued)

As investments are revalued to their respective net market values at balance date, depreciation and amortisation are not provided for in this financial report.

Funds SA utilises the consolidation method of accounting. Assets and liabilities of Funds SA's controlled entities have been consolidated into the financial report at their net market values. The effects of transactions between entities in the economic entity are eliminated in full. Financial information in respect of the parent entity separate to that of the economic entity has not been provided as the application of market value reporting concepts results in the parent entity's financial report fully reflecting the economic activities of controlled entities. It is believed that disclosure of the parent entity's results separate to those of the economic entity would not provide information which would add value to users of the financial report.

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Valuations are net of estimated disposal costs, where applicable.

(i) Inflation Linked Securities

The Inflation Linked Securities portfolio comprises two sub-sectors:

- *Internally Managed*
  These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at balance date was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*
  The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.

(ii) Property

The Property portfolio comprises three sub-sectors:

- *Directly Held Property*
  The value of Funds SA's directly held property has been determined having regard to the contractual arrangements in place over the property.

- *Listed Property Trusts*
  The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at balance date.

- *Unlisted Property Vehicles*
  The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.

(iii) Australian Equities

The Australian Equities portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.

(iv) International Equities

The International Equities portfolio comprises investments in equities listed on international share markets, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled international vehicles have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(v) Fixed Interest

The Fixed Interest portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.

(vi) Diversified Strategies (Growth)

The Diversified Strategies (Growth) portfolio comprises investments in domestic (Australian) and overseas private equity funds and domestic (Australian) and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers. Both domestic and international funds valuations are generally in accordance with the International Private Equity Venture Capital Valuation Guidelines (November 2005). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(vii) *Diversified Strategies (Income)*
The Diversified Strategies (Income) portfolio comprises investments in both domestic (Australian) and overseas pooled funds, and is invested and managed by external managers. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(viii) *Cash*
Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.

(ix) *Fixed Assets*
Fixed assets have been valued at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. It is considered that this provides a reasonable estimate of net market value.

(x) *Other Assets and Liabilities*
These items have been assessed and it is considered that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following balance date, the book values of these items have been discounted back to balance date using relevant market interest rates applying at balance date.

(c) Taxation

All of the public sector superannuation funds under the management of Funds SA, with the exception of money invested under section 47B of the *Southern State Superannuation Act 1994*, are exempt from federal income tax by virtue that they are declared as 'constitutionally protected funds' under the Regulations to the *Income Tax Assessment Act 1936*.

In relation to the 'constitutionally protected funds' no income tax expense has been brought to account in this financial report as these are tax-exempt.

In relation to the money invested under section 47B of the *Southern State Superannuation Act 1994* (comprising the Super SA Flexible Rollover Product and Super SA Allocated Pension), these monies are subject to income tax. However, the income tax expense or rebates associated with these monies are payable by the relevant products, not by Funds SA. Consequently, no income tax expenses or rebates have been brought to account in this financial report in relation to these products. For tax information relating to these products, reference should be made to the financial reports of the Southern State Superannuation Scheme prepared by the administrator of the products, South Australian Superannuation Board.

(d) Accounting for Leases

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability on a straight-line basis. The allocation of lease rental payments in this manner ensures that the rental expense is recognised on a basis which is representative of the pattern of benefits derived from the leased asset.

(e) Employee Benefits

Liabilities for salaries, annual leave and long service leave have been recognised in respect of employees' service up to the balance date and are measured at amounts expected to be paid when the liabilities are settled.

As at 30 June 2006 the provision for long service leave has been determined for Funds SA's employees who have completed seven or more years of service. The benchmark for the measurement of long service leave liabilities has remained at seven years. This is consistent with the guidelines issued by the Treasurer per Accounting Policy Framework IV *Financial Asset and Liability Framework*. The current component of the long service leave liability has been determined based on internal estimates of long service leave due to be taken during the 12 months ending 30 June 2007.

Sick leave entitlements are non-vesting and have therefore not been recognised as a liability.

3. Operation of Investment Portfolio

Funds SA operates a pooled investment portfolio utilising a number of sector funds, each of which holds assets of a different category. The sector funds are:

- Australian Equities;
- International Equities;
- Property;
- Diversified Strategies (Growth);
- Diversified Strategies (Income);
- Fixed Interest;
- Inflation Linked Securities;
- Cash.

3. Operation of Investment Portfolio (continued)

Funds SA operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds. For the year ending 30 June 2006, Funds SA managed six separate investment options distinguished by differing strategic asset allocations, namely:

- High Growth;
- Growth;
- Balanced;
- Conservative;
- Capital Defensive;
- Cash.

During the financial year all of the above investment options were available to members of the Southern State Superannuation Scheme, the South Australian Superannuation Scheme (New Scheme Division) and the Parliamentary Superannuation Scheme 3 (PSS 3). All other public sector superannuation funds under Funds SA's management are invested in the Growth option.

The Super SA Flexible Rollover Product and the Super SA Allocated Pension have the same labels as the options listed above, but with slightly different asset allocations.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to each of the investment options discussed in the preceding paragraphs.

Each public sector superannuation fund holds units in an investment option, which in turn holds units in each of the sector funds according to the target strategic asset allocation for the investment option. Units are issued and redeemed periodically as transactions occur at unit prices calculated having regard to the net market value of underlying investments.

The interest which each public sector superannuation fund holds in the unitised investment portfolio is disclosed in each fund's Statement of Net Assets Under Management in Note 25. Each fund's allocation of total net investment income is disclosed in Note 5(b) and in each fund's Statement of Changes in Net Assets Under Management in Note 25.

4. Net Funds made Available for Investment

The receipts below represent the total of monies received by Funds SA from the public sector superannuation funds for investment, and payments represent the total of monies redeemed by the funds to meet scheme payments.

	2006	2005
South Australian Superannuation Scheme:	**$'000**	$'000
Receipts	**755 684**	268 500
Less: Payments	**304 885**	316 700
	450 799	(48 200)
Police Superannuation Scheme:		
Receipts	**38 799**	37 375
Less: Payments	**10 155**	12 150
	28 644	25 225
Southern State Superannuation Scheme:		
Receipts	**443 481**	327 619
Less: Payments	**528**	450
	442 953	327 169
Parliamentary Superannuation Scheme:		
Receipts	**3 801**	2 450
Less: Payments	**26 480**	12 370
	(22 679)	(9 920)
Judges' Pensions Scheme:		
Receipts	**3 530**	2 940
Less: Payments	**22 530**	4 310
	(19 000)	(1 370)
Governors' Pensions Scheme:		
Receipts	**-**	330
Less: Payments	**105**	100
	(105)	230
Total	**880 612**	293 134

5. Investment Income

(a) Composition of Investment Income

			2006		
	Rent, Interest and Dividends	**Realised Gains (Losses)(1)**	**Unrealised Gains (Losses)(2)**	**Expenses**	**Total**
Assets Sector	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Inflation Linked Securities(3)	**61 664**	**604**	**(2 551)**	**(500)**	**59 217**
Property	**38 476**	**3 287**	**50 145**	**(4 383)**	**87 525**
Australian Equities	**140 603**	**118 044**	**390 058**	**(18 683)**	**630 022**
International Equities	**108 290**	**292 984**	**248 672**	**(19 539)**	**630 407**
Fixed Interest	**30 667**	**1 902**	**(10 675)**	**(2 708)**	**19 186**
Diversified Strategies (Growth)	**38 003**	**(1 900)**	**19 973**	**(7 761)**	**48 315**
Diversified Strategies (Income)	**26 886**	**(4 929)**	**565**	**(2 048)**	**20 474**
Cash	**16 477**	**-**	**126**	**(288)**	**16 315**
Total	**461 066**	**409 992**	**696 313**	**(55 910)**	**1 511 461**

(1) Realised gains (losses) represents realised gains and losses over either cost for those investments which had been acquired and disposed of within the financial period, or over market values previously brought to account where the investments disposed of were held at the commencement of the period.

(2) Unrealised gains (losses) represents unrealised gains and losses, over either cost for those investments acquired during the period, or over market value at the commencement of the period for those investments acquired prior to the commencement of the period, and held at balance date.

(3) In accordance with the disclosure requirements of Accounting Policy Framework II *General Purpose Financial Reporting Framework*, a total of $8.98 million of investment income was earned during 2005-06 from investments with SA Government entities.

			2005		
	Rent, Interest and Dividends	Realised Gains (Losses)	Unrealised Gains (Losses)	Expenses	Total
Assets Sector	$'000	$'000	$'000	$'000	$'000
Inflation Linked Securities(1)	46 608	16 735	30 146	(733)	92 756
Property	32 958	5 091	40 807	(4 598)	74 258
Australian Equities	103 798	46 795	415 038	(12 446)	553 185
International Equities	44 217	3 569	170 808	(14 855)	203 739
Fixed Interest	27 496	42 734	(1 664)	(1 854)	66 712
Diversified Strategies (Growth)	5 850	(103)	(295)	(3 391)	2 061
Diversified Strategies (Income)	-	(120)	9 203	(405)	8 678
Cash	10 845	-	172	(199)	10 818
Total	271 772	114 701	664 215	(38 481)	1 012 207

(1) In accordance with the disclosure requirements of Accounting Policy Framework II *General Purpose Financial Reporting Framework*, a total of $8.8 million of investment income was earned during 2004-05 from investments with SA Government entities.

(b) Allocation of Net Investment Income

The allocation of net investment income to each public sector superannuation fund managed by Funds SA is as follows:

	2006	2005
South Australian Superannuation Scheme:		
South Australian Superannuation Fund:	**$'000**	$'000
Old Scheme Division	**250 844**	176 893
New Scheme Division	**96 704**	64 899
Employer Contribution Account	**348 064**	229 395
Police Superannuation Scheme:		
Police Superannuation Fund:		
Old Scheme Division	**55 788**	38 242
New Scheme Division	**3 388**	2 177
Employer Contribution Account	**57 781**	36 225
Southern State Superannuation Scheme:		
Southern State Superannuation Fund	**102 219**	62 327
Southern State Superannuation (Employers) Fund	**539 150**	362 722
Super SA flexible rollover product	**2 860**	107
Super SA allocated pension	**1 257**	79
Parliamentary Superannuation Scheme	**25 748**	18 966
Judges' Pensions Scheme	**24 629**	17 114
Governors' Pensions Scheme	**135**	62
Total	**1 508 567**	1 009 208

Subscriptions and redemptions are regularly made from unitised sector funds in line with each fund's cash flow requirements. It is therefore not possible to determine accurately the separate contribution of realised and unrealised gains to each fund's share of net investment income.

6. Administration Expenses

(a) General

Administration expenses incurred by Funds SA totalling $2 893 521 ($2 998 868) have been charged against the sector funds under management.

(b) Fees paid to consultants

Fees paid or payable to consultants for services not related to the management of specific investments amounted to $62 397 ($34 688), and are included as part of the administration expenses of Funds SA. Funds SA also makes payments for services provided in relation to the acquisition, ongoing management and disposal of investments. These payments are incurred in the normal course of business, and have been either capitalised or expensed within the sector funds to which they relate.

7. Inflation Linked Securities

The net market value of individual assets or portfolios that comprise the inflation linked securities sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy.

Inflation Linked Securities held by sub-sector at the balance date comprise:	**2006**	2005
	$'000	$'000
Internally managed investments	**(1)426 104**	(1)418 195
Externally managed investments	**472 514**	394 921
Total	**898 618**	813 116

As at 30 June 2006, the composition of each sub-sector is as follows:

Internally Managed Investments:
- Omni Midland Pty Ltd - Loan
- Obtala Pty Ltd – Loan
- Kite Street, Orange, NSW – Lease
- SA Housing Trust Leaseholds, various locations, SA – Lease
- Sir Samuel Way Building, Victoria Square, Adelaide, SA – Lease
- Roma Mitchell Building, North Terrace, Adelaide, SA – Lease
- Shell Australia Service Station Leases, various locations (2) - Leases
- Blue Mountains Sewage Transfer Scheme, NSW (3) - Licence Agreement

Externally Managed Investments:
- Credit Suisse Asset Management (Australia) Limited

(1) In accordance with the disclosure requirements of Accounting Policy Framework II *General Purpose Financial Reporting Framework*, a total of $119.9 million ($120.9 million) were lease investments with SA Government entities.

(2) The leases provide for Funds SA to receive rental payments adjusted annually by the greater of inflation or an agreed percentage amount. The market valuation of these arrangements also incorporates the present value of the property residual, this being determined as the unimproved land value at lease expiry.

(3) The market value of the Blue Mountains Sewage Transfer Scheme represents the present value of a stream of cash flows arising from a series of bonds, indexed to the Average Weekly Earnings, under a contract with the Sydney Water Board to transfer sewage from the Blue Mountains to the Winmalee Sewage Treatment Plant.

8. Property

The net market value of individual assets or portfolios that comprise the property sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy. Property interests held by sub-sector at balance date comprise:

	2006	2005
	$'000	$'000
Directly held properties	**20 191**	26 347
Externally managed listed property trusts	**669 426**	353 531
Externally managed unlisted property vehicles	**239 930**	214 205
Total	**929 547**	594 083

As at 30 June 2006, the composition of each sub-sector is as follows:

Directly Held Properties:
- Australian Taxation Office, 200 Collins Street, Hobart, Tasmania (1)
- Net present value of lease residual, Department of Land Administration Offices, Midland, Western Australia (2)

Externally Managed Listed Property Trusts:
- Macquarie Investment Management Limited
- Morgan Stanley Global Property
- SG Hiscock and Company Limited

Externally Managed Unlisted Property Vehicles:
- AMP Life Limited
- Private Property Syndicate

8. Property (continued)

(1) The Australian Taxation Office, Hobart has been the subject of a redirection of the rental stream arising from a long term lease. The value of this property has been determined having regard to the nature of the arrangements currently in force over the property, and anticipated market conditions at the expiration of these arrangements. The offsetting non-current liability is reported in Note 16(b).

(2) The value of a future interest in the lease residual associated with the Department of Land Administration Offices, Midland, Western Australia, has been determined using the discounted cash flow method.

9. Australian Equities

The net market value of individual assets or portfolios that comprise the Australian equities sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy.

Funds SA uses fund managers to manage its externally managed Australian equities portfolio. Each manager has been given a mandate to invest in discretely held listed Australian equities or pooled unit trusts, but for market timing purposes, they may also hold some cash from time to time. Assets under management are held by JP Morgan as custodian.

The nature of mandates given to investment managers and the value of the individual portfolios as at balance date comprise:

	2006	2005
Active Broad Market Mandates:	**$'000**	$'000
Balanced Equity Management Pty Ltd	**774 646**	637 434
Barclays Global Investors Australia Limited	**476 186**	367 736
Barclays Global Investors Australia Limited - Long/Short	**142 893**	103 429
Perennial Value Management Limited	**849 488**	705 640
Orion Asset Management Limited	**813 624**	529 748
Active Small Capitalisation Mandates:		
Jenkins Investment Management Pty Ltd	**118 721**	151 802
SG Hiscock and Company Ltd	**112 860**	141 588
Total	**3 288 418**	2 636 377

10. International Equities

The net market value of individual assets or portfolios that comprise the international equities sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy. Funds SA uses external fund managers to manage its international equities portfolio. Each manager has been given a mandate to invest either in discretely held listed equities or pooled unit trusts, but for market timing purposes, may also hold some cash from time to time. The discretely held portfolios are held by JP Morgan as custodian. The nature of mandates given to investment managers and the value of the individual portfolios as at the balance date comprise:

	2006	2005
Global Mandates:	**$'000**	$'000
Alliance Capital Australia Limited	**565 248**	308 618
MFS International (U.K.) Limited	**566 733**	252 875
AQR Capital Management, LLC	**566 680**	259 159
Axiom International Investors	**246 840**	-
LSV Asset Management	**250 615**	-
Europe Australasia Far East (EAFE) Mandates:		
The Boston Company Asset Management, LLC	**117**	223 940
Mondrian Investment Partners Limited	**-**	229 145
Fidelity International Limited	**303 969**	226 257
North America Mandates:		
Rainier Investment Management	**148 353**	113 218
Jacobs Levy Equity Management Inc.	**-**	352 837
Barclays Global Investors - Index Fund	**-**	137 324
Turner Investment Partners Inc	**62 130**	49 512
Sterling Johnston Capital Management LP	**35 351**	29 055
Lord, Abbett & Co. LLC	**51 789**	37 971
Kenwood Capital Management, LLC	**93 995**	78 557
Emerging Markets Mandates:		
Genesis Management Australia Limited	**161 315**	118 415
GMO Australia Limited	**176 571**	125 483
Lloyd George Management (Europe) Limited	**67 932**	53 193
Currency Hedge Overlay*	**(10 040)**	16 897
Total	**3 287 598**	2 612 456

* The value of the currency hedge overlay as at 30 June is represented by either the expense or income associated with closing out the forward rate agreements in place, at that date, as part of Funds SA's currency management strategy.

11. Fixed Interest

The net market value of individual assets or portfolios that comprise the fixed interest sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy.

Funds SA uses external fund managers to manage its fixed interest portfolio. Each manager has been given a mandate to invest either in discretely held or pooled unit trust portfolios of fixed interest investments, but for market timing purposes, may also hold some cash from time to time. The discretely held portfolios are held by JP Morgan as custodian.

The nature of mandates given to investment managers and the value of the individual portfolios as at the balance date comprise:

	2006	2005
Australian Fixed Interest Mandates:	**$'000**	$'000
Credit Suisse Asset Management (Australia) Limited	**262 546**	238 885
Sub-Total Australian Mandates	**262 546**	238 885
International Fixed Interest Mandates:		
PIMCO Australia Pty Ltd	**261 639**	234 547
Bridgewater Associates, Inc.	**259 940**	234 907
Sub-Total International Mandates	**521 579**	469 454
Total	**784 125**	708 339

12. Diversified Strategies - Growth

The net market value of individual assets or portfolios that comprise the diversified strategies (growth) sector fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy.

Funds SA uses external fund managers to manage its diversified strategies (growth) portfolio. The investments are in wholesale pooled unit trusts or managed funds offered by each manager.

The nature of mandates given to investment managers and the value of the individual portfolios as at the balance date comprise:

	2006	2005
Externally Managed:	**$'000**	$'000
Private equity - Domestic	**51 819**	45 591
Private equity - International	**157 611**	94 913
Opportunistic real estate	**14 715**	4 912
Other opportunities	**131 138**	-
Currency hedge overlay*	**(411)**	579
Total	**354 872**	145 995

* The value of the currency hedge overlay as at 30 June is represented by either the expense or income associated with closing out the forward rate agreements in place, at that date, as part of Funds SA's currency management strategy.

As at 30 June 2006 the composition of each of the sub-sectors in the table is as follows:

Domestic Private Equity:

- Advent IV Private Equity Fund #1
- AMP Business Development Fund II
- Archer Capital Fund 2
- Archer Capital Fund 3
- Arrow Development Fund
- Australian Mezzanine Investment Trust #2
- Business Equity Fund
- Catalyst Fourth Management Buyout Fund
- CHAMP Buyout Fund II
- CHAMP No.1A Trust
- CHAMP Ventures Investments Trust No. 5
- CHAMP Ventures Investments Trust No. 6
- Equity Partners 2 Trust
- H-G Development Trust
- Macquarie Investment Trust II
- NEXT Capital Fund 1
- Pacific Equity Partners Fund III
- Pacific Equity Partners Supplementary Fund II
- Quadrant Private Equity No. 1 Fund
- Quay Secondaries 1 Fund
- Technology Venture Partners No. 3

12. Diversified Strategies - Growth (continued)

International Private Equity:

- Adams Street Partnership Funds
- AXA Early Secondary Fund III
- Brinson Partnership Trusts
- Goldman Sachs Vintage Fund III
- Lexington Capital Partners VI
- Lexington Middle Market Investors
- Pantheon Europe Fund III
- Pantheon Europe Fund IV
- Pantheon Global Secondary Fund II
- Wilshire Private Markets Funds

Opportunistic Real Estate:

- Blackstone Real Estate Partners International II
- Europa Fund II
- ING Retail Property Partnership Southern Europe
- Lend Lease Real Estate Partners
- MGP Asia Fund #2
- TransEuropean Property Limited Partnership III

Other Opportunities:

- Barclays Global Investors - Multi Opportunity Fund
- Genesis - Emerging Markets Small Companies Fund

13. Diversified Strategies - Income

Funds SA uses external fund managers to manage its diversified strategies (income) portfolio. The investments are in wholesale pooled unit trusts or managed funds offered by each manager. The nature of mandates given to investment managers and the value of the individual portfolios as at the balance date comprise:

	2006	2005
Externally Managed:	**$'000**	$'000
GMO Trust - Emerging Country Debt Fund	**79 776**	70 913
PIMCO Funds - Diversified Income Fund	**129 334**	72 642
Challenger Managed Investments Ltd - High Yield Fund	**76 344**	70 527
AMP Capital Structured High Yield Fund	**101 702**	-
Currency Hedge Overlay*	**1 422**	(958)
Total	**388 578**	213 124

* The value of the currency hedge overlay as at 30 June is represented by either the expense or income associated with closing out the forward rate agreements in place, at that date, as part of Funds SA's currency management strategy.

14. Cash

	2006	2005
The cash sector fund comprised the following investments as at the balance date:	**$'000**	$'000
Externally Managed:		
Macquarie Investment Management Ltd	**391 137**	208 324
Total	**391 137**	208 324

15. Fixed Assets

Fixed assets comprise fixtures, fittings, plant and equipment. Movements in this account over the financial year are summarised below:

Fixed assets (At cost) at 1 July	**851**	887
Add: Purchases	**41**	471
	892	1 358
Less: Disposals (At cost)	**83**	507
Fixed assets (At cost) at 30 June	**809**	851
Less: Accumulated depreciation at 30 June	**376**	354
Total	**433**	497

16. Liabilities

(a) Current Provisions

Current provisions as at balance date comprise:

Provision for employee entitlements	**143**	254
Lease incentive	**25**	25
Other	**4**	16
Total	**172**	295

(b) ***Non-Current Liabilities***	**2006**	2005
Non-Current liabilities as at balance date comprise:	**$'000**	$'000
Provision for employee entitlements	**475**	407
Bank bill facility (1)	**9 092**	15 871
Lease incentive	**34**	59
Other	**8 677**	4 176
Total	**18 278**	20 513

(1) The future income stream arising from the long term lease to the Australian Taxation Office (ATO) of the whole of a Hobart office property has been redirected to a syndicate of international banks. The redirection was in the form of a concurrent lease of the property to the banks under which the banks received the right to the rental and fixed outgoings payments made by the ATO. The concurrent lease requires the banks to make rental payments to Funds SA equal in value to the payments receivable from the ATO. As part of the transaction, the banks provided a bank bill facility to Funds SA. Under a set-off agreement, the rental payments due to Funds SA under the concurrent lease are applied by the banks to service the bill facility. The amounts outstanding under the facility are predetermined and are capable of being fully serviced and repaid from the concurrent lease rentals.

17. Commitments and Contingent Liabilities

(a) Commitments

As at the balance date, Funds SA had commitments associated with future capital calls on private equity investments entered into before that date, other than transactions which have been provided for in the financial report as unsettled purchases of investments. The timing of the commitments disclosed in the table below are based on management's expectations of the likely timing of future capital calls on private equity investments. The commitments are as follows, with no allowance having been made for the time value of money:

	2006	2005
	$'000	$'000
Not later than one year	**112 065**	87 906
Later than one year but not later than five years	**251 129**	184 441
Later than five years	**10 983**	8 384
Total	**374 177**	280 731

(b) Contingent Liabilities

There were no contingent liabilities in existence at the balance date.

18. Employee Benefits

(a) Employees' Remuneration

Remuneration paid or payable, including salary, superannuation and other benefits, of Funds SA officers which exceeds the disclosure threshold required by Accounting Policy Framework II *General Purpose Financial Reporting Framework* is as follows:

	2006 Number of Officers	2005 Number of Officers
Total Remuneration:		
$100 001 - $110 000	**2**	1
$110 001 - $120 000	**1**	3
$160 001 - $170 000	**-**	1
$170 001 - $180 000	**1**	-
$210 001 - $220 000	**-**	1
$270 001 - $280 000	**1**	-
$340 001 - $350 000	**-**	1

The aggregate remuneration of employees exceeding the disclosure threshold was $773 338 ($1 170 475).

(b) Employee Benefits

The administration expenses incurred by Funds SA include recognition of the liabilities associated with employee benefits of Funds SA officers resulting from service up to the balance date.

Superannuation liabilities recognised in the Statement of Net Assets represent employer contributions due but not yet paid as at the balance date. Funds SA Directors and officers are either members of the South Australian Superannuation Scheme, Southern State Superannuation Scheme or private superannuation funds.

Funds SA makes periodic payments to these superannuation funds. These payments extinguish any future liability for superannuation for all employees and directors. In 2005-06, the periodic amounts paid, or due and payable, to the South Australian Superannuation Scheme and the Southern State Superannuation Scheme totalled $141 227 ($120 419). In 2005-06, the periodic amounts paid, or due and payable, to private superannuation funds totalled $25 498 ($39 635).

(b) Employee Benefits (continued)

The employee benefits recognised as liabilities as at 30 June 2006 comprise:

	2006 Current $'000	**2006 Non-Current $'000**	**2006 Total $'000**	2005 Total $'000
Salaries and wages	**64**	**-**	**64**	120
Annual leave	**51**	**-**	**51**	53
Long service leave	**16**	**419**	**435**	430
Superannuation	**12**	**56**	**68**	58
	143	**475**	**618**	661

19. Related Parties

(a) Directors

The following are directors of the Corporation who have served during the course of the 2005-06 financial year, along with the period served.

Helen Nugent	Chairman	Throughout the year
Julie Brennan	Director	Throughout the year
Kevin Crawshaw	Director	Throughout the year
Leigh Hall	Director	Throughout the year
Jan McMahon	Director	Throughout the year
Jim Wright	Director	Throughout the year
Anne De Salis	Director	December 2005 onwards

(b) Remuneration of Directors

Directors' remuneration includes fees, superannuation and other benefits. Directors' fees include fees paid with respect to directors' representation on both the Funds SA Board and the boards of associated controlled entities. Directors' fees for the 2005-06 year were set by the Governor of South Australia. The aggregate remuneration of directors was $197 655 ($174 173).

In 2005-06, the aggregate amount paid, or due and payable for Directors, to the Southern State Superannuation Scheme totalled $6 402 ($6 315). In 2005-06, the periodic amounts paid, or due and payable, to private superannuation funds totalled $16 365 ($9 632).

Total Fees:	**2006 Number of Directors**	2005 Number of Directors
$10 001 - $20 000	**1**	-
$20 001 - $30 000	**2**	1
$30 001 - $40 000	**2**	3
$50 001 - $60 000	**1**	1

(c) Transactions with Directors and Director-related Entities

The Chairman of Funds SA, Dr Helen Nugent, is a non-executive director of the Macquarie Bank Group Limited. Macquarie Bank Group Limited (or its wholly-owned subsidiaries) has provided funds management and other services to Funds SA during 2005-06 on normal commercial terms and conditions. Dr Nugent has taken no part in any discussions, decisions or implementation of decisions relating to Funds SA's relationship with Macquarie Bank Group Limited (or its wholly-owned subsidiaries). Dr Nugent has also advised the Board that she does not participate at Macquarie Bank Group Limited board meetings in relation to any issues associated with Funds SA.

20. Controlled Entities

Funds SA's share holdings in controlled entities are as follows:

Name of Entity	Ownership Percent
Carwell Pty Ltd	100
Kantilla Pty Ltd	100
Narana Pty Ltd	100
Pipetch Pty Ltd	100
• SILT Trust	100

The net market values of these companies have been consolidated into this financial report.

The above entities were established to hold Funds SA's interests in a number of specific investments. As at 30 June 2006, Carwell Pty Ltd, Narana Pty Ltd and Kantilla Pty Ltd did not hold any investments and were dormant. Pipetch Pty Ltd is the trustee company of the SILT Trust, which holds Funds SA's inflation linked investment in the Shell Australia Service Station Leases. This investment is reported in Note 7.

21. Remuneration of Auditors

	2006 $'000	2005 $'000
Amounts received, or due and receivable, by the auditors are:		
Auditor-General's Department:		
Auditing of Funds SA and certain controlled entities	**87**	83
Bird Cameron Partners (Sydney):*		
Auditing of Pipetch Pty Ltd and the SILT Trust	**5**	10
	92	93

* Bird Cameron Partners also provide income tax return preparation services to the SILT Trust on normal commercial terms and conditions.

22. Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash is considered to include cash on hand, cash at bank and investments in money market instruments, where such investments are considered to be part of the day to day cash management function. Such investments include 11am at call deposits and other deposits of very short duration, and bank bills.

Cash as at 30 June as shown in the Statement of Cash Flows is reconciled to related items in the Statement of Net Assets as follows:

	2006 $'000	2005 $'000
Cash	**391 137**	208 324
Add: Unrealised (gains) losses on revaluation of cash investments	**(126)**	(172)
Short-term money market investments utilised in day-to-day cash management activities	**391 011**	208 152
Cash at bank	**2 027**	550
Cash as at 30 June Reported in the Statement of Cash Flows	**393 038**	208 702

(b) Reconciliation of Net Investment to Net Cash provided by Operating Activities

	2006	2005
Net investment income reported in the Statement of Changes in Net Assets	**1 508 567**	1 009 208
Unrealised gains on revaluation of investments	**(688 343)**	(656 892)
Interest capitalised on inflation linked securities	**(7 141)**	(4 562)
Income realised by external managers, but not remitted	**(355 201)**	(193 916)
Excess of realisations over market values previously taken	**(411 577)**	(73 424)
Depreciation of fixed assets and provisions	**30**	403
Decrease (Increase) in investment related debtors	**510**	(610)
Increase (Decrease) in investment related creditors	**2 904**	(3 163)
Net Cash provided by Operating Activities	**49 749**	77 044

For asset classes other than property, operating outgoings are normally minor and incidental in nature. Funds SA's directly held property is managed by an external agent who is responsible for the collection of rents and the payment of property outgoings. Funds SA receives payments from the managing agent representing the net cash income from the property. For these reasons, items comprising Net cash provided by operating activities in the Statement of Cash Flows are presented on a net cash flow basis.

(c) Credit Facilities

An international bank has made a bank bill facility available to Funds SA as a result of transactions associated with Funds SA's investment in a property in Hobart, Tasmania. The facility has been fully drawn down and does not provide any standby credit. Further reference to this facility may be found under Note 16(b).

23. Additional Disclosures with Respect to Financial Instruments

(a) Interest Rate Risk

Funds SA's investments are exposed to various risks from fluctuations in market interest rates, which can impact on both the net market values of and expected cash flows from those investments. Funds SA is not exposed to interest rate risk on any of its liabilities. The following table summarises interest rate risk exposure on investments:

				2006			
Australian Fixed Interest:	Effective Interest Rate Percent	3 Months or Less $'million	Over 3 to 6 Months $'million	Over 6 to 12 Months $'million	Over 1 to 5 Years $'million	More than 5 Years $'million	**Total $'million**
Commonwealth bonds	5.85[1]	-	-	-	1.0	3.7	**4.7**
Semi-Government bonds	6.05[1]	-	-	-	6.0	11.9	**17.9**
Corporate bonds	5.27[1]	4.1	2.6	4.9	69.2	62.5	**143.3**
Inflation Linked - Internal:							
Corporate loans	3.40[2]	-	-	-	-	92.0	**92.0**
Land and buildings	3.69[2]	-	-	2.8	15.5	125.8	**144.1**
Indexed licence agreement	2.25[3]	-	-	-	-	190.1	**190.1**

(a) Interest Rate Risk (continued)

				2006			
Inflation Linked - External:	Effective Interest Rate Percent	3 Months or Less $'million	Over 3 to 6 Months $'million	Over 6 to 12 Months $'million	Over 1 to 5 Years $'million	More than 5 Years $'million	**Total $'million**
Commonwealth bonds	2.49[2]	-	-	-	53.6	113.1	**166.7**
Semi-Government bonds	2.92[2]	-	-	-	0.9	139.1	**140.0**
Corporate bonds	3.22[2]	-	-	-	25.3	48.5	**73.8**
International Fixed Interest:							
United States	4.72[1]	-	-	0.5	16.5	85.0	**102.0**
United Kingdom	4.64[1]	-	-	-	4.1	4.2	**8.3**
European Community	3.86[1]	-	-	-	27.5	50.1	**77.6**
Canada	4.79[1]	-	-	-	-	2.9	**2.9**
Japan	1.69[1]	-	-	-	14.2	19.2	**33.4**
Discounted Securities:							
Domestic bank bills	5.96[1]	157.3	-	-	-	-	**157.3**
International bank bills	4.14[1]	30.2	8.2	-	-	-	**38.4**
Cash (floating interest)	4.54[1]	291.3	-	-	-	-	**291.3**
Total		482.9	10.8	8.2	233.8	948.1	**1 683.8**

				2005			
Australian Fixed Interest:	Effective Interest Rate Percent	3 Months or Less $'million	Over 3 to 6 Months $'million	Over 6 to 12 Months $'million	Over 1 to 5 Years $'million	More than 5 Years $'million	Total $'million
Commonwealth bonds	5.15[1]	-	-	-	-	18.3	18.3
Semi-Government bonds	5.25[1]	-	-	-	-	53.2	53.2
Corporate bonds	4.23[1]	6.3	1.0	5.7	124.5	71.5	209.0
Inflation Linked - Internal:							
Corporate loans	3.29[2]	-	-	-	-	87.8	87.8
Land and buildings	3.81[2]	-	-	-	20.7	127.6	148.3
Indexed licence agreement	2.35[3]	-	-	-	-	182.1	182.1
Inflation Linked - External:							
Commonwealth bonds	2.53[2]	-	-	-	-	191.5	191.5
Semi-Government bonds	2.46[2]	0.0	0.5	-	0.6	43.8	44.9
Corporate bonds	2.33[2]	-	-	-	12.0	36.2	48.2
International Fixed Interest:							
United States	4.47[1]	1.1	1.3	1.2	9.2	132.2	145.0
United Kingdom	4.13[1]	-	-	-	3.9	3.6	7.5
European Community	2.97[1]	-	1.7	0.2	7.8	64.6	74.3
Canada	4.37[1]	-	-	-	-	2.3	2.3
Poland	4.57[1]	-	-	-	-	0.4	0.4
Japan	0.87[1]	-	-	-	1.9	23.9	25.8
Discounted Securities:							
Bank bills	5.65[1]	111.7	26.4	8.6	-	-	146.7
US Bank bills	3.05[1]	7.8	-	-	-	-	7.8
Cash (floating interest)	3.54[1]	135.1	-	-	-	-	135.1
Total		262.0	30.9	15.7	180.6	1 039.0	1 528.2

(1) Nominal interest rate
(2) Real interest rate - linked to CPI
(3) Real interest rate - linked to Average Weekly Earnings

(b) Use of Derivatives

In accordance with the Regulations under the Act, the Treasurer of South Australia has authorised Funds SA to utilise derivative contracts for the purpose of the investment of funds or the management of portfolio risk.

Funds SA's external managers are empowered, pursuant to their respective investment management agreements, to enter into derivative contracts as part of their investment role. Derivative contracts may be used, for example, to provide efficient entry to or exit from markets or as a cost efficient substitute for the actual acquisition of securities. However, managers cannot gear the portfolio; that is, sufficient cash or assets must be maintained in the portfolio to support the liability underlying each contract.

Funds SA has engaged a manager to manage a static currency hedge to remove the impact of currency movements from the proportions of the hedged sectors. The hedge is achieved by purchasing forward rate agreements to the required Australian dollar value with currencies matching the underlying country weighting in the Morgan Stanley Capital International (MSCI) Index.

(b) *Use of Derivatives (continued)*

The following table summarises Funds SA's external managers' use of derivative instruments:

	2006	
	Principal Amount	**Net Market Value**
Derivative Instrument:	**$'000**	**$'000**
Futures - Australian fixed interest	**198 697**	**(472)**
Futures - International fixed interest	**339 708**	**(1 347)**
Futures - Share price index	**150 599**	**3 013**
Futures - Discount securities	**(30 375)**	**515**
Options - Australian exchange traded	**20 153**	**22 649**
Options - Fixed interest securities	**4 840**	**(141)**
Options - International over the counter	**(5)**	**(19)**
Swaps - Cross currency	**(50 075)**	**(50 075)**
Currency forward rate agreements	**1 407 280**	**(9 027)**
Total	**2 040 822**	**(34 904)**

	2005	
	Principal Amount	Net Market Value
Derivative Instrument:	$'000	$'000
Futures - Australian fixed interest	161 715	428
Futures - International fixed interest	282 966	823
Futures - Australian share price index	9 080	(106)
Futures - International share price index	49 813	311
Futures - Discount securities	(468 448)	(153)
Options - Australian exchange traded	13 241	13 504
Options - International exchange traded	(47 550)	(48 899)
Options - Australian share price index	31 969	30
Currency forward rate agreements	1 113 427	16 519
Total	1 146 213	(17 543)

(c) *Currency Risk*

A number of Funds SA's external fund managers, particularly within the international equities sector fund, are permitted to invest in assets denominated in currencies other than the Australian dollar. The following table summarises the currency exposures associated with these assets and also the extent to which these exposures have either been hedged directly by Funds SA's external fund managers or hedged indirectly through Funds SA's overlaid currency hedging program (refer discussion under Note 23(b)).

	2006	2005
Currency:	**$'000**	$'000
United States, Dollar	**1 989 762**	1 614 563
Europe, Euro	**605 955**	470 549
Japan, Yen	**336 760**	240 049
United Kingdom, Pound	**331 732**	247 036
Switzerland, Franc	**145 234**	63 306
Sweden, Krona	**35 728**	20 506
Hong Kong, Dollar	**43 918**	29 689
Canada, Dollar	**79 640**	47 340
Singapore, Dollar	**17 803**	25 362
Norway, Krone	**14 698**	9 142
Denmark, Kroner	**4 720**	4 473
New Zealand, Dollar	**54 806**	38 048
South Korea, Won	**29 559**	28 841
Brazil, Real	**16 366**	6 448
South Africa, Rand	**13 061**	12 356
China, Yuan	**6 080**	9 855
Other	**47 773**	30 545
	3 773 595	2 898 108
Less: Amount effectively hedged	**(1 404 896)**	(1 113 452)
Total	**2 368 699**	1 784 656

24. Events Occurring after Reporting Date

There were no events occurring after the reporting date which, in the opinion of directors, are required to be disclosed in either the Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows or in the Notes to and Forming Part of the Financial Report.

25. Financial Information of Funds Under Management

Statements of Net Assets Under Management and Statements of Changes in Net Assets in respect of each of the public sector superannuation funds under the investment management of Funds SA are reported below, as required by section 26(2) of the Act. As indicated in Note 1, these statements report only the investment activities of the public sector superannuation funds under management, and not scheme administration activities. The Statements are numbered on the following pages as follows:

25. Financial Information of Funds Under Management (continued)

• South Australian Superannuation Scheme	(a)
Comprising:	
— South Australian Superannuation Fund – Old and New Scheme Divisions	(a) (i)
— South Australian Superannuation Scheme – Employer Contribution Account	(a) (ii)
• Police Superannuation Scheme	(b)
Comprising:	
— Police Superannuation Fund – Old and New Scheme Divisions	(b) (i)
— Police Superannuation Scheme – Employer Contribution Account	(b) (ii)
• Southern State Superannuation Scheme	(c)
Comprising:	
— Southern State Superannuation Fund	(c) (i)
— Southern State Superannuation (Employers) Fund	(c) (ii)
— Super SA Flexible Rollover Product	(c) (iii)
— Super SA Allocated Pension	(c) (iv)
• Parliamentary Superannuation Scheme	(d)
• Judges' Pensions Scheme	(e)
• Governors' Pensions Scheme	(f)

(a) South Australian Superannuation Scheme

Statement of Changes in Net Assets Under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**3 559 669**	3 136 682
Add: Receipts	**755 684**	268 500
Net investment earnings	**695 612**	471 187
Less: Payments	**304 885**	316 700
Funds held at 30 June	**4 706 080**	3 559 669

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**403 258**	361 949
Property	**445 969**	283 446
Australian equities	**1 577 972**	1 244 137
International equities	**1 580 295**	1 233 565
Fixed interest	**206 511**	205 365
Diversified strategies (Growth)	**161 375**	64 475
Diversified strategies (Income)	**174 097**	93 319
Cash	**172 227**	87 979
Other assets	**1 253**	832
	4 722 957	3 575 067
Less: Liabilities	**16 877**	15 398
Net Assets at 30 June	**4 706 080**	3 559 669

(i) South Australian Superannuation Fund

Statement of Changes in Net Assets Under Management for the year ended 30 June 2006

	2006 Old Scheme Division $'000	2005 Old Scheme Division $'000	**2006 New Scheme Division $'000**	2005 New Scheme Division $'000
Funds held at 1 July	**1 310 992**	1 191 899	**495 373**	424 274
Add: Receipts	**2 700**	1 000	**9 484**	10 400
Net investment earnings	**250 844**	176 893	**96 704**	64 899
Less: Payments	**56 550**	58 800	**7 051**	4 200
Funds held at 30 June	**1 507 986**	1 310 992	**594 510**	495 373

(i) South Australian Superannuation Fund (continued)

Statement of Net Assets under Management as at 30 June 2006

	2006 Old Scheme Division $'000	2005 Old Scheme Division $'000	**2006 New Scheme Division $'000**	2005 New Scheme Division $'000
Inflation linked securities	**129 414**	133 562	**50 407**	49 764
Property	**143 010**	104 447	**56 049**	39 313
Australian equities	**505 915**	458 295	**198 579**	172 924
International equities	**506 660**	454 401	**198 872**	171 453
Fixed interest	**65 643**	75 400	**27 536**	29 126
Diversified strategies (Growth)	**51 691**	23 697	**20 434**	9 086
Diversified strategies (Income)	**55 696**	34 281	**22 240**	13 191
Cash	**54 968**	32 276	**22 355**	12 537
Other assets	**400**	306	**162**	118
	1 513 397	1 316 665	**596 634**	497 512
Less: Liabilities	**5 411**	5 673	**2 124**	2 139
Net Assets at 30 June	**1 507 986**	1 310 992	**594 510**	495 373

(ii) South Australian Superannuation Scheme - Employer Contribution Account

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**1 753 304**	1 520 509
Add: Receipts	**743 500**	257 100
Net investment earnings	**348 064**	229 395
Less: Payments	**241 284**	253 700
Funds held at 30 June	**2 603 584**	1 753 304

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**223 437**	178 623
Property	**246 910**	139 686
Australian equities	**873 478**	612 918
International equities	**874 763**	607 711
Fixed interest	**113 332**	100 839
Diversified strategies (Growth)	**89 250**	31 692
Diversified strategies (Income)	**96 161**	45 847
Cash	**94 904**	43 166
Other assets	**691**	408
	2 612 926	1 760 890
Less: Liabilities	**9 342**	7 586
Net Assets at 30 June	**2 603 584**	1 753 304

(b) Police Superannuation Scheme

Statement of Changes in Net Assets Under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**595 751**	493 882
Add: Receipts	**38 799**	37 375
Net investment earnings	**116 957**	76 644
Less: Payments	**10 155**	12 150
Funds held at 30 June	**741 352**	595 751

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**63 622**	60 694
Property	**70 306**	47 464
Australian equities	**248 716**	208 263
International equities	**249 083**	206 492
Fixed interest	**32 270**	34 263
Diversified strategies (Growth)	**25 414**	10 768
Diversified strategies (Income)	**27 381**	15 579
Cash	**27 024**	14 668
Other assets	**197**	138
	744 013	598 329
Less: Liabilities	**2 661**	2 578
Net Assets at 30 June	**741 352**	595 751

(i) Police Superannuation Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006 Old Scheme Division $'000	2005 Old Scheme Division $'000	**2006 New Scheme Division $'000**	2005 New Scheme Division $'000
Funds held at 1 July	**288 297**	252 780	**17 008**	13 730
Add: Receipts	**495**	450	**1 195**	1 151
Net investment earnings	**55 788**	38 242	**3 388**	2 177
Less: Payments	**1 940**	3 175	**60**	50
Funds held at 30 June	**342 640**	288 297	**21 531**	17 008

Statement of Net Assets under Management as at 30 June 2006

	2006 Old Scheme Division $'000	2005 Old Scheme Division $'000	**2006 New Scheme Division $'000**	2005 New Scheme Division $'000
Inflation linked securities	**29 405**	29 371	**1 848**	1 733
Property	**32 494**	22 969	**2 042**	1 355
Australian equities	**114 952**	100 783	**7 223**	5 946
International equities	**115 122**	99 926	**7 234**	5 895
Fixed interest	**14 915**	16 581	**937**	978
Diversified strategies (Growth)	**11 746**	5 211	**738**	307
Diversified strategies (Income)	**12 655**	7 539	**795**	445
Cash	**12 490**	7 098	**785**	419
Other assets	**91**	66	**6**	4
	343 870	289 544	**21 608**	17 082
Less: Liabilities	**1 230**	1 247	**77**	74
Net Assets at 30 June	**342 640**	288 297	**21 531**	17 008

(ii) Police Superannuation Scheme - Employer Contribution Account

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**290 446**	227 372
Add: Receipts	**37 109**	35 774
Net investment earnings	**57 781**	36 225
Less: Payments	**8 155**	8 925
Funds held at 30 June	**377 181**	290 446

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**32 369**	29 590
Property	**35 770**	23 140
Australian equities	**126 541**	101 534
International equities	**126 727**	100 671
Fixed interest	**16 418**	16 704
Diversified strategies (Growth)	**12 930**	5 250
Diversified strategies (Income)	**13 931**	7 595
Cash	**13 749**	7 151
Other assets	**100**	68
	378 535	291 703
Less: Liabilities	**1 354**	1 257
Net Assets at 30 June	**377 181**	290 446

(c) Southern State Superannuation Scheme

Statement of Changes in Net Assets Under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**3 481 412**	2 729 008
Add: Receipts	**443 481**	327 619
Net investment earnings	**645 486**	425 235
Less: Payments	**528**	450
Funds held at 30 June	**4 569 851**	3 481 412

(c) Southern State Superannuation Scheme (continued)

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**408 302**	363 558
Property	**387 398**	242 126
Australian equities	**1 370 208**	1 091 623
International equities	**1 366 564**	1 080 830
Fixed interest	**533 414**	453 516
Diversified strategies (Growth)	**158 732**	65 977
Diversified strategies (Income)	**177 024**	97 318
Cash	**181 912**	99 173
Other assets	**1 311**	904
	4 584 865	3 495 025
Less: Liabilities	**15 014**	13 613
Net Assets at 30 June	**4 569 851**	3 481 412

(i) Southern State Superannuation Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**529 279**	383 527
Add: Receipts	**124 125**	83 425
Net investment earnings	**102 219**	62 327
Less: Payments	**-**	-
Funds held at 30 June	**755 623**	529 279

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**63 413**	51 603
Property	**63 831**	36 725
Australian equities	**227 375**	166 867
International equities	**227 783**	165 318
Fixed interest	**84 574**	65 902
Diversified strategies (Growth)	**26 760**	10 497
Diversified strategies (Income)	**30 393**	15 666
Cash	**33 742**	18 625
Other assets	**242**	158
	758 113	531 361
Less: Liabilities	**2 490**	2 082
Net Assets at 30 June	**755 623**	529 279

(ii) Southern State Superannuation (Employers) Fund

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**2 946 303**	2 345 481
Add: Receipts	**262 000**	238 100
Net investment earnings	**539 150**	362 722
Less: Payments	**-**	-
Funds held at 30 June	**3 747 453**	2 946 303

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**338 286**	311 296
Property	**318 210**	205 030
Australian equities	**1 121 319**	922 846
International equities	**1 123 386**	914 148
Fixed interest	**439 039**	386 649
Diversified strategies (Growth)	**131 026**	55 473
Diversified strategies (Income)	**144 334**	81 514
Cash	**143 129**	80 112
Other assets	**1 033**	744
	3 759 762	2 957 812
Less: Liabilities	**12 309**	11 509
Net Assets at 30 June	**3 747 453**	2 946 303

(iii) Super SA Flexible Rollover Product

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**3 551**	-
Add: Receipts	**39 803**	3 877
Net investment earnings	**2 860**	107
Less: Payments	**375**	433
Funds held at 30 June	**45 839**	3 551

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**4 410**	363
Property	**3 656**	229
Australian equities	**14 744**	1 182
International equities	**10 555**	845
Fixed interest	**6 398**	471
Diversified strategies (Growth)	**663**	5
Diversified strategies (Income)	**1 569**	84
Cash	**3 964**	384
Other assets	**28**	2
	45 987	3 565
Less: Liabilities	**148**	14
Net Assets at 30 June	**45 839**	3 551

(iv) Super SA Allocated Pension

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**2 279**	-
Add: Receipts	**17 553**	2 217
Net investment earnings	**1 257**	79
Less: Payments	**153**	17
Funds held at 30 June	**20 936**	2 279

Statement of Net Assets under Management as at 30 June 2006

	2006 $'000	2005 $'000
Inflation linked securities	**2 193**	296
Property	**1 701**	142
Australian equities	**6 770**	728
International equities	**4 840**	519
Fixed interest	**3 403**	494
Diversified strategies (Growth)	**283**	2
Diversified strategies (Income)	**728**	54
Cash	**1 077**	52
Other assets	**8**	-
	21 003	2 287
Less: Liabilities	**67**	8
Net Assets at 30 June	**20 936**	2 279

(d) Parliamentary Superannuation Scheme

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006 $'000	2005 $'000
Funds held at 1 July	**134 569**	125 523
Add: Receipts	**3 801**	2 450
Net investment earnings	**25 748**	18 966
Less: Payments	**26 480**	12 370
Funds held at 30 June	**137 638**	134 569

(d) Parliamentary Superannuation Scheme (continued)

Statement of Net Assets under Management as at 30 June 2006

	2006	2005
	$'000	$'000
Inflation linked securities	**11 827**	13 710
Property	**13 046**	10 721
Australian equities	**46 138**	47 042
International equities	**46 206**	46 643
Fixed interest	**6 042**	7 740
Diversified strategies (Growth)	**4 714**	2 432
Diversified strategies (Income)	**5 080**	3 519
Cash	**5 043**	3 313
Other assets	**36**	31
	138 132	135 151
Less: Liabilities	**494**	582
Net Assets at 30 June	**137 638**	134 569

(e) Judges' Pensions Scheme

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Funds held at 1 July	**128 883**	113 139
Add: Receipts	**3 530**	2 940
Net investment earnings	**24 629**	17 114
Less: Payments	**22 530**	4 310
Funds held at 30 June	**134 512**	128 883

Statement of Net Assets under Management as at 30 June 2006

	2006	2005
	$'000	$'000
Inflation linked securities	**11 544**	13 130
Property	**12 756**	10 268
Australian equities	**45 128**	45 055
International equities	**45 194**	44 672
Fixed interest	**5 855**	7 413
Diversified strategies (Growth)	**4 611**	2 330
Diversified strategies (Income)	**4 968**	3 370
Cash	**4 903**	3 173
Other assets	**36**	30
	134 995	129 441
Less: Liabilities	**483**	558
Net Assets at 30 June	**134 512**	128 883

(f) Governors' Pensions Scheme

Statement of Changes in Net Assets under Management for the year ended 30 June 2006

	2006	2005
	$'000	$'000
Funds held at 1 July	**733**	441
Add: Receipts	**-**	330
Net investment earnings	**135**	62
Less: Payments	**105**	100
Funds held at 30 June	**763**	733

Statement of Net Assets under Management as at 30 June 2006

	2006	2005
	$'000	$'000
Inflation linked securities	**65**	75
Property	**72**	58
Australian equities	**256**	257
International equities	**256**	254
Fixed interest	**33**	42
Diversified strategies (Growth)	**26**	13
Diversified strategies (Income)	**28**	19
Cash	**28**	18
Other assets	**-**	-
	764	736
Less: Liabilities	**1**	3
Net Assets	**763**	733

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